

28 June 2021

Dear Investor

**Important information regarding the M&G (Lux) Episode Macro Fund (the “Fund”),  
a sub-fund of M&G (Lux) Investment Funds 1 (the “Company”)**

I am writing to inform you of changes we are making to the Fund.

**Please note that there will be no change to the way the Fund is managed, nor to the types of assets it can invest in. You do not need to take any action.**

Capitalised terms used in this letter shall have the same meaning ascribed to them in the latest version of the prospectus of the Company (the “Prospectus”) unless the context otherwise requires.

**1. Removal of references to the London Interbank Offered Rates (LIBORs) from the Fund’s Investment Objective, performance comparators, and Performance Fee Hurdle Rates**

The production of LIBOR, along with that of similar Interbank Offered Rates (IBORs) used in other markets, is expected to cease by the end of 2021. As a result, effective from Tuesday 3 August 2021 (the “Effective Date”), we will remove all LIBOR references in the Fund’s Investment Objective, performance comparators and Performance Fee’s Hurdle Rates. (Note: Hurdle Rates are applicable only to share classes with a Performance Fee.)

**What are the changes?**

**a) Change to the benchmark named in the Investment Objective**

The Secure Overnight Financing Rate (SOFR) will replace the 3-month USD LIBOR as the rate against which to measure the Fund’s performance in the Investment Objective. SOFR is an adjusted risk-free rate for US dollar-denominated derivatives and loans, administered by the Federal Reserve Bank of New York. It is an index which is based on actual transactions and reflects the average of the interest rates that banks pay to borrow US dollar cash overnight from other financial institutions and institutional investors.

continued overleaf

A comparison of the current and new Investment Objective can be found in Appendix 1 at the end of this letter.

**b) Change to the performance comparators and Performance Fee Share Class Hurdle Rates**

In addition to SOFR being used as benchmark for the Fund and its USD-denominated Share Classes, from the Effective Date, the following rates will be used as performance comparators and become Hurdle Rates for the corresponding Performance Fee Share Classes:

- **CHF/CHF Hedged Share Classes: Swiss Average Rate Overnight (SARON)**  
SARON represents the overnight interest rate of the secured funding market for the Swiss Franc. It is based on transactions and quotes posted in the Swiss repurchase agreement (repo) market.
- **EUR/EUR Hedged Share Classes: Euro Short-Term Rate (ESTR)**  
ESTR is an interest rate index that reflects the overnight borrowing costs of banks within the eurozone for the euro currency. The rate is calculated and published by the European Central Bank (ECB).
- **GBP/GBP Hedged: Sterling Overnight Index Average (SONIA)**  
SONIA is the risk-free rate for sterling markets, administered by the Bank of England. It is an index which is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

Note that the target return above the reference rates will remain set at + 4-8% for each performance comparator.

The changes are summarised in the table below. A full list of Share Classes is included at the end of this letter.

Share Class currency	Performance comparator		Performance Fee Hurdle Rate (where applicable)	
	Effective until 2 August 2021	Effective from 3 August 2021	Effective until 2 August 2021	Effective from 3 August 2021
CHF/CHF Hedged	3-month CHF LIBOR + 4-8%	SARON + 4-8%	3-month CHF LIBOR	SARON
EUR/EUR Hedged	3-month EUR LIBOR + 4-8%	ESTR + 4-8%	3-month EUR LIBOR	ESTR
GBP/GBP Hedged	3-month GBP LIBOR + 4-8%	SONIA + 4-8%	3-month GBP LIBOR	SONIA
USD	3-month USD LIBOR + 4-8%	SOFR + 4-8%	3-month USD LIBOR	SOFR

**How were the new reference rates chosen?**

We have been actively participating in a number of industry working groups (including regulators), as well as engaging with our investment teams, to identify and produce recommendations for the most appropriate replacement rates for our funds. These recommendations have now been reviewed and approved by internal governance committees and by the Board.

continued

## **Why are IBORs being replaced?**

LIBOR and other IBORs are representative of the rates at which banks and other financial institutions are prepared to lend money among themselves as they need it. However, the use of this type of lending has been decreasing gradually since 2018, which has reduced the reliability of some IBORs. By replacing the old IBORs, financial regulators are aiming to ensure the process used to calculate market interest rates is more transparent and robust, and that the markets can continue to have reliable standardised rates to use as reference points across a wide range of different activities and products.

## **2. Simplification of the Performance Fee framework**

Following a review of this Fund's Performance Fee methodology, from the Effective Date, we will be removing the clause in the Prospectus stating that the Management Company reserves the right to waive the Performance Fee when the Net Asset Value (NAV) of a Share Class, calculated in the currency denomination of that Share Class, is below 10 million.

## **Why is the change happening?**

The change will simplify the Fund's Performance Fee framework and align it with industry practice.

## **How will the change affect my investment?**

Where the performance exceeds both its High Water Mark (HWM) and Hurdle, a Performance Fee will start accruing (or continue to be accrued) from the Effective Date on all eligible Share Classes, irrespective of the Share Class NAV, and will be payable at the end of the annual accounting period (on 31 March every year) for each Share Class.

It should be noted that:

- Except for the circumstance described in point b) below, the HWM is the highest level that the NAV per share of a Share Class has reached on any annual accounting reference date where the NAV per share was higher than both the HWM and Hurdle on that reference date.
- The Hurdle is a value to surpass before a Performance Fee can be levied. The Hurdle Rate for all Performance Fee Share Classes, which is currently the LIBOR in the relevant Share Class currency denomination, will change to new reference rates as detailed in section 1 of this letter.

**There will be no change to the way the Performance Fee is calculated as a result of the amendment made to the Fund's Performance Fee framework. You should note however that, in future, the new Hurdle Rates may be lower than the current Hurdle Rates in absolute terms. This may result in Share Class performance surpassing the HWM and Hurdle – and triggering Performance Fee accrual – at a lower point. Please refer to Appendix 4 for an illustration of this.**

Details of the calculation methodology can be found in the Prospectus, available on our website at [www.mandg.com](http://www.mandg.com)

continued overleaf

**a) Effect on investors in EUR T-H Accumulation– ISIN: LU1670714499**

The Performance Fee is already accruing on this Share Class, based on the HWM set at the beginning of the Fund’s current annual accounting period (1 April 2021) and corresponding Hurdle Rate.

**b) Effect on investors in**

- **CHF T-H Accumulation – ISIN LU1670714655**
- **EUR TI-H Accumulation – ISIN LU1797816540**
- **GBP T-H Accumulation – ISIN LU1854148928**
- **GBP TI-H Accumulation – ISIN LU1866903971**
- **USD T Accumulation – ISIN LU1670714069**
- **USD TI Accumulation – ISIN LU1797816466**

The Management Company historically exercised its right to waive the Performance Fee for these Share Classes. As a result of the change, however, from the Effective Date until the end of the annual accounting period (31 March 2022), a HWM will be set against which to accrue the Performance Fee. For each Share Class, this will be set as the highest of:

- The highest NAV per share calculated by applying the Hurdle to every investor subscription<sup>1</sup> since launch, using the NAV per share on the date of each subscription as the opening HWM and applying the Hurdle from the date of that subscription until the Effective Date.
- The Share Class launch price plus Hurdle since the launch date<sup>1</sup>.
- The NAV per Share on 31 March 2021.
- The NAV per Share on 31 March 2021 plus Hurdle since that date.
- The NAV per Share on the Effective Date.

When setting the HWM for the TI Share Class in its currency denomination, the historic HWM and subscription prices of the equivalent T Share Class will be taken into account, including, where appropriate, those of the corresponding shares in the UK-authorized M&G Episode Macro Fund (prior to the merger of this fund’s non-sterling assets into the M&G (Lux) Episode Macro Fund, and the M&G Episode Macro Fund’s subsequent closure).

Please note that this approach will only be used for the current annual accounting period. The HWM for all future periods will be set on the first day of each respective period in line with the HWM methodology disclosed in the Prospectus.

**Costs associated with the changes**

All administration costs associated with the change will be borne by M&G.

---

<sup>1</sup> For CHF T-H Accumulation and USD T Accumulation Share Classes, this will be the launch price for corresponding shares in the M&G Episode Macro Fund

## **Making changes to your investment**

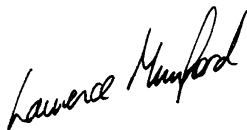
You may sell your investment, or switch it to another sub-fund of the Company or M&G fund, free of charge, at any point before or after the changes have taken place subject to our terms and conditions. If you would like to receive information about Share Classes in a fund where a Performance Fee does not apply, please contact us using the details below.

## **For more information**

If you are in any doubt as to the action to be taken or require further information, please do not hesitate to contact your usual M&G contact or, for operational queries, our **Customer Services** team by email at [csmang@rbc.com](mailto:csmang@rbc.com). We are open from 09:00 to 18:00 CET Monday to Friday. For security and to improve the quality of our service we may record and monitor telephone calls.

Please be aware that we are not in a position to give you investment advice. If you are uncertain as to how the changes may affect you, you should consult a financial adviser.

Yours sincerely



Laurence Mumford  
Chair, M&G (Lux) Investment Funds 1

## Enclosures:

- Appendix 1 - Change to the Fund's Prospectus disclosures Investment Objective and Benchmark sections
- Appendix 2 - Performance comparator changes
- Appendix 3 - Performance Fee Hurdle Rate changes
- Appendix 4 - Hurdle Rate change and potential Performance Fee impact

**Appendix 1**  
**Change to the Fund's Prospectus disclosures**  
**Investment Objective and Benchmark sections**

You may notice that the wording differs from those in the Fund's Key Investor Information Documents (KIIDs). This is because the Prospectus describes the full scope of the tools available to the fund manager and the limitations within which they must operate, whereas the information listed in the KIIDs provides a shorter description. KIIDs based on the new investment objectives, investment policies and investment strategies will be available to view at [www.mandg.com](http://www.mandg.com)

<b>Current wording (effective until 2 August 2021)</b>	<b>Updated wording (effective from 3 August 2021)</b>
<p><b>Investment Objective</b>  The Fund aims to achieve a total return (the combination of capital growth and income) of 4-8% a year above the <b>3-month USD LIBOR</b>, over any five-year period.</p>	<p><b>Investment Objective</b>  The Fund aims to achieve a total return (the combination of capital growth and income) of 4-8% a year above Secured Overnight Financing Rate (<b>SOFR</b>), over any five-year period.</p>
<p><b>Benchmark</b>  <b>3-month USD LIBOR + 4-8%</b>  The benchmark is a target which the Fund seeks to achieve. The rate has been chosen as the Fund's benchmark as it is an achievable performance target and best reflects the scope of the Fund's investment policy. The benchmark is used solely to measure the Fund's performance objective and does not constrain the Fund's portfolio construction. The Fund is actively managed. The investment manager has complete freedom in choosing which assets to buy, hold and sell in the Fund. The benchmark is shown in the Share Class currency as set out in the table below.</p> <p><b>CHF/CHF Hedged            3-month CHF LIBOR + 4-8%</b>  <b>EUR / EUR Hedged        3-month EUR LIBOR + 4-8%</b>  <b>GBP / GBP Hedged        3-month GBP LIBOR + 4-8%</b></p>	<p><b>Benchmark</b>  <b>SOFR + 4-8%</b>  The benchmark is a target which the Fund seeks to achieve. The rate has been chosen as the Fund's benchmark as it is an achievable performance target and best reflects the scope of the Fund's investment policy. The benchmark is used solely to measure the Fund's performance objective and does not constrain the Fund's portfolio construction. The Fund is actively managed. The investment manager has complete freedom in choosing which assets to buy, hold and sell in the Fund. The benchmark is shown in the Share Class currency as set out in the table below.</p> <p><b>CHF/CHF Hedged            SARON + 4-8%</b>  <b>EUR / EUR Hedged        ESTR + 4-8%</b>  <b>GBP / GBP Hedged        SONIA + 4-8%</b></p>

continued

**Appendix 2**  
**Performance comparator changes**

Share Class	ISIN code	Current performance comparator	New performance comparator
CHF T-H Acc	LU1670714655	3-month CHF LIBOR + 4-8%	SARON + 4-8%
CHF S-H Acc	LU1670714572		
EUR B-H Acc	LU1670714143	3-month EUR LIBOR + 4-8%	ESTR + 4-8%
EUR S-H Acc	LU1670714226		
EUR SI-H Acc	LU2191352629		
EUR T-H Acc	LU1670714499		
EUR TI-H Acc	LU1797816540		
GBP S-H Acc	LU2191352462	3-month GBP LIBOR + 4-8%	SONIA + 4-8%
GBP SI-H Acc	LU2191352546		
GBP T-H Acc	LU1854148928		
GBP TI-H Acc	LU1866903971		
USD S Acc	LU1670713921	3-month USD LIBOR + 4-8%	SOFR + 4-8%
USD T Acc	LU1670714069		
USD TI Acc	LU1797816466		

**Appendix 3**  
**Performance Fee Hurdle Rate changes**

Share Class	ISIN code	Current Performance Fee Hurdle Rate	New Performance Fee Hurdle Rate
CHF T-H Acc	LU1670714655	3-month CHF LIBOR	SARON
EUR T-H Acc	LU1670714499	3-month EUR LIBOR	ESTR
EUR TI-H Acc	LU1797816540		
GBP T-H Acc	LU1854148928	3-month GBP LIBOR	SONIA
GBP TI-H Acc	LU1866903971		
USD T Acc	LU1670714069	3-month USD LIBOR	SOFR
USD TI Acc	LU1797816466		

**Appendix 4**  
**Hurdle Rate change and potential Performance Fee impact**

In future, the new Hurdle Rates may be lower than the current Hurdle Rates in absolute terms. This may result in share class performance surpassing the HWM and hurdle – and triggering Performance Fee accrual – at a lower point.

The average difference between 3-month LIBOR and the replacement rates in the relevant currencies from 2 April 2018 to 31 March 2021, and the potential Performance Fee impact over an annual accounting period resulting from this difference, is covered in the table below.

Currency	Average difference between 3-month LIBOR and the replacement rate	Potential Performance Fee impact (20% of the difference)
USD (SOFR)	0.278%	0.056%
GBP (SONIA)	0.116%	0.024%
EUR (€STR)	0.163%	0.000% <sup>2</sup>
CHF (SARON)	-0.009%	0.000% <sup>2</sup>

<sup>2</sup> 3-month LIBOR and the replacement rate were negative for EUR and CHF throughout the calculation period, meaning the Hurdle Rate would not have impacted the Performance Fee calculation as the High Water Mark would always have been higher.