

13 September 2021

Dear Investor

**Changes to M&G (Lux) Optimal Income Fund,
a sub-fund of M&G (Lux) Investment Funds 1 (the “Company”)**

Defined terms used in this letter have the same meaning as in the Prospectus.

I am writing to inform you that, from **Friday 29 October 2021**, the Investment Policy and Investment Strategy of the M&G (Lux) Optimal Income Fund (the “Fund”) will be updated to introduce:

- a set of Environmental, Social and Governance (ESG) exclusions; and
- a requirement for the Fund to maintain a weighted average ESG rating above the average ESG rating of its benchmark.

As a result, the Fund will be no longer be categorised as ESG Integrated (Article 6 of the Sustainable Finance Disclosure Regulation (SFDR)), but will be recategorised as Article 8 under SFDR – which relates to funds promoting environmental and/or social characteristics, whilst applying good governance practices.

The Fund’s Investment Objective will not be affected by the changes. There will be no material change to the Fund’s liquidity and risk profile.

This letter provides you with full details of the changes and how they will impact investors. A full comparison of the current and updated Prospectus disclosures can be found at the back of the letter, along with the full list of investments which will be excluded from the Fund’s investment universe.

continued overleaf

Background and reasons for the changes

SFDR was introduced in March 2021 to provide greater transparency on the degree of sustainability of financial products, primarily through the introduction of defined disclosure requirements on ESG and sustainability characteristics. The new regulation provides a framework for investors to assess and compare ESG and sustainability criteria in their funds and reflects the changing investment landscape shaped by growing investor interest in ESG considerations.

With this in mind, we have decided to introduce a more active promotion of ESG characteristics within the Fund by implementing a positive ESG tilt approach, with a commitment to delivering a weighted average ESG rating above the average ESG rating of the Fund's benchmark. You should however note that the Fund may nonetheless invest across the full spectrum of ESG ratings.

The new strategy will allow the Fund to remain a flexible global bond fund whilst clearly incorporating specific ESG characteristics. In addition to the positive ESG tilt, the fund will apply a set of ESG exclusions as set out in the "Investment Policy" section below.

Details of the changes

Appendix 1 at the back of this letter provides a full comparison of current and updated Prospectus disclosures.

- **Investment Policy**

The Investment Policy will be updated to introduce norms-based ESG exclusions from the Fund's investment universe.

These will apply to the Fund's direct investments and relate to investments assessed to be in breach of commonly accepted standards of behaviour related to human rights, labour rights, environment and anti-corruption, such as:

- Any company that is assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment protection and anti-corruption.
- Any government from countries classified as "Not Free" by the Freedom House index based on civil liberties, political rights, and press freedom.

The full list of exclusions applicable to the Fund will be made available to investors through a separate 'ESG Criteria' document and can be found in Appendix 2 at the back of this letter.

continued

The Investment Policy will also introduce a requirement for the Fund to maintain a weighted average ESG rating above the average ESG rating of its benchmark.

We are also taking this opportunity to provide a more detailed list of the investments the Fund can invest in.

- **Investment Strategy:**

The Investment Strategy will be updated to specify how the Fund's ESG characteristics will be incorporated into its investment process.

- **ESG Information**

A new "ESG Information" section will be introduced to provide details of where investors can find, on the M&G website, additional information on the Fund's ESG Criteria, as well as reporting on its non-financial characteristics.

Will the changes result in any realignment of the Fund's portfolio?

Based on the Fund's holdings as at 31 July 2021, the changes will require a realignment of around 0.9% of its portfolio. This is expected to result in transaction costs, estimated at less than 0.01% of the Fund's net asset value. These costs will be borne by the Fund and will impact its performance by an equivalent amount.

Costs associated with the changes

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

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.

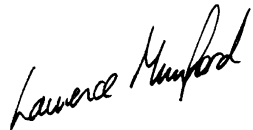
For more information

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 csmadg@rbc.com or by telephone on +352 2605 9944. 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.

continued overleaf

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

A handwritten signature in black ink that reads "Laurence Mumford". The signature is written in a cursive style with a large initial 'L'.

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

- Appendix 1: Comparison of previous and new wording M&G (Lux) Optimal Income Fund Prospectus disclosures
- Appendix 2: Exclusions as included in the M&G (Lux) Optimal Income Fund ESG Criteria document to be published on 29 October 2021.

Appendix 1 – comparison of Prospectus disclosures

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

Effective until Thursday 28 October 2021	Effective from Friday 29 October 2021
<p>Investment Objective</p> <p>The Fund aims to provide a total return (the combination of capital growth and income) to investors based on exposure to optimal income streams in investment markets.</p>	<p>Investment objective – changes in bold</p> <p>The Fund aims to provide a total return (capital growth plus income) to investors based on exposure to optimal income streams in investment markets.</p>
<p>Investment Policy</p> <p>The Fund invests at least 50% of its Net Asset Value in debt securities, including investment grade bonds, high yield bonds, unrated securities and asset-backed securities. These securities may be issued by governments and their agencies, public authorities, quasi-sovereigns, supranational bodies and companies. Issuers of these securities may be located in any country, including emerging markets, and denominated in any currency. At least 80% of the Net Asset Value will be in EUR or hedged into EUR.</p> <p>While the Fund’s overall duration will not be negative, the Fund may derive negative duration from individual fixed income markets.</p> <p>The Fund may invest up to a combined maximum of 100% of the Fund’s Net Asset Value in below investment grade and unrated securities. There are no credit quality restrictions with respect to the debt securities in which the Fund may invest.</p> <p>The Fund may invest in Chinese onshore debt securities denominated in CNY traded on the China Interbank Bond Market.</p> <p>The Fund may also hold up to a maximum of 20% of its Net Asset Value in contingent convertible debt securities and up to a maximum of 20% of its Net Asset Value in asset-backed securities.</p> <p>The Fund is a flexible bond fund that allows investment across a broad range of fixed income assets according to where the Investment Manager finds value. In identifying the optimal income stream, the Fund also has the flexibility to invest up to a maximum of 20% of its Net Asset Value in equities.</p> <p style="text-align: right;">continued</p>	<p>Investment Policy – changes in bold</p> <p>The Fund invests at least 50% of its Net Asset Value in debt securities, including investment grade bonds, high yield bonds, unrated securities and asset-backed securities. These securities may be issued by governments and their agencies, public authorities, quasi-sovereigns, supranational bodies and companies. Issuers of these securities may be located in any country, including emerging markets, and denominated in any currency. At least 80% of the Net Asset Value will be in EUR or hedged into EUR.</p> <p>While the Fund’s overall duration will not be negative, the Fund may derive negative duration from individual fixed income markets.</p> <p>The Fund may invest up to a combined maximum of 100% of the Fund’s Net Asset Value in below investment grade and unrated securities. There are no credit quality restrictions with respect to the debt securities in which the Fund may invest.</p> <p>The Fund may invest in Chinese onshore debt securities denominated in CNY traded on the China Interbank Bond Market.</p> <p>The Fund may also hold up to a maximum of 20% of its Net Asset Value in contingent convertible debt securities and up to a maximum of 20% of its Net Asset Value in asset-backed securities.</p> <p>The Fund is a flexible bond fund that allows investment across a broad range of fixed income assets according to where the Investment Manager finds value. In identifying the optimal income stream, the Fund also has the flexibility to invest up to a maximum of 20% of its Net Asset Value in equities.</p> <p style="text-align: right;">continued</p>

<p>The Fund will typically invest directly. The Fund may also invest indirectly via derivative instruments to take both long and short positions and to gain exposure to investments exceeding the Net Asset Value of the Fund in order to increase potential returns in both rising and falling markets. Derivative instruments can be used to meet the Fund's investment objective, for efficient portfolio management and for the purpose of hedging. These instruments may include, but are not limited to, spot and forward contracts, exchange traded futures, credit default swaps, total return swaps and interest rate swaps.</p> <p>The Fund may also invest in other assets including collective investment schemes, cash and near cash, deposits, warrants and other debt securities.</p>	<p>Norms-based exclusions apply to the Fund's direct investments. These are investments that are assessed (as explained in the ESG Criteria) to be in breach of commonly accepted standards of behaviour related to human rights, labour rights, environment and anti-corruption.</p> <p>The Fund maintains a weighted average ESG rating above the average ESG rating of the benchmark. The Fund may nonetheless invest across the full spectrum of ESG ratings. The Fund's calculation methodology will not include those securities that do not have an ESG rating, or cash, near cash, some derivatives and some collective investment schemes.</p> <p>Further information on the Fund's ESG approach can be found in the ESG Criteria as disclosed in the ESG Information section below.</p> <p>The Fund may also invest in other transferable securities, cash, and near cash, directly or via collective investment schemes (i.e. UCITS and other UCIs including funds managed by M&G).</p> <p>The Fund may use derivatives for investment purposes, efficient portfolio management and hedging. These instruments may include, but are not limited to, spot and forward contracts, exchange traded futures, credit default swaps, total return swaps, interest rate swaps and credit linked notes.</p>
<p>Investment Strategy</p> <ul style="list-style-type: none"> • Investment Approach <p>The Investment Manager begins with a top-down assessment of the macroeconomic environment, including the likely path of growth, inflation and interest rates. The results of this analysis help inform the Fund's duration positioning and its allocation to the various bond asset classes.</p> <p>Individual credit selection is carried out in conjunction with the in-house team of credit analysts, which provides bottom-up analysis of the corporate bond markets to complement the Investment Manager's views.</p> <ul style="list-style-type: none"> • Responsible Investment Approach <p>The Fund is categorised as ESG Integrated.</p> <p>The ESG categorisation of the Fund is explained in Appendix 1 "ESG Integration and Approaches to Responsible Investment" of this Prospectus. Investors should refer to that section for further details.</p>	<p>Investment Strategy</p> <ul style="list-style-type: none"> • Investment Approach <p>The Investment Manager begins with a top-down assessment of the macroeconomic environment, including the likely path of growth, inflation and interest rates. The results of this analysis help inform the Fund's duration positioning and its allocation to the various bond asset classes.</p> <p>Individual credit selection based on bottom-up analysis of the corporate bond markets by in-house credit analysts complements the Investment Manager's views.</p> <p>Consideration of ESG Factors is fully integrated into credit analysis and investment decisions.</p> <p style="text-align: right;">continued</p> <p>In order to identify securities for purchase, the Investment Manager follows the process below:</p> <ol style="list-style-type: none"> 1. The exclusions listed in the ESG Criteria are screened out. <p style="text-align: right;">continued</p>

	<p>2. The Investment Manager then performs fundamental analysis taking into consideration the macroeconomic, sector and company specific information as well as analysis of securities and their issuers to identify and take advantage of investment opportunities. In constructing a portfolio positively tilted towards investments with better ESG characteristics, the Investment Manager may nonetheless invest in investments across the full spectrum of ESG ratings.</p> <p>Further information about the ESG approach and investment process can be found in the ESG Criteria.</p> <ul style="list-style-type: none"> • Responsible Investment Approach • The Fund is categorised as an Article 8 fund under SFDR. • The Fund applies a Positive ESG Tilt approach as defined in Appendix 1 “ESG Integration and Approaches to Responsible Investment” of this Prospectus. • The Fund’s ESG Criteria apply to at least: <ul style="list-style-type: none"> - 90% of debt securities, money market instruments with an investment grade credit rating; sovereign debt issued by developed countries; and equities issued by large capitalisation companies in developed countries; - 75% of debt securities and money market instruments with a high yield credit rating; sovereign debt issued by emerging market countries; equities issued by large capitalisation companies in emerging market countries; and equities issued by small and mid-capitalisation companies in any country. • Where securities held in the Fund are subject to the ESG Criteria this is achieved through the use of M&G’s proprietary analysis and/or third party ESG information. As explained in the ESG Criteria, it may not be practicable to perform ESG analysis on cash, near cash, some derivatives and some collective investment schemes, to the same standards as for the other investments.
N/A	<p>ESG Information (new section)</p> <p>Additional information is available to investors on the Fund page of the M&G website:</p> <ul style="list-style-type: none"> • ESG Criteria: in the document titled "M&G (Lux) Optimal Income Fund – ESG Criteria" which includes the Fund’s exclusions approach. • Periodic reporting against the Fund’s non-financial characteristics.

<p>Benchmark</p> <p>A composite index comprising:</p> <ul style="list-style-type: none"> • 1/3 Bloomberg Barclays Global Aggregate Corporate Index EUR Hedged • 1/3 Bloomberg Barclays Global High Yield Index EUR Hedged • 1/3 Bloomberg Barclays Global Treasury Index EUR Hedged <p>These indices represent the global investment grade corporate market, the global high yield corporate market and the global government bond market respectively.</p> <p>The benchmark is a comparator against which the Fund's performance can be measured. The composite index has been chosen as the Fund's benchmark as it best reflects the scope of the Fund's investment policy. The benchmark is used solely to measure the Fund's performance and does not constrain the Fund's portfolio construction.</p> <p>The Fund is actively managed. The Investment Manager has complete freedom in choosing which investments to buy, hold and sell in the Fund. The Fund's holdings may deviate significantly from the benchmark's constituents.</p> <p>The benchmark is shown in the Share Class currency.</p>	<p>Benchmark – changes in bold</p> <p>A composite index comprising:</p> <ul style="list-style-type: none"> • 1/3 Bloomberg Global Aggregate Corporate Index EUR Hedged • 1/3 Bloomberg Global High Yield Index EUR Hedged • 1/3 Bloomberg Global Treasury Index EUR Hedged* <p>These indices represent the global investment grade corporate market, the global high yield corporate market and the global government bond market respectively.</p> <p>The benchmark is a comparator against which the Fund's performance can be measured. The composite index has been chosen as the Fund's benchmark as it best reflects the scope of the Fund's investment policy. The benchmark is used solely to measure the Fund's performance and does not constrain the Fund's portfolio construction.</p> <p>The Fund is actively managed. The Investment Manager has complete freedom in choosing which investments to buy, hold and sell in the Fund. The Fund's holdings may deviate significantly from the benchmark's constituents.</p> <p>The benchmark is not an ESG benchmark and is not consistent with the ESG Criteria.</p> <p>The benchmark is shown in the Share Class currency.</p> <p>* The names of the indices changed on 24 August 2021.</p>
<p>Profile of Typical Investor</p> <p>The Fund is suitable for retail and Institutional Investors seeking to gain a combination of capital growth and income from a portfolio at least half of which will be debt instruments with the remainder including these or other asset types, but who appreciate that this is not guaranteed and that their capital will be at risk and that the value of their investment and any derived income may fall as well as rise.</p> <p>In each case it is expected that all investors will understand and appreciate the risks associated with investing in Shares of the Fund.</p> <p>This Fund may be suitable for investors who have an investment time horizon of at least five years.</p>	<p>Profile of Typical Investor – changes in bold</p> <p>The Fund is suitable for retail and Institutional Investors seeking to gain a combination of capital growth and income from a portfolio at least half of which is invested in debt securities and who want a fund that promotes certain ESG characteristics when investing.</p> <p>There is no guarantee that the Fund will achieve its objective. Suitable investors should appreciate that their capital will be at risk and that the value of their investment and any derived income may fall as well as rise.</p> <p>In each case it is expected that all investors will understand and appreciate the risks associated with investing in Shares of the Fund.</p> <p>This Fund may be suitable for investors who have an investment time horizon of at least five years.</p>

**Appendix 2 – Types of investments excluded from the
M&G (Lux) Optimal Income Fund’s investment universe
as listed in the M&G (Lux) Optimal Income Fund – ESG Criteria document from
Friday 29 October 2021.**

The fund excludes the following items:

Norms-based exclusions criteria	
ESG Criteria	Rationale
UNGC	Any company that is assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment protection and anti-corruption.
Freedom House	Any government bond from countries classed as “Not Free” by the Freedom House index based on civil liberties, political rights, and press freedom.