TEMPORARILY SUSPENDED* - M&G Feeder of Property Portfolio Sterling Class I – Accumulation shares

Monthly Fund Review as at 30 September 2020

For investment professionals only

Highlights

- On 4 December 2019, M&G announced the temporary suspension of dealing in the M&G Property Portfolio and its feeder fund, due to unusually high and sustained outflows.
- As at 6 October 2020, we had completed on the sale of £197.6 million of assets since the start of the suspension; a further £239.5 million of assets have either exchanged or are under offer.
- We sold two industrial warehouses in September for £26.85 million in aggregate. The fund's cash position was 10.1%.

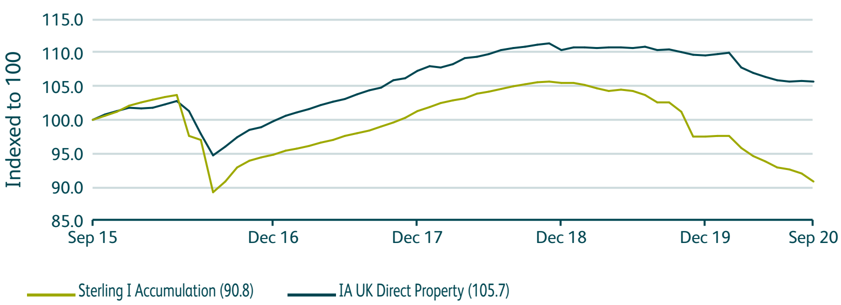
The main risks associated with this fund

For any past performance shown, please note that past performance is not a guide to future performance.
The value and income from the fund's assets will go down as well as up. This will cause the value of your investment to fall as well as rise. There is no guarantee that the fund will achieve its objective and you may get back less than you originally invested.
The price of units in the M&G Feeder of Property Portfolio is largely based on the price of shares in M&G Property Portfolio. Any movement in the price of shares in M&G Property Portfolio, which can be signifcant, will result in a similar change in the price of units of M&G Feeder of Property Portfolio
For large deals, the dealing price investors receive may be different from the published price. If investors are buying units, they may pay a price that is higher than the quoted offer price. If investors are selling units, they may receive a price that is lower than the quoted bid price.
Following are the risks that apply to the M&G Property Portfolio:
Further risk factors that apply to the fund can be found in the fund's Key Investor Information Document (KIID).

Single year performance (5 years)

	2019	2018	2017	2016	2015
Sterling I Accumulation	-7.5%	4.1%	6.8%	-7.1%	8.7%
Sector	-0.8%	2.9%	7.6%	-2.0%	7.3%

Performance over 5 years



Fund performance

	1 month	3 months	YTD	1 year	3 years p.a.	5 years p.a.
Sterling I Accumulation	-1.2%	-2.3%	-6.9%	-11.5%	-2.8%	-1.9%
Sector	-0.1%	-0.2%	-3.5%	-4.4%	0.3%	1.1%

Past performance is not a guide to future performance.

Performance comparison: 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.

Source: Morningstar, Inc and M&G, as at 30 September 2020. Returns are calculated on a price to price basis with income reinvested.
Benchmark returns stated in GBP terms.

Key information

Fund manager(s)	Fiona Rowley, Justin Upton
Fund manager tenure from	18 January 2013
ISIN	GB00B7SX7S61
Launch date of fund	18 January 2013
Launch of share class	18 January 2013
Fund size (millions)	£ 1,397.45
Benchmark(s)	IA UK Direct Property sector
Benchmark type	Comparator
Number of properties	75
Historic yield	3.56%
Cash and near cash	10.09%
Voids	7.3%
Average lease length (years)	6.5
Initial yield	5.5%
Number of tenants	508
Payment dates	Feb, May, Aug, Nov
Ex-dividend dates	Jan, Apr, Jul, Oct

In the Key Information table, figures for 'Number of Properties', 'Cash & near cash', 'Voids', 'Average lease length (years)', 'Initial Yield' and 'Number of Tenants' refer to the underlying fund i.e. the M&G Property Portfolio.
The tables titled – 'Largest holdings', 'Allocation', 'Largest tenants', 'Geographical breakdown' and 'Industry breakdown' also refer to the underlying fund i.e. the M&G Property Portfolio.

Charges

Maximum entry charge	0.00%
Ongoing charge	0.81%

Allocation (%)

	Fund
Property	88.4
Equities	1.5
Cash	10.1

Things you should know

M&G Feeder of Property Portfolio invests in assets that may at times be hard to sell. This means that there may be occasions when you experience a delay or receive less than you might otherwise expect when selling your investment. For more information on risks, see the prospectus and key investor information document.

Fund ratings

The Adviser Centre rating	Recommended
RSM rating	Yes

Source: Adviser Centre
Source: RSM

Ratings should not be taken as a recommendation.

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Largest holdings

	Town	Sector
1-8 Bedfont Lakes	Heathrow	Office
Wales Designer Outlet	Bridgend	Shopping Centre
Iron Mountain Distribution Warehouse	London	Industrial
Parc Trostre Retail Park	Llanelli	Retail Warehouse
Aurora 120 Bothwell Street	Glasgow	Office
Riverside Retail Park	Northampton	Retail Warehouse
Enterprises House	Uxbridge	Office
Fremlin Walk	Maidstone	Shopping Centre
Lindis Retail Park	Lincoln	Supermarket
Heritage House	London	Industrial

Largest 10 assets, as a proportion of the portfolio: 41.34%

Largest tenants (%)

	Fund
Sainsburys	3.3
BP	3.1
Iron Mountain	3.0
Barclays	2.8
Coca Cola	2.7
Tesco	2.3
Royal Mail Group	2.0
TJX	1.9
Next	1.7
Amec Foster Wheeler	1.6

Industry breakdown (%)

	Fund
Office	31.7
Industrial	25.6
Retail Warehouse	15.7
Shopping Centre	6.4
Other	9.6
Designer outlet	5.9
Standard Retail	2.3
Supermarket	2.9

Geographical breakdown (%)

	Fund
Central London	2.7
South East	47.1
South West	3.1
Midlands	17.3
The North	6.8
Scotland	10.0
Wales, N.Ireland & offshore	11.4
Others	1.7

Commentary

Temporary suspension of dealing announcement

On 4 December 2019, M&G Investments announced the temporary suspension of dealing in the M&G Property Portfolio and its feeder fund. In December 2019, unusually high and sustained outflows from the fund coincided with a period where continued Brexit-related political uncertainty and ongoing structural shifts in the UK Retail sector made it difficult for us to sell commercial property. Given these circumstances, we reached a point where M&G believed it would best protect the interests of the fund's customers by applying a temporary suspension in dealing.

The suspension allows the fund managers time to restore enough liquidity by selling non-core assets that do not fit with the fund's intended medium to long-term structure. Temporary suspension removes the immediate liquidity requirements of a daily dealt fund, so that assets can be sold in an orderly manner. By temporarily suspending dealing in the fund, we can avoid selling core assets at depressed prices, which removes the risk of skewing the portfolio and undermining investor value.

The fund is still actively managed whilst in suspension, but in recognition of customers' temporary inability to access their investment, M&G is waiving 30% of its annual charge, which will end when the fund resumes dealing. Suspension will be formally reviewed on a monthly basis and we will inform investors if the level of discount changes. In all other aspects, the fund will continue to operate as normal throughout the suspension and customers will continue to receive income payments.

The decision to suspend was made by M&G Securities Limited, the fund's Authorised Corporate Director (ACD), in agreement with the Fund's Depositary, and the Financial Conduct Authority was informed.

We are currently unable to say how long we expect the suspension to last, but we will monitor the situation daily and suspension will be formally reviewed every 28 days. Suspension will only continue as long as it is in the best interests of our customers. Please refer to the M&G website for updates.

Commentary

All UK commercial property capital values fell -0.3% in September as rental values declined -0.2% according to property consultant CBRE. The total return was 0.2%.

The Retail sector posted a -1.3% decline in capital values in September and rental values declined -0.9%. The total return was -0.7% over the month.

The best performing sector was Industrials, which saw capital value growth of 0.7% and an increase in rental values of 0.1%. The total return was 1.1%.

In September, the Office sector posted a decrease in capital values of -0.1%, with rental values falling -0.1%. The total return was 0.3%.

Against this background, the fund's total return was -1.2% in September.

On 9 September 2020 the fund's Standing Independent Valuer, Knight Frank, removed the material uncertainty clauses from all of the fund's direct property assets.

The portfolio is predominantly invested in what we consider to be 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 portfolio while, importantly, actively managing the fund's assets to optimise performance. Given the fund's exposure more towards what we characterise as prime, higher-quality properties, we believe the value of and, crucially, the income from these assets, should be more resilient in times of market stress.

We believe the fund is a well-diversified portfolio designed to generate rental income across the UK by region and sector, with valuations guiding asset allocation decisions. The fund's overall vacancy rate is below the MSCI IPD Quarterly Universe Index (7.3% vs 7.6%)*. The lower vacancy rate is testament to the quality of the fund's assets.

* The fund's vacancy rate is as at 30 September 2020 and the vacancy rate of the index is as at 30 June 2020, the latest date for which data is available.

Outlook

The reopening of the UK economy was matched with a pick-up in activity during the third quarter, with the rolling 3-month GDP rate returning to growth in August. However, the resurgence of the virus has resulted in new restrictions, and in the face of this uncertainty, the path for recovery continues to be dependent on the country's ability to contain COVID-19.

The threat of a "no-deal" Brexit with the EU at the end of the transition poses an additional risk. That said, with ongoing lockdown measures likely to remain less stringent than those employed earlier in the year, the economy is expected to continue to regain initial losses, albeit at a modest pace. Protecting the economy and public health remains a complex balancing act.

The surge in online retailing is intensifying the contrasting fortunes of the Industrial and Retail sectors. The acceleration in e-commerce adoption is proving more permanent and we expect it to underpin industrial occupational demand over the longer term, in our view attracting investors searching for rental growth and more certain incomes.

Meanwhile, Retail continues to underperform, particularly shopping centres and high-street shops, with supermarkets and retail warehouses showing greater resilience during this pandemic. While investor demand for the overall retail property sector will struggle to pick up in the near term, we think investors will remain focused on core, well-located retail space with secure and long-term income streams, underpinned by high quality tenants.

The office occupational market remains subdued, with limited leasing activity reflecting delayed occupier decision-making. This is partly indicating the normal reaction of companies to economic weakness, but also the pandemic's impact on working from home. Indeed, there is a lot of debate around the future of the offices, but the sector entered the crisis from a position of strength with low vacancy rates, below those reported during the previous downturns. Rent collection has held up well since the onset of the COVID-19 pandemic.

In terms of property investment, the lifting of material uncertainty clauses in September will clear some uncertainty surrounding valuations. Provided restrictions do not impede on investors' ability to carry out on-the-ground due diligence, deal frequency should rise from the low levels seen in the past two quarters. In our view, this will be supportive of our goal to raise capital and resume dealing in the fund.

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Key changes

At the end of September, the fund's cash position was 10.1%, an increase from 8.0% at the end of August. Part of the reason for the increase was due to the sale of two industrial warehouses at Kingsbury Link, Tamworth for £26.85 million in aggregate.

We also invested a further £2.5 million in a real estate investment trust (REIT) focused on Central London Offices. The fund can invest selectively in sector-specific REITs, as an additional tool to enhance the fund's flexibility to manage sector exposure, increase diversification and allow tactical allocation to sectors.

As at 6 October 2020, we had completed on the sale of £197.6 million of assets since the start of the temporary suspension; a further £239.5 million of assets have either exchanged or are under offer.

Since income accounts for around 70% of the total return from investment in property over the long term, we actively manage the assets to safeguard and increase the portfolio's income streams. Much of the asset management work now is focused on rent collection and tenant liaison. Additionally, there were two specific pieces of asset management activity in September.

At Riverside Retail Park, Northampton we completed a lease renewal with Poundland. The new five-year FRI lease started in September.

At Medway Valley Leisure Park, Rochester, we took a surrender of the lease on a unit from the franchisee and re-let it to the franchiser, Creams, a café and ice cream outlet. The new 10-year FRI lease started in September. Before completing the surrender we collected all the arrears from the franchisee. 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.

M&G Real Estate's asset managers are in regular dialogue with occupiers to maintain the important focus on receipt of rental income. We take our responsibilities as a major commercial property owner very seriously and are supporting tenants to find solutions that help protect businesses in distress, whilst also protecting the interests of the many savers and pensioners whose money is invested in our buildings. We are doing all we can to preserve value during this period of market stress and are working with occupiers to balance business continuity with our objective to deliver returns at this very difficult time for all.

Fund codes and charges

Share class	ISIN	Bloomberg	Currency	Ongoing charge	Historic yield	Minimum initial investment	Minimum top up investment
Sterling A Acc	GB00B8FSZ434	MGFPAAG LN	GBP	1.31%*	3.18%	£500	£100
Sterling A Inc	GB00B8FWH509	MGFPAIG LN	GBP	1.31%*	4.51%	£500	£100
Sterling D Acc	GB00B7KL5730	MGFPDAG LN	GBP	0.56%*	3.73%	£500,000	£10,000
Sterling D Inc	GB00B8FT5571	MGFPDIG LN	GBP	0.56%*	4.35%	£500,000	£10,000
Sterling I Acc	GB00B7SX7S61	MGFPIAG LN	GBP	0.81%*	3.56%	£500,000	£10,000
Sterling I Inc	GB00B842HT59	MGFPIIG LN	GBP	0.81%*	4.40%	£500,000	£10,000
Sterling R Acc	GB00B8FVGB64	MGFPRAG LN	GBP	1.06%*	3.38%	£500	£100
Sterling R Inc	GB00B8FXSK59	MGFPRIG LN	GBP	1.06%*	4.45%	£500	£100
Sterling X Inc	GB00B8HC9L87	MGFPXIG LN	GBP	1.31%*	4.51%	£500	£100

Any ongoing charge figure with * indicates an estimate. The ongoing charge figure may vary from year to year, and excludes portfolio transaction costs. The charges are mostly, if not exclusively, the Annual Charge which may be discounted depending on the size of the fund. The ongoing charges figures does not take into account the property operating expenses (PER) incurred indirectly via the M&G Property Portfolio. Included in the PER are repairs and maintenance, insurance, letting costs but not improvements. For further details, please see the fund's Key Investor Information Document (KIID). The fund's annual report for each financial year will include details on the exact charges made.
Please go to www.mandg.co.uk/literature to view the Costs and charges illustration which contains information on the costs and charges applicable to your chosen fund and share class.
Please see the Important Information for Investors document and the relevant Key Investor Information Document for more information on the risks associated with this fund and which share classes are available for which product and which investor type.
Investors should note that 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 6.53% (as at 30 September 2020) of the 'offer' basis valuation. 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 fund would receive if they were sold). The difference between the two, known as the 'spread', is currently 6.53% (as at 30 September 2020) of the 'offer' basis valuation. 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 fund shares (the fund is in 'net inflow') or selling shares (the fund is in 'net outflow'). Should 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 a slightly greater percentage, the spread being based in this case on the lower 'bid' basis valuation. For large deals (regarded as deals in excess of £50,000) the dealing price you receive may be different from the published price. If you are buying shares, you may receive a price that is higher than the quoted offer price. If you are selling shares, you may receive a price that is lower than the quoted bid price.

ESG Integrated funds

Funds that integrate financially material ESG data into the risk management and decision-making process, as well as our company-wide exclusions (cluster munitions and anti-personnel mines). Some strategies may have some additional ESG exclusions.

Approach to responsible investment

	Yes	No	N/A
ESG integration	✓		
Additional ESG specifications		✓	
Exclusions	✓		
Cluster munitions & anti personnel landmines	✓		
Other exclusions or restrictions		✓	
Voting			✓
Engagement	✓		

Please see glossary for further explanation of these terms.

ESG Standard Glossary

Additional ESG specifications: In the context of M&G, these are funds managed with an explicit ESG objective, outcome or in accordance with specific ESG criteria, and will have a number of minimum exclusions in place.
Engagement: Interaction with company management on various financial and non-financial, including ESG, issues. Engagement allows investors to better understand how a company is undertaking its operations and how it is interacting with its stakeholders, as well as advising on and influencing company behaviour and disclosures where appropriate.
ESG integration: Describes the explicit and systematic inclusion of Environmental, Social and Governance factors in investment analysis and investment decisions. It underpins a responsible investment approach, and allows investors to better manage risk and generate sustainable, long-term returns.
Exclusions: The exclusion or restriction of investments based on the sector in which they operate, the products or services they provide or for other specific criteria, i.e. they are deemed to be in breach of the United Nations Global Compact principles on human rights, labour the environment and anti-corruption.
Voting: As the partial owners of a company, shareholders have the right to vote on resolutions put forward at a company's annual general meeting. These resolutions include the re-election of directors, executive remuneration and business strategy, among others, and may include resolutions put forward by shareholders.

Important information

***M&G Investments (M&G) temporarily suspended dealing in the shares of the M&G Property Portfolio (the Fund) and its feeder fund on 4 December 2019. In recent months, unusually high and sustained outflows from the Fund have coincided with a period where continued Brexit-related political uncertainty and ongoing structural shifts in the UK retail sector have made it difficult for us to sell commercial property. Given these circumstances, we have now reached a point where M&G believes it will best protect the interests of the Funds' customers by applying a temporary suspension in dealing.**

On 18 January 2013, the M&G Property Portfolio converted to a property authorised investment fund (PAIF) with the same name, investment strategy, approach and fund manager as the existing unit trust, which was launched on 8 November 2005. The PAIF is compliant with HMRC's Property Authorised Investment Fund regime and, as a result, eligible investors can receive gross income if invested directly in the PAIF. A feeder fund, the M&G Feeder of Property Portfolio, was also established to cater for those investors unable to administer a PAIF or corporate investors that would otherwise own more than 8% of the fund.

Fiona Rowley was appointed fund manager of the M&G Property Portfolio (unit trust) on 1 October 2007. The M&G Property Portfolio (unit trust) launched on 8 November 2005.

Past performance is not a guide to future performance. We are unable to give financial advice. If you are unsure about the suitability of your investment, speak to your financial adviser.

The historic yield expresses the last four quarters' distributions as a percentage of the current net asset value per share (NAV). The proportion of the distribution comprising income from property and interest on cash is calculated gross of the basic rate of tax, as per AREF standard practice. Expenses are charged to capital.

Industry breakdown is net of cash and near cash.

Sector: Morningstar category averages represent the average return of funds within their category over time. The category averages are created by using the average daily total return index series, or TRI, as well as monthly, quarterly, and annual averages of return and non-return data. Morningstar applies a fractional weighting methodology whereby, on the last day of each month, the funds are equally weighted and the share classes within each fund are equally weighted. Fractional weighting ensures that funds with multiple share classes do not dominate and skew the returns of the average, thus presenting the peer group performance in a fair and consistent manner.

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