M&G Recovery Fund

a sub-fund of M&G Investment Funds (3)

Interim Short Report December 2019
For the six months ended 31 December 2019

M&G INVESTMENTS

Fund information

The Authorised Corporate Director (ACD) of M&G Investment Funds (3) presents its Interim Short Report for M&G Recovery 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 (3), 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

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

Important information

As mentioned in the shareholder letter on 17 June 2019, we have made changes to the way we charge for M&G funds based in the UK, starting on Thursday 1 August 2019. The annual charge should be simpler to understand and easier to compare with other fund charges. We have combined all the charges that make up the current ongoing charge figure (OCF) into a single annual charge. Only exceptional items such as unforeseen legal and tax expenses, also known as extraordinary expenses, will be excluded from the annual charge. To find out the new annual charge and the OCF which are shown in the Key Investor Information Document (KIID) for the share class(es) you are invested in, visit our website www.mandg.co.uk

Investment objective

The 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 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.

Recovery investing focuses on companies that have experienced difficulties but have the potential to deliver returns for shareholders through their turnaround over the long term.

The fund looks to benefit from the market's inefficiency in valuing companies going through short-term challenges. This enables the fund manager to identify companies whose long-term prospects have been under-appreciated by the market.

When analysing a company, the fund manager focuses on three key factors: people, strategy and cashflow. Developing a constructive dialogue with company management is fundamental to the investment process.

The investment approach means the fund manager is prepared to take a contrarian view and consider areas that are out of favour with other investors. To take this contrarian view, the fund manager focuses on company management, their turnaround strategy and the businesses' ability to generate cashflow.

The fund manager expects individual cases of companies recovering to be the main driver of performance rather than individual sectors and the macroeconomic environment.

The fund manager takes a long-term view with a typical holding period of five years or more.

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.

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's focus is on companies that are out of favour with the market, and these stocks could potentially experience a degree of illiquidity in times of market distress. However, the fund is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. The fund also invests in the shares of smaller and AIM-listed companies, which can be more unpredictable and difficult to buy and sell. Diversification across 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.

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.

As at 2 January 2020, for the six months ended 31 December 2019

Performance against objective

The M&G Recovery Fund invests in companies that, at the time of investment, are out of favour with the stockmarket, and where the fund manager believes a good management team is making concerted efforts to turn the business around. The fund's objective is to outperform the FTSE All-Share Index (net of charges) over any five-year period.

Between 1 July 2019 (the start of the review period) and 2 January 2020, the fund produced a flat total return (the combination of income and growth of capital) across its sterling share classes. The euro share classes returned around 5-6%. The fund's returns in all share classes were behind that of the FTSE All-Share Index. Over the same period, returns for the index were 5.4% and 11.1% in sterling and euro terms, respectively.

Over five years, the fund also lagged the FTSE All-Share Index, therefore missing its objective.*

* 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 (3).

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 01.07.19 % [a]	Three years 03.01.17 % p.a.	Five years 02.01.15 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	-0.4	+0.0	+2.6	+13.2 [c]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 23 May 1969, 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 fund delivered flat returns in sterling terms over the six-month review period and underperformed its benchmark, the FTSE All-Share Index. The second half of 2019 was undoubtedly a tough period for recovery. After a strong start to the year that lasted up to the end of April, the fund fell behind during May's risk aversion and did not catch up thereafter, despite briefly outperforming in August and October. Accordingly, the fund underperformed the market by around 5% during the six months ending 2 January 2020.

This outcome was primarily due the fund's exposure to the resources sectors. In particular, Tullow Oil fell sharply in the wake of a number of problems that surfaced during the period, including poor quality oil discoveries off the Guyana coast, a reduction in production guidance, the removal of its chief executive and suspension of its dividend. Despite the setback, Tullow has been a profitable investment over the years and we remain supportive of the company, using the opportunity to pick up stock. BP, the fund's largest position, was also weak as the market expressed disappointment at the oil major's third-quarter results and failure to raise the dividend, although we believe this to be a timing issue. Amongst the other extractors, gold miner St Barbara reported disappointingly lower production figures and the market remains sceptical about its recent purchase of a mine in Nova Scotia. Meanwhile, Petra Diamonds has been under pressure from lower diamond prices and its debt pile; however, we are confident the miner can generate sufficient cash to navigate the current period of weakness, so we increased the fund's holding.

Apart from resources, another poor performer was fastjet on concerns about the African low-cost carrier's future; we have not invested further in the company and the management is looking at a number of options to avoid raising capital from investors. There was a better performance, though, from another low-cost carrier in the portfolio, easyJet, which has benefited from others' problems, with Thomas Cook going into administration and Ryanair affected by Boeing grounding its 737 Max jets after two crashes.

The fund's biotech holdings also delivered mixed results as GW Pharmaceuticals and Oxford Biomedica lagged the market, while Mesoblast and Medical Developments International outperformed. Notwithstanding the share price volatility, GW Pharma is making good progress in gaining approval for its transformative cannabinoid drug treatments, especially Epidiolex which has been approved for sale already in the US, Europe and the UK. Sales thus far in the US are significantly exceeding pre-launch expectations. Oxford Biomedica consolidated following some good performance over the past two years and having recently announced a five-year extension to its commercial supply agreement with Novartis for the manufacture of lentiviral vectors. Mesoblast was supported by the announcement of a strategic partnership with Grünenthal, a global leader in pain management, to develop and commercialise its Phase III stem cell therapy for chronic low back pain. Medical Developments International benefited from the news in late November that its Penthrox fast pain relief product had made progress in its path towards acceptance in China.

Corporate activity added value during the six months as defence manufacturer Cobham, the UK's largest pub company, Ei Group (formerly Enterprise Inns), and content provider plus Peppa Pig owner Entertainment One were all the subject of takeover approaches. In addition, there was bid speculation circulating around a long-term fund holding, Canadian copper miner First Quantum Minerals which has operations in Zambia and Panama.

Elsewhere, the fund benefited principally from holdings in flexible workspace provider IWG (formerly Regus), outsourcer Capita and miner Kenmare Resources. IWG has started to perform well as the market is beginning to take notice of the company's strategy for franchising its worldwide office portfolio. Capita's shares picked up in 2019 as it is executing on its turnaround strategy under a new chief executive after 2018's fundraising when the M&G Recovery Fund became involved. Kenmare Resources, which operates the Moma mine in Mozambique, pleased the market by announcing its maiden dividend.

Turning to markets, the six months under review was a volatile period for UK equities, or company shares, which limited the progress of the broad market FTSE All-Share Index to a total return of 5.4% in sterling terms. Global equity markets including the UK generally rose through the summer, encouraged by a softening in the US Federal Reserve's attitude towards interest rates, cutting them three times between July and October in response to the markets' volatility and concerns about slowing growth. The European Central Bank followed suit, lowering its already negative interest rate in September. Late summer, the US-China trade conflict and renewed concerns about global growth unsettled investors, before risk appetite picked up again in the autumn, led by the US market which recorded a series of all-time highs, as signs emerged that a trade deal might be agreed between the US and China in January 2020, as well as some improvement in global economic data. UK equities lagged, however, as Brexit increasingly preoccupied investors in the domestic market.

Hopes that the Conservative's decisive victory in the general election on 12 December 2019 might remove the uncertainty over Brexit initially led to significant strength in sterling and sharp rallies by the domestically focused mid and small-cap indices (medium-sized and smaller companies), with the former recording an all-time high. The currency move weighed on the FTSE 100 Index, though, with its higher weighting of overseas earners. The currency rally partially unwound after the prime minister promised legislation to make 31 December 2020 a hard deadline for achieving a trade deal, raising concerns that the UK could crash out of the EU after all. Notably, although there was broad participation across sectors, there was a cyclical tilt to the UK market rally over the period. However, utilities outperformed as the threat of nationalisation was lifted from them, and the tobacco sector recovered from oversold levels. Meanwhile, energy and mining companies lagged – the former reflecting disappointing results and the latter slowing growth in China, while banks were held back by a weak performance from HSBC due to the unrest in Hong Kong.

Investment activities

We made four new purchases and six complete sales over the first half of the fund's financial year, while another two holdings departed as a result of being taken over.

Positions were established in biotech firm Medical Developments International, two advertising stocks, WPP plus Mirriad Advertising, and a manufacturer of medical devices, Creo Medical Group. Medical Developments International is in the early stages of developing its product pipeline and the shares had consolidated in 2018 after a strong 2017 on expectations of the success of the company's international expansion of its Penthrox pain management drug. Colloquially known as the 'green whistle', Penthrox is commonly carried by accident and emergency teams in Australia, parts of Asia and Europe, as well as the NHS in the UK, and is a very effective alternative to opioid-based drugs. We took advantage of an attractive valuation in 2019 to pick up stock.

The market does not like WPP's advertising business as it perceives it to be cyclical and under pressure from Google, Facebook and deposed founder Martin Sorrell. However, the agency is not particularly geared, is a global business and has a very competent chief executive who is putting some of its agencies together, merging the back-office operations and reinvesting the cost savings in people.

Mirriad Advertising is a much smaller media business, but it is introducing innovative digital techniques to marketing such as product promotions within programmes. The company first listed at the end of 2017 and we established a modest position by supporting a refinancing after the shares had suffered a setback on market disappointment that the company was not delivering on its growth forecasts.

AIM-listed Creo Medical Group's devices are minimally invasive in the field of surgical endoscopy and the company was raising capital in order to continue with its development programme and build distribution capabilities in the US. The fundraising represented an opportunity for Recovery Fund to become involved in a business that is engaged in revolutionary work in healthcare.

In other activity, we built up fund positions in some more recently acquired FTSE 100 holdings, including power network provider National Grid, broadcaster ITV and packaging manufacturer Smurfit Kappa. We also participated in a fundraising by Mesoblast as part of its deal with Grünenthal, and continued to add to the fund's holding in Micro Focus after the market overreacted to a profit warning by the software firm in August.

Sales from the portfolio included cruise line operator Carnival, emergency home-cover provider Homeserve, smaller-company focused investment trust Gresham House Strategic, satellite operator Avanti Communications, insurer Aviva and interdealer broker TP ICAP. Carnival had been a long-term position and, following its strong recovery and earlier fund sales, had been reduced to a rump holding. Homeserve had also been a long-term holding and had performed well for the fund, but had completed its recovery cycle and appeared fully valued. Similarly with Gresham House Strategic where, having performed very well in 2019, we took the opportunity when it arose to sell the shares back to the company. Meanwhile, we exited the positions in Avanti Communications, Aviva and TP ICAP after losing conviction in the investment case for them. The other two holdings to exit the portfolio were Entertainment One and Frontier Smart Technologies as a result of takeovers.

Outlook

We are conscious that the Recovery Fund does not deliver performance in a straight line, but maintain that its potential remains considerable. Despite having to weather an extended period of underperformance, we have stuck to our recovery proposition and have been clear about it, and been sorely tested for doing so. We are investing in companies that are usually severely undervalued, and revaluations of them by the market are not always straightforward, but they can be pronounced when they eventually occur. Indeed, a number of the fund's holdings have made considerable operational progress in the past few years that has not been recognised by the market. For example, the list includes such diverse businesses as resource companies BP, Kenmare Resources and St Barbara, construction group Balfour Beatty, biotechnology firm Oxford Biomedica, plus the clearing banks RBS and Lloyds.

The Recovery Fund has a well-diversified portfolio of 76 stocks with an average holding period of six years, albeit this is starting to fall and is expected to settle back at around five years. This is markedly different from market practice where holding periods are much shorter. Approximately two thirds of the fund is in stages 1 (unloved) or 2 (stabilising) of our business recovery cycle. One third is in stage 3 (recovering well) where the improvement in operational or financial performance is beginning to be recognised by the market. Very little of the fund is normally in stage 4 (mature), where the recovery has normally been fully recognised, and following recent bid activity the fund currently has two holdings in this category.

The Recovery Fund's strategy of seeking mispriced risk from companies across the spectrum remains alive and well. We continue, therefore, to target companies that are under pressure and the portfolio currently contains 27 firms that reported losses last year, a figure we expect to fall to 25 in the current financial year. Similarly, we have 40 companies that did not pay a dividend, which is expected to decline to 34 once 2019's final declarations have been made.

Tom Dobell
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 Holding		31.12.19 £'000	31.12.19 %	30.06.19 %
	EQUITIES	**1,986,601**	**97.32**	**99.92**
	Software & computer services	**56,643**	**2.77**	**2.63**
7,063,972	Actual Experience [a]	6,640	0.32	
11,000,000	Blancco Technology [a]	18,700	0.92	
2,000,000	Micro Focus International	21,400	1.05	
120,629,158	Wameja [a]	5,790	0.28	
2,916,666	Watchstone [a]	4,113	0.20	
	Technology hardware & equipment	**0**	**0.00**	**0.11**
	Telecommunication service providers	**37,537**	**1.84**	**1.66**
19,500,000	BT	37,537	1.84	
	Medical equipment & services	**14,833**	**0.73**	**0.00**
8,333,000	Creo Medical [a]	14,833	0.73	
	Pharmaceuticals & biotechnology	**290,630**	**14.24**	**15.18**
5,244,052	Eco Animal Health [a]	10,488	0.52	
830,000	GW Pharmaceuticals ADR	63,998	3.14	
2,540,838	Hutchison China Meditech ADR	49,820	2.44	
3,428,178	Medical Developments International	15,928	0.78	
63,179,045	Mesoblast	69,445	3.40	
1,491,414	Mesoblast ADR	8,209	0.40	
11,156,679	Oxford Biomedica	72,742	3.56	
	Banks	**309,241**	**15.15**	**15.78**
23,900,000	HSBC	141,249	6.92	
125,680,000	Lloyds Banking	78,525	3.85	
17,000,000	Royal Bank of Scotland	41,106	2.01	
6,800,000	Standard Chartered	48,361	2.37	
	Investment banking & brokerage services	**16,041**	**0.79**	**1.08**
17,657,142	IP	12,536	0.62	
7,301,333	WH Ireland [a]	3,505	0.17	
	Equity investment instruments	**0**	**0.00**	**0.21**
	Life insurance	**0**	**0.00**	**1.51**
	Household goods & home construction	**11,900**	**0.58**	**0.51**
7,960,000	McCarthy & Stone	11,900	0.58	
	Media	**77,529**	**3.80**	**3.67**
20,900,000	ITV	31,444	1.54	
29,666,666	Mirriad Advertising [a]	4,302	0.21	
2,100,000	Pearson	13,427	0.66	
2,660,000	WPP	28,356	1.39	
	Retailers	**18,989**	**0.93**	**0.93**
1,200,000	Dignity	6,888	0.34	
69,542,935	Mothercare	12,101	0.59	

Portfolio statement (continued)

as at Holding		31.12.19 £'000	31.12.19 %	30.06.19 %
	Travel & leisure	**124,821**	**6.11**	**7.53**
5,040,000	Dalata Hotel	22,062	1.08	
3,330,000	easyJet	47,369	2.32	
6,000,000	Ei	17,028	0.83	
745,331,981	fastjet	1,342	0.07	
9,321,340	fastjet Warrants 31/07/2021	0	0.00	
7,900,000	National Express	37,020	1.81	
	Food producers	**31,644**	**1.55**	**1.37**
8,757,630	REA	13,925	0.68	
2,000,000	Tate & Lyle	15,288	0.75	
46,304,408	Zambeef Products [a]	2,431	0.12	
	Construction & materials	**84,973**	**4.16**	**4.61**
13,550,000	Balfour Beatty	35,637	1.75	
1,450,000	CRH	44,007	2.15	
5,548,239	Kier	5,329	0.26	
	Aerospace & defence	**86,871**	**4.25**	**3.32**
18,350,000	Cobham	30,131	1.47	
2,510,000	Meggitt	16,451	0.80	
3,180,000	QinetiQ	11,397	0.56	
2,850,000	Rolls-Royce	19,528	0.96	
146,309,150	TP [a]	9,364	0.46	
	Electronic & electrical equipment	**2,687**	**0.13**	**0.19**
4,976,666	Xaar	2,687	0.13	
	General industrials	**70,518**	**3.46**	**2.75**
14,500,000	Coats	10,868	0.54	
925,000	Smiths	15,540	0.76	
1,520,000	Smurfit Kappa	44,110	2.16	
	Industrial engineering	**34,729**	**1.70**	**1.53**
27,500,000	Renold [a]	4,675	0.23	
35,949,718	Severfield	30,054	1.47	
	Industrial support services	**160,606**	**7.87**	**7.51**
28,444,340	Capita	46,876	2.30	
4,825,000	Essentra	20,970	1.03	
1,620,000	Grafton	14,280	0.70	
18,000,000	IWG	78,480	3.84	
	Industrial transportation	**34,456**	**1.69**	**1.68**
5,500,549	Avation	14,632	0.72	
346,934,550	Mercantile Ports & Logistics [a]	4,510	0.22	
13,846,267	Stobart	15,314	0.75	
	Industrial metals & mining	**185,643**	**9.09**	**8.02** [b]
44,373,385	Bacanora Lithium [a]	15,087	0.74	
132,136,364	Bluejay Mining [a]	11,496	0.56	
6,170,000	First Quantum Minerals	47,243	2.31	

Portfolio statement (continued)

as at Holding		31.12.19 £'000	31.12.19 %	30.06.19 %
	Industrial metals & mining (continued)			
18,557,778	Kenmare Resources	43,425	2.13	
23,346,347	MC Mining [a]	6,304	0.31	
1,320,000	Rio Tinto	59,314	2.90	
102,430,167	White Energy Company	2,774	0.14	
	Precious metals & mining	**55,972**	**2.74**	**3.02** [b]
13,500,000	Hummingbird Resources [a]	2,795	0.14	
100,000,000	Petra Diamonds	8,565	0.42	
22,500,000	St Barbara	32,497	1.59	
20,650,000	Sylvania Platinum [a]	7,599	0.37	
94,500,000	Troy Resources	4,516	0.22	
	Non-renewable energy	**220,302**	**10.79**	**14.05**
33,300,000	BP	157,759	7.73	
16,622,508	Great Eastern Energy GDR	4,155	0.20	
11,995,232	Lamprell	4,678	0.23	
8,970,675	Nostrum Oil & Gas	1,507	0.07	
2,560,000	Petrofac	9,851	0.48	
98,547,984	Providence Resources [a]	2,858	0.14	
62,000,000	Tullow Oil	39,494	1.94	
	Electricity	**8,239**	**0.41**	**0.37**
50,702,030	OPG Power Ventures [a]	8,239	0.41	
	Gas, water & multi-utilities	**51,797**	**2.54**	**0.70**
5,465,000	National Grid	51,797	2.54	
	Unquoted / unlisted [c]	**0**	**0.00**	**0.00**
38,761,085	African Minerals	0	0.00	
39,868,814	Alizyme	0	0.00	
3,094,020	Izodia	0	0.00	
34,149,791	KSK Power Ventur	0	0.00	
Portfolio of investments		**1,986,601**	**97.32**	**99.92**
	CASH EQUIVALENTS	**25,767**	**1.26**	**0.36**
	'AAA' rated money market funds [d]	**25,767**	**1.26**	**0.36**
25,767,000	Northern Trust Global Fund - Sterling	25,767	1.26	
Total portfolio		**2,012,368**	**98.58**	**100.28**
Net other assets / (liabilities)		**29,072**	**1.42**	**(0.28)**
Net assets attributable to shareholders		**2,041,440**	**100.00**	**100.00**

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

[a] AIM quoted.

[b] The comparative sector weightings have been re-analysed to reflect changes to the sector classifications.

[c] Suspended.

[d] 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 31 December 2019

Largest purchases	£'000
National Grid	31,193
WPP	26,256
Smurfit Kappa	23,544
Tullow Oil	19,742
Creo Medical [a]	14,999
Medical Developments International	10,960
Rolls-Royce	10,593
Micro Focus International	8,062
Bacanora Lithium [a]	7,729
Mesoblast	5,481
Other purchases	38,202
Total purchases	**196,761**

Largest sales	£'000
Entertainment One	63,081
Ei	55,367
Aviva	32,769
HomeServe	31,539
CRH	30,027
HSBC	27,966
GW Pharmaceuticals ADR	21,902
BP	21,423
Coats	15,499
Carnival	12,003
Other sales	79,027
Total sales	**390,603**

[a] AIM quoted.

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

Financial highlights
Fund performance

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

The following 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 (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

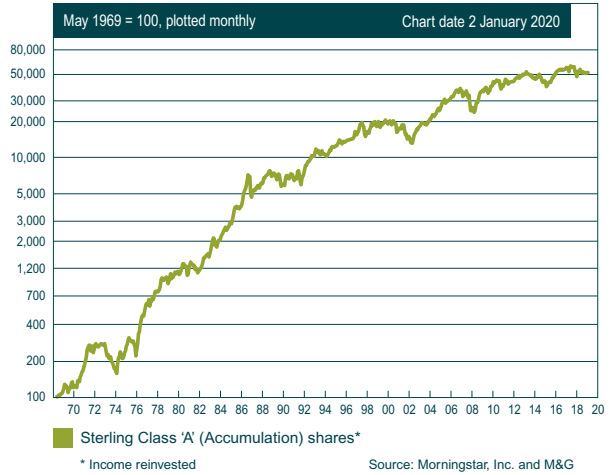
Fund level performance

Fund net asset value

as at	31.12.19 £'000	30.06.19 £'000	30.06.18 £'000
Fund net asset value (NAV)	2,041,440	2,211,907	2,809,729

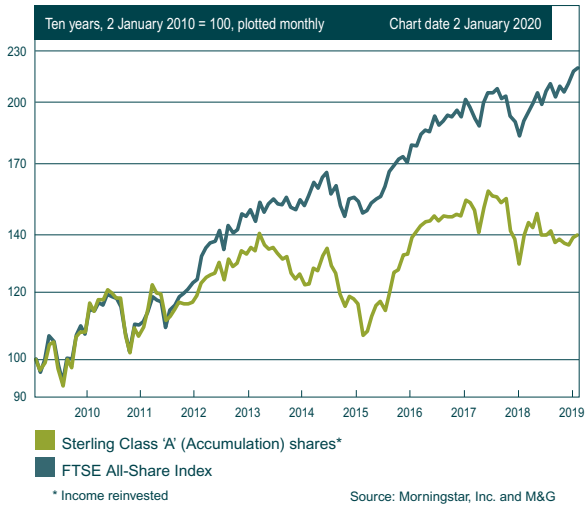
Performance since launch

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 the comparator benchmark's total return is not available from fund launch. Therefore a ten-year comparable performance chart is shown below.



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 10 January 2020.

Sterling Class 'A' Accumulation share performance

The share class was launched on 23 May 1969.

Change in NAV per share	Six months to 31.12.19 UK p	Year to 30.06.19 UK p	Year to 30.06.18 UK p
Opening NAV	311.48	346.76	323.47
Return before operating charges and after direct portfolio transaction costs	0.45	(29.95)	28.80
Operating charges	(2.15)	(5.33)	(5.51)
Return after operating charges	(1.70)	(35.28)	23.29
Distributions	(2.13)	(3.91)	(2.46)
Retained distributions	2.13	3.91	2.46
Closing NAV	309.78	311.48	346.76
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.12	0.10	0.11
Dilution adjustments [a]	(0.03)	(0.07)	(0.08)
Total direct portfolio transaction costs	0.09	0.03	0.03
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.06	0.01	0.01
Operating charges [c]	1.34	1.66	1.66
Return after operating charges	-0.55	-10.17	+7.20
Historic yield	1.51	1.24	0.71
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	504,045	536,905	634,597
Closing NAV percentage of total fund NAV (%)	24.69	24.27	22.59
Number of shares	162,712,620	172,372,639	183,009,631
Highest share price (UK p)	319.71	349.75	360.34
Lowest share price (UK p)	293.63	285.39	310.94

[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.

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.

Financial highlights
Operating charges and portfolio transaction costs

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 31.12.19 %	Year to 30.06.19 %	Year to 30.06.18 %	Average [a] %
Broker commission	0.02	0.01	0.01	0.01
Taxes	0.06	0.02	0.02	0.04
Costs before dilution adjustments	0.08	0.03	0.03	0.05
Dilution adjustments [c]	(0.02)	(0.02)	(0.02)	(0.02)
Total direct portfolio transaction costs	0.06	0.01	0.01	0.03

as at Indirect portfolio transaction costs	31.12.19 %	30.06.19 %	30.06.18 %	Average [a] %
Average portfolio dealing spread	0.84	0.69	0.59	0.71

[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.

Notes

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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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