M&G UK Select Fund

a sub-fund of M&G Investment Funds (2)

Interim Short Report November 2019
For the six months ended 30 November 2019

M&G INVESTMENTS

Fund information

The Authorised Corporate Director (ACD) of M&G Investment Funds (2) presents its Interim Short Report for M&G UK Select 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 (2), 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.

ACD

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

(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 fund aims to provide a higher total return (the combination of capital growth and income), net of the ongoing charge figure, than that of the FTSE All-Share Index over any five-year period.

Investment policy

At least 80% of the fund is invested directly in equity securities and equity-related securities of companies across any sectors and market capitalisations, that are incorporated, domiciled, listed or do most of their business in the United Kingdom.

The fund usually holds a concentrated portfolio of fewer than 50 companies.

The fund may also invest in other transferable securities directly and via collective investment schemes (including funds managed by M&G).

The fund may also hold cash and near cash for liquidity purposes.

Derivatives may be used for efficient portfolio management and hedging.

Investment approach

The fund employs a disciplined approach to investment which concentrates on the analysis and selection of individual companies.

The investment approach seeks to identify UK companies that have sustainable competitive advantages leading to high return on invested capital. Each company's strategy around capital allocation is central to the investment process.

The fund manager focuses on companies which recognise the importance of dividends, which in turn instils capital discipline and ensures that the highest returning growth projects are prioritised.

Rising cashflow, and over time, rising dividends, for the fund's holdings are expected to drive the long-term total return of the fund.

Benchmark

Benchmark: FTSE All-Share 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.

Fund information

Risk profile

The fund invests in the shares of UK-listed companies and is, therefore, subject to the price volatility of the UK stockmarket and the performance of individual companies. The fund typically holds around 50 stocks and this relatively concentrated profile requires the fund manager to have strong conviction in each and every holding. However, the fund is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease.

Diversification is 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.

Low risk — High risk

Typically lower rewards — Typically higher rewards

1	2	3	4	**5**	6	7

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.

Investment review

As at 2 December 2019, for the six months ended 30 November 2019

Performance against objective

Between 3 June 2019 (the start of the review period) and 2 December 2019, the fund delivered a positive total return (the combination of income and growth of capital) across all share classes. The fund was broadly in line with its comparator benchmark FTSE All-Share Index which returned 4.8% in sterling, and 8.5% in euros.

On 1 March 2019 the fund's objective changed to aiming to provide a higher total return (the combination of capital growth and income), net of the ongoing charge figure, than that of the FTSE All-Share Index over any five-year period. Prior to this date, the fund's aim was to invest principally in the equities of UK companies with high growth potential, with the sole objective of capital growth. Income considerations were ignored.

The fund has not achieved its new objective over five years. Fund returns lagged the FTSE All-Share Index which returned 6.3% per annum. in sterling and 4.6% per annum in euros*.

* 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 (2).

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 03.06.19 % [a]	Three years 02.12.16 % p.a.	Five years 02.12.14 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	+4.4	+7.5	+4.7	+9.5 [c]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 17 December 1968, 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

The six months under review was a volatile period for UK equities (company shares). Despite that volatility the FTSE All-Share Index finished with a positive return of 4.8%. Investors continued to comprehend the contrasting forces of more benign monetary policy in the US and Europe against the negative headwinds of Brexit and the US-China trade conflict.

The UK stockmarket in particular continued to be held hostage to sentiment surrounding Brexit. The value of sterling was the most observable mechanism to judge the mood of investors. As Boris Johnson tightened his grip on the Conservative leadership race, the currency plummeted 5% against the US dollar due to increased fear of a 'no-deal' exit on 31 October. Parliament's countermove to stymie him by making that illegal began a reversal in the pound's fate. This was further strengthened when Boris Johnson managed to secure a deal with the European Union (EU) and opted for a general election to build a parliamentary position that could get that bill passed. The exchange rate rallied from $1.20 to the pound to nearly $1.30 as the potential Brexit cliff-edge was seemingly taken off the table. The FTSE 250 Index of medium-sized companies produced the strongest performance in this environment (11.4%), with the FTSE 100 Index of larger companies generating more modest gains (4.9%) over the period.

One of the most tangible impacts of sterling weakness in combination with relatively cheap valuations for UK equities was the emergence of amplified takeover activity by international buyers. Cobham, London Stock Exchange, Merlin, Inmarsat, Just Eat, Greene King, Entertainment One and Sophos are a few examples of those targeted or snapped up. The M&G UK Select Fund was a beneficiary of two of those attempts, both of which were major positive contributors to performance over the period.

The first of these was Sophos, a global cyber-security software provider to small and medium-sized businesses. Sophos has a dominant position due to market-leading technology and a unique direct distribution platform to reach customers. This is an under-penetrated industry witnessing attractive structural growth as more small businesses integrate cyber software to protect themselves. US private equity firm, Thoma Bravo, shared our view of the long-term potential of the company, offering a 37% premium to the listed share price at the time.

The second company subject to a takeover attempt was London Stock Exchange (LSE). In this case, however, the bid from Hong Kong Stock Exchange (HKEX) was rejected in preference for their existing purchase of Thomson Reuter's financial and data arm, Refinitiv. The deal supports LSE's vision of strengthening and geographically expanding their deep datasets upon which they build scaled trading venues where the network effect drives a virtuous circle of volume and data. However, the nature of HKEX's attempt, and those that have gone before, evidence the value within LSE and why it is such a unique asset.

The main negative contributor at the stock level was Burford Capital, an AIM-listed (Alternative Investment Market) company, providing specialised finance to the legal market. Burford was subject to an attack by US short-seller, Muddy Waters. Their report on Burford was a provocative and well-written attempt to destroy the accounting and corporate governance standards of the company. We fundamentally disagree with their analysis of Burford's fair value accounting and therefore the returns they make on their litigation investments. Where Muddy Waters were completely justified was in their criticism surrounding corporate governance. Fortunately, Burford has rapidly responded to the criticisms in building a larger independent board, the chief financial officer stepping down and looking for a main market listing. Hopefully we come out of this saga in a stronger position than we entered it. We remain convinced in the attractiveness of the business model and the quality of the management team, and used the drastic share price reaction to rebuild the position.

Another negative contributor was IQE, a Welsh-based manufacturer of innovative compound semiconductors that go into high-end technology applications. When we initiated our position we felt there was enormous potential as these technologies became more mainstream, alongside internal improvements in governance, capital allocation and operational efficiency. We remain convinced that adoption will unleash the growth potential of this business. Unfortunately, end-market weakness in smartphones, as well as the US/China trade spats has caused a fundamental shift in global supply chains and customer confidence in rolling out new technology. This has created a vacuum of compound semiconductor demand that has hurt IQE. We believe that the vacuum will pass at some point and IQE should be able to monetise their assets.

Investment activities

A number of new holdings were established during the six-month period. These included Watkin Jones, Close Brothers, FDM and AIA.

We have always been fans of the capital-light nature of Watkin Jones' business model and the structural growth of their end markets. The company sources, designs and develops both student and 'build-to-rent' accommodation on behalf of institutional investment clients, to whom they pre-sell the projects. Watkin Jones have an impressive track record of on-cost and on-time developments, something their clients significantly value and are willing to pay for in order to extract the rental yield once the projects are let out. The UK student population continues to grow, whilst there remains a severe shortage of quality accommodation across the country and much of the current stock is of poor standard.

Close Brothers is an innovative and well-run banking group with exposure to traditional SME (small and medium-sized enterprises) banking, private client wealth and asset management, as well as investment banking. Historically they have shown themselves as canny operators who allocate capital selectively across asset classes and points of the cycle, to grow whilst achieving high returns. Most UK banks struggle to achieve both growth and high returns, with one tending to be at the expense of the other. Close Brothers is a rare example of a bank that can deliver both. Given the weakness in UK domestic cyclicals (economically sensitive companies) and a changing management team, we felt that the share price gave us a great opportunity to access Close Brothers at a compelling valuation.

FDM hires, trains and then places technology professionals with blue-chip clients. These trainees, known as Mounties, are often hired by the company where they are placed. This is an attractive model for FDM's clients, as it means they do not have to pay for the training themselves and instead get a qualified tech graduate who can join at running pace. FDM are the only player to manage this at scale, with breadth across the UK, US and the rest of the world. We see this as an interesting model with attractive growth dynamics as blue chips look to outsource training and hire more tech grads. There is also material regulation coming in the UK around contractor rights, and we think that could play well into the hands of FDM.

One of the key benefits of having the ability to look off-comparator benchmark is that if we are dissatisfied with the investment prospects of a specific sector in the UK, we can look further afield to fill the gap. The life insurance space is a great example of that, with low growth and low returns a common feature of the listed players due to intense regulation and unfavourable developed market demographic trends. AIA, the Hong Kong-listed life insurance provider, was an obvious solution to this problem. It is the leading player in Asia, with commanding positions in most markets. The nascence of health and life insurance policies is stark in these markets, and as gross domestic product per capita improves, many consumers seek the protection that AIA's services provide. The recent turmoil in Hong Kong has seen the shares pull back materially and provide an entry opportunity into the holding.

As part of the continued portfolio transition under the new fund manager, a number of positions were exited during the six-month period. These included Methanex, DS Smith, Essentra, Burberry, Dechra, Liontrust, Lloyds, Prudential and AG Barr.

Outlook

We sit here now on the other side of an election which may prove to be one of the most defining in post-war British politics. Not since the Thatcher era in the 1980s have we seen a Tory majority this large. Labour's northern 'red-wall' stands a crumbling relic of its former self due to the erosion of traditional voting patterns in the face of Brexit. The mandate handed to Boris Johnson, in tandem with our ongoing quest to carve out our future with the EU, will have seismic consequences for the future of our country and therefore the financial markets' attitude towards UK equities.

Indeed, the markets' response has been unequivocal, with the dramatic bounce of both sterling and the FTSE All-Share Index demonstrating the constrained power that can be unleashed when uncertainty unwinds. And that statement sends a powerful message as to how we expect UK equities to behave as we move into 2020. Although we have moved forwards in our Brexit journey, much uncertainty prevails, and the Tory-blue waters of post-election Britain are far from clear. If navigated successfully, then the UK's deep discount versus international markets could unwind further, yielding potentially very attractive returns from UK equities.

However, obstacles remain in the form of negotiating a trade deal by 31 December 2020, louder cries for a second Scottish independence vote on the back of the SNP's victory north of the border, and Northern Ireland's fragile position as a hybrid trading outpost between the UK and the EU. As the prime minister negotiates those obstacles he will attempt to unleash growth by turning on the fiscal spending taps, especially as he tries to cement support from the austerity weary blue-collar workers who made the jump from red to blue. If he does indeed navigate that last stretch of choppy Brexit waters, whilst promoting a more favourable growth environment, then the rewards could be rich. As ever with British politics, it will be far from a smooth ride!

How are we positioned to deal with this backdrop? With the M&G UK Select Fund we try to build a concentrated portfolio of compelling investments without taking macroeconomic views. We like our companies to do the talking, buying good-quality businesses that can generate shareholder value over the long term. We leave tactical short-termism to the traders and focus our attention on finding great investment opportunities no matter the noise coming from the macroeconomic backdrop.

Rory Alexander
Fund manager

An employee of M&G FA Limited (formerly M&G Limited) which is an associate of M&G Securities Limited. Rory Alexander succeeded Sam Ford as the fund manager on 3 May 2019.

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 Holding		30.11.19 £'000	30.11.19 %	31.05.19 %
	EQUITIES	**566,900**	**96.31**	**96.44**
	Software & computer services	**46,710**	**7.94**	**5.30**
799,729	FDM	7,621	1.29	
1,492,660	GB	10,046	1.71	
1,550,000	Sage	11,805	2.01	
3,041,290	Sophos	17,238	2.93	
	Technology hardware & equipment	**8,715**	**1.48**	**0.40**
18,007,042	IQE	8,715	1.48	
	Medical equipment & services	**28,582**	**4.85**	**3.53**
6,532,345	ConvaTec	12,666	2.15	
911,316	Smith & Nephew	15,916	2.70	
	Pharmaceuticals & biotechnology	**50,294**	**8.54**	**6.11**
492,400	AstraZeneca	36,856	6.26	
715,476	Hutchison China MediTech ADR	13,438	2.28	
	Banks	**37,168**	**6.31**	**9.07**
622,850	Close Brothers	9,417	1.60	
2,713,400	HSBC	15,683	2.66	
1,721,490	Standard Chartered	12,068	2.05	
	Investment banking & brokerage services	**57,669**	**9.80**	**12.75**
2,075,196	AJ Bell	8,394	1.43	
1,428,928	Burford Capital	11,889	2.02	
2,349,329	IntegraFin	9,386	1.59	
245,461	London Stock Exchange	17,010	2.89	
7,187,458	Man	10,990	1.87	
	Life insurance	**20,065**	**3.41**	**4.37**
700,000	AIA	5,436	0.92	
1,352,051	St. James's Place	14,629	2.49	
	Non-life insurance	**5,622**	**0.96**	**2.31**
409,161	Hiscox	5,622	0.96	
	Household goods & home construction	**46,788**	**7.95**	**5.66**
4,075,000	Countryside Properties	16,178	2.75	
343,415	Reckitt Benckiser	20,952	3.56	
4,171,930	Watkin Jones	9,658	1.64	
	Personal goods	**24,773**	**4.21**	**6.83**
541,243	Unilever	24,773	4.21	
	Media	**28,564**	**4.85**	**4.33**
3,726,374	Ascential	11,992	2.03	
3,355,195	Moneysupermarket.com	11,522	1.96	
1,070,000	Next Fifteen Communications	5,050	0.86	

Portfolio statement (continued)

as at Holding		30.11.19 £'000	30.11.19 %	31.05.19 %
	Retailers	**15,707**	**2.67**	**3.76**
632,844	WH Smith	15,707	2.67	
	Travel & leisure	**11,046**	**1.88**	**1.85**
2,499,178	On the Beach	11,046	1.88	
	Beverages	**0**	**0.00**	**0.82**
	Food producers	**14,116**	**2.40**	**3.02**
450,410	Cranswick	14,116	2.40	
	Tobacco	**19,680**	**3.34**	**3.07**
640,000	British American Tobacco	19,680	3.34	
	Construction & materials	**14,887**	**2.53**	**0.40**
3,051,928	Polypipe	14,887	2.53	
	General industrials	**13,128**	**2.23**	**3.39**
784,911	Smiths	13,128	2.23	
	Industrial engineering	**20,464**	**3.48**	**4.38**
160,000	Kone	7,757	1.32	
3,837,889	Rotork	12,707	2.16	
	Industrial support services	**24,417**	**4.15**	**4.65**
499,685	Experian	12,807	2.18	
210,411	Intertek	11,610	1.97	
	Industrial transportation	**13,207**	**2.24**	**0.48**
489,149	Clarkson	13,207	2.24	
	Chemicals	**14,205**	**2.41**	**3.03**
599,350	Victrex	14,205	2.41	
	Non-renewable energy	**51,093**	**8.68**	**6.93**
5,265,034	BP	25,459	4.33	
1,156,781	Royal Dutch Shell	25,634	4.35	
	Unquoted / unlisted	**0**	**0.00**	**0.00**
770,825	Izodia [a]	0	0.00	
Portfolio of investments		**566,900**	**96.31**	**96.44**
	CASH EQUIVALENTS	**24,432**	**4.15**	**7.75**
	'AAA' rated money market funds [b]	**24,432**	**4.15**	**7.75**
24,432,168	Northern Trust Global Fund - Sterling	24,432	4.15	
Total portfolio		**591,332**	**100.46**	**104.19**
Net other assets / (liabilities)		**(2,699)**	**(0.46)**	**(4.19)**
Net assets attributable to shareholders		**588,633**	**100.00**	**100.00**

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

[a] Suspended.

[b] 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 30 November 2019

Largest purchases	£'000
Royal Dutch Shell	29,648
Hutchison China MediTech ADR	14,027
Polypipe	10,884
IQE	9,898
Clarkson	9,698
Prudential	9,446
Close Brothers	8,829
Watkin Jones	8,775
Burford Capital	6,152
Victrex	5,972
Other purchases	47,610
Total purchases	**160,939**

Largest sales	£'000
Lloyds Banking	19,568
Prudential	17,545
Unilever	13,533
London Stock Exchange	13,101
BP	12,371
WH Smith	10,055
Methanex	9,119
Rotork	8,300
Essentra	7,698
Hiscox	6,834
Other sales	56,264
Total sales	**174,388**

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 charts 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 (2), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value

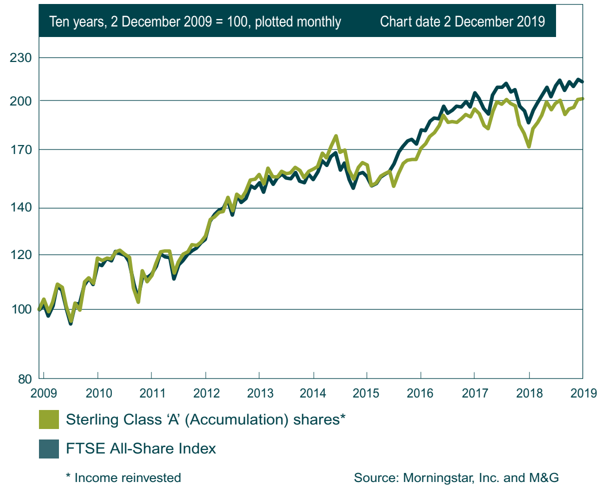
as at	30.11.19 £'000	31.05.19 £'000	31.05.18 £'000
Fund net asset value (NAV)	588,633	581,167	601,265

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.

Ten-year performance

Please note that comparator benchmark data is not available from fund launch. Therefore a ten-year comparable performance chart is shown below.



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 December 2019.

Sterling Class 'A' Accumulation share performance

The share class was launched on 17 December 1968.

Change in NAV per share	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
Opening NAV	4,652.54	4,809.42	4,598.26
Return before operating charges and after direct portfolio transaction costs	221.50	(80.52)	286.79
Operating charges	(31.74)	(76.36)	(75.63)
Return after operating charges	189.76	(156.88)	211.16
Distributions	(13.29)	(73.22)	(52.09)
Retained distributions	13.29	73.22	52.09
Closing NAV	4,842.30	4,652.54	4,809.42
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	5.60	11.87	7.84
Dilution adjustments [a]	(0.36)	(1.67)	(0.26)
Total direct portfolio transaction costs	5.24	10.20	7.58
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.22	0.22	0.16
Operating charges [c]	1.28	1.66	1.66
Return after operating charges	+4.08	-3.26	+4.59
Historic yield	1.50	1.56	1.08
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	181,106	180,828	203,795
Closing NAV percentage of total fund NAV (%)	30.77	31.11	33.89
Number of shares	3,740,086	3,886,649	4,237,421
Highest share price (UK p)	4,884.87	4,884.05	4,872.93
Lowest share price (UK p)	4,483.31	4,081.30	4,306.59

[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 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.

  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.

- **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.

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 or by calling M&G Customer Relations.

Portfolio transaction costs

Direct portfolio transaction costs [b]	Six months to 30.11.19 %	Year to 31.05.19 %	Year to 31.05.18 %	Average [a] %
Broker commission	0.05	0.04	0.03	0.04
Taxes	0.19	0.22	0.14	0.18
Costs before dilution adjustments	0.24	0.26	0.17	0.22
Dilution adjustments [c]	(0.02)	(0.04)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.22	0.22	0.16	0.20

as at Indirect portfolio transaction costs	30.11.19 %	31.05.19 %	31.05.18 %	Average [a] %
Average portfolio dealing spread	0.11	0.12	0.09	0.11

[a] Average of first three columns.

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

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

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.

59565_SR_310720