

Making our charges clearer, simpler and better



Your guide to how charges are changing for investors in M&G funds

We are making important changes to the way we structure and present charges for our funds based in the UK.

We are pulling together most of the charges that make up the ongoing charges figure on our funds into an annual charge and also making them more predictable. The different components of the current ongoing charges figure are shown in the graphic. The ongoing charges figure is calculated in line with regulatory rules and guidance that apply to all funds like the M&G funds and it is intended to assist investors to ascertain and understand the impact of charges on their investment each year and to compare the level of those charges with the level of charges in other funds.

Introducing discounts on the annual charges of our larger funds will share cost savings that arise from scale with our customers.

Lowering annual charges, so they are lower than the current ongoing charges figure, will deliver long-term cost savings on many of our funds.

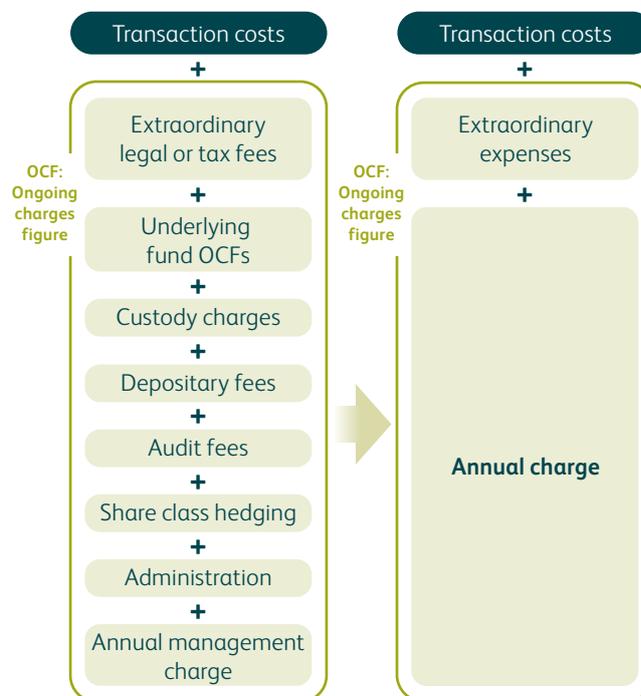
All of these changes, which are explained in detail below, reflect M&G's ongoing commitment to helping our customers achieve their investment goals. **Please get in touch with us if anything remains unclear.**

Simplification of charges

The charges you currently pay for your funds are made up of several different costs.

They not only reflect the annual cost of M&G managing and administering the funds, but also cover additional costs of third parties providing services to the funds. Many of these costs, which are summarised in the following graphic, vary from one period to the next. This adds some unpredictability to the costs of investing.

These costs are not going away – they are part and parcel of investing – but we are rolling all of the charges that make up the current ongoing charges figure, bar extraordinary legal and tax expenses, into one annual charge. This will effectively fix and cap those charges that are currently variable.



M&G Property Portfolio and M&G Feeder of Property Portfolio

Note that in the case of our property funds, the ongoing charges figure also contained the property operating expenses (although these are not shown in the diagram above). We will now disclose these separately. The ongoing charges figure will therefore reflect the cost of running the fund and will be based on the Annual Charge as is explained in the illustration above. It will exclude the property operating expenses which relate to the management of the property assets in the M&G Property Portfolio (for example insurance, maintenance and repairs) which will now be disclosed separately in the Property Expense Ratio. The expenses are incurred indirectly in the M&G Feeder of the Property Portfolio via the M&G Property Portfolio. They depend on the level of activity taking place within the M&G Property Portfolio. The Property Expense Ratio can be found both in the Key Investor Information Document and in the annual and half-yearly reports. This doesn't change the amount of costs but is more transparent and will help you to compare costs.

Portfolio transaction costs

It is important to note that portfolio transaction costs – which are incurred when a fund manager buys or sells the underlying investments held in a fund – will still be excluded from this fixed annual charge (as they currently are from the ongoing charges figure).

This is because we believe fund managers should face no disincentive to make changes to portfolios if they believe them to be in the long-term interests of investors. We have explained this in more depth in the Your questions answered section, or simply call our **Customer Relations** team on **0800 390 390** with your question.

Passing on cost savings

The larger a fund is – in other words, the more money invested in it – the lower the relative proportion of fixed costs of administering and managing it. From Thursday 1 August 2019, M&G will therefore apply discounts to the annual charges on its larger funds based in the UK.

The discount applies as follows. 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%). We will assess the size of your fund, and therefore whether it qualifies for any discount, on at least a quarterly basis.

| Fund Net Asset Value – Discount range | Annual Charge discount |
|---------------------------------------|------------------------|
| £0-1bn | Nil |
| £1-2bn | 0.02% |
| £2-3bn | 0.04% |
| £3-4bn | 0.06% |
| £4-5bn | 0.08% |
| £5-6bn | 0.10% |
| More than £6bn | 0.12% |

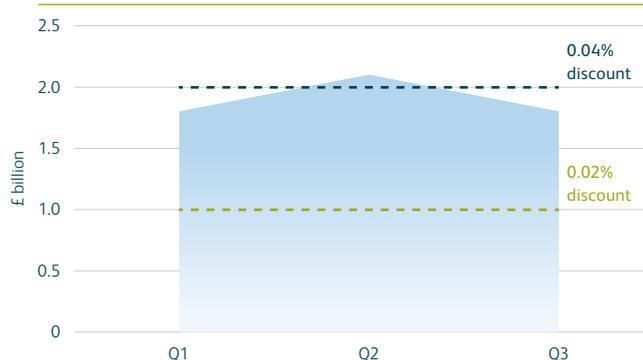
Here is an example to illustrate how it works. If the annual charge on a fund is 1.20% before any discount and it has £1.8 billion in assets at the end of the first quarter of the year, a discount of 0.02% will apply and the net annual charge will be lowered to 1.18% going forward, applicable as soon as practicable after the start of the second quarter.

If the fund's assets swell to £2.1 billion at the end of the second quarter, the discount would rise to 0.04%. If the fund then shrinks back to £1.8 billion by the end of the third quarter, the discount would revert to 0.02%. This example is illustrated as follows.

Effect of discounts on the annual charge...



...as a fund's size changes over time



For illustrative purposes only

It should be noted that discounts will not be removed if a fund's assets fall just below a given threshold. Instead, there will be a buffer of £100 million (£0.1 billion).

So if, using our example above, the fund's assets shrank from £2.1 billion to £1.95 billion by the end of the third quarter, it would fall within this buffer and the discount would remain unchanged at 0.04%, rather than revert to 0.02%.

In the case of the largest funds, where the relevant threshold is £5 billion or £6 billion, this buffer will be £200 million (£0.2 billion).

To be clear, there is no corresponding buffer when a fund's assets rise above a given threshold that triggers a discount (or further discount) on the annual charge.

Lower annual charges

As part of these changes, which will take effect from Thursday 1 August 2019, the new annual charges on many of our funds are being set lower than their current ongoing charges figure.

Not all share classes will see any change – charges are staying unchanged in some cases – but many investors will soon benefit from significantly lower costs. The new annual charges will be no higher than previous charges (as shown in your fund's Key Investor Information Document dated Friday 15 February 2019), meaning no investors will be worse off as a result.

The level of saving you will receive depends entirely on the funds you invest in, and the share class you hold in them. Each M&G fund has several different share classes available to investors, each with its own level of annual charges. The share class you hold depends on how you invest with M&G and the value of your investments with us.

In many cases the savings will only be small – on some funds and share classes, it is as little as 0.01%. In many cases, however, the reduction in annual charges will be considerably more.

The table below illustrates what this could mean in practice, using an example to show how a lower annual charge, compared to previous ongoing charges, can translate in to cost savings. (Please note these figures all exclude portfolio transaction costs and any extraordinary legal or tax costs).

| Example | Previous ongoing charges | | New annual charge | | Cost savings | |
|-----------------|--------------------------|------------|-------------------|------------|--------------|------------|
| | % | £ per year | % | £ per year | % | £ per year |
| Amount invested | | | | | | |
| £10,000 | 1.50% | £150 | 1.25% | £125 | 0.25% | £25 |
| £100,000 | 1.50% | £1,500 | 1.25% | £1,250 | 0.25% | £250 |

With lower annual charges deducted from the value of your investments, total returns on your M&G holdings will be better over the long term all other things being equal. Total returns are the combination of capital growth and income.

For full details of the new annual charges on the share classes that you hold – including the effects of any discounts, as explained above – please visit www.mandg.co.uk or call our **Customer Relations** team on **0800 390 390**. Please get in touch with us if anything remains unclear.

If you visit www.mandg.co.uk you will find a full table detailing the new annual charges across our fund range. You will be able to compare these by share class against the previous ongoing charges figure, and also see how the new annual charges translate into pounds and pence.

Your questions answered

Which costs are not included in the new annual charge?

The new annual charge brings together all the costs that comprise the current ongoing charges figure, except for exceptional legal or tax charges. These are explained in a little more detail below.

Also excluded from the new annual charge will be portfolio transaction costs (explained below), as well as interest on any borrowing by a fund. Please note that this is not a change in our policy, since these costs are excluded from the current ongoing charges figure.

In the case of our property funds, property operating expenses are also excluded from the annual charge as they do not relate to the cost of running the fund. They are disclosed separately in the Property Expense Ratio.

Why are portfolio transaction costs not included in the new annual charge?

Portfolio transaction costs are incurred when a fund manager buys or sells the underlying investments held in a fund. They are variable because the more transaction activity there is in a given period, the greater the portfolio transaction costs will be.

Including portfolio transaction costs within the annual charge could create, or be perceived to create, a disincentive for fund managers to make changes to their portfolios, as placing fewer transactions would keep M&G's costs down. We believe fund managers should face no disincentive to make changes to portfolios if they believe them to be in the long-term interests of investors. This is we believe the main reason why portfolio transaction costs are excluded from the current ongoing charge figure, and why they will continue to be excluded from the new annual charge.

What are extraordinary costs and why are they not included in the new annual charge?

Extraordinary costs specifically relate to legal or tax claims that are both exceptional and unforeseeable. Please be aware that such extraordinary costs are uncommon, and would not be expected in most years. Although they result in a short-term cost to the fund, they can deliver longer-term benefits for investors. Since they are unusual, these costs are excluded from the annual charge.

Is M&G introducing any new charges?

No. We are changing the way charges are taken in an effort to be clearer.

Why are discounts not being applied to the annual charges of all funds?

Discounts are to be passed on to investors where there are cost savings arising from a fund's scale. The greater the value of assets in a fund, the lower the relative proportion of the fixed costs of administering and managing it. An objective set of criteria will determine whether a discount applies on any fund during a given period. Where a fund has less than £1 billion under management, there will be no discount on the annual charge. M&G has determined that £1 billion is the threshold where it can start passing on cost savings to its customers.

How many M&G funds will receive a discount on their annual charge?

Where any fund has more than £1 billion under management on a stated date, it will qualify for a discount on the annual charge. Reviews will occur on at least a quarterly basis. The number of funds that are large enough to qualify for a discount can vary from one period to the next. This is because the size of each fund will inevitably change over time.

As of 30 April 2019, 12 of M&G's funds based in the UK have more than £1 billion under management, and so a discount will be applied to their annual charge. While this represents only one-in-four funds, they represent almost 63% by value of investments across the UK-based fund range.

When will any discount be applied?

As soon as is practically possible. We will assess the size of each fund, and therefore whether it qualifies for any discount, on at least a quarterly basis. Any discount will be applied to the fund's annual charge as soon as practicable, within 13 business days of the end of the quarter.

Is there a maximum discount on a fund's annual charge?

Yes, currently we have not specified a discount beyond that applied if a fund has over £6 billion in assets under management (0.12 percentage points). This is because when we implement these changes, we are unlikely to have any funds with more than £5 billion in assets. As and when our funds grow larger, we may reassess if there are further discounts to pass on.

How do I find out which funds qualify for a discounted annual charge?

You can find the most up-to-date information on our website www.mandg.co.uk or by calling our **Customer Relations** team on **0800 390 390**.

While the size of our funds is published, we would not encourage any of our investors to make investment decisions based on this information. Instead, the suitability of any given fund will depend on whether its objectives and strategy are appropriate for your circumstances and investment goals.

It is also important to keep the size of discounts on the annual charges of larger funds in perspective. Most discounts will be 0.02 or 0.04 percentage points. So, if you have £10,000 invested in such a fund, this will translate into a discount on your annual charge of £2 or £4.

Why are discounts removed if a fund shrinks?

Whether a discount applies on a fund's annual charge is determined by an objective set of criteria. Discounts are determined on a quarterly basis, according to the size of the fund – in terms of assets under management – at that point. If that fund shrinks in value in the future, there are fewer cost savings arising from scale for M&G to share in the form of a discount.

For this reason, discounts applied to annual charges should be considered a temporary, rather than permanent, benefit of investing in that fund.

Why is M&G setting lower charges?

M&G's purpose is to help people to prosper by putting their investments to work. By starting the annual charges on many of our funds at a point lower than their current ongoing charges figure, investment returns for our customers will be greater than they otherwise would be over the long-term.

Why isn't M&G lowering charges on all funds?

We are realigning charges across our range of funds based in the UK to ensure they continue to consistently reflect all the costs involved in managing a fund and providing a good service for investors.

A revised pricing structure has been adopted and, where the current ongoing charge figure is above the nearest appropriate threshold for that share class, it is being rounded down to create the new annual charge. Where the current ongoing charge figure is already appropriate within the pricing structure, there will be no rounding down, so the new annual charge will be the same.

Why is the ongoing charges figure of the property funds much lower than it used to be?

The ongoing charges figure reflects the cost of running the fund, which is now based on the Annual Charge. Where we used to disclose property operating expenses within this Figure, we have decided to disclose these separately. The property operating expenses relate to the management of the property assets and depend on the level of activity in the M&G Property Portfolio. They are very distinct from the cost of running the fund. They are disclosed in the Property Expense Ratio which can be found in the Key Investor Information Document and in the half-yearly and annual reports of the funds. There is no change to the costs incurred but merely how they are disclosed; this will provide more cost transparency and will help you compare costs.

For more information

If you are unclear about the information in this letter please contact our **Customer Relations** team by calling **0800 390 390**. The team is available from 08:00 to 18:00 Monday to Friday, and from 09:00 to 13:00 Saturday. You will need to provide your M&G client reference in order to discuss your account details with us. For your security and to improve the quality of our service, calls may be recorded.

