The M&G Group
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April 2024

Dear Investor

Change to our funds' dilution policy

This letter is for your information only. You do not need to take action, but we recommend you give the letter careful consideration to fully understand the changes.

We are writing to inform you that from Monday 22 July 2024 (the 'Effective Date'), M&G Securities Limited ('M&G') will be amending its dilution policy, which is detailed in the funds' prospectuses. This letter provides information on the dilution policy, what it is, the changes being made and the impact of the changes on your investment.

What is a dilution policy?

When investors buy or sell shares in a fund, the fund manager has to buy or sell investments (for example company shares or bonds) within the fund. This incurs investment dealing costs, such as broker commission, taxes and duties. These costs are paid by the fund and are therefore indirectly borne by existing investors in that fund. The investment dealing costs reduce performance and this affects all investors in the fund. This effect is known as 'dilution', as it dilutes the value of the fund.

A dilution policy aims to protect ongoing investors against the impact of dilution and describes the measures in place to do this.

The change will also deliver an improved and more efficient dilution process.

How does our dilution policy work?

At M&G, when the fund manager has to buy or sell investments (to either invest cash from investors or to provide them with cash in exchange for their shares), the calculation of the fund shares' daily price is adjusted to take into account the costs of buying or selling assets held by the fund. This is known as a dilution adjustment (often referred to as 'swinging pricing' in a process known as 'swinging the price'). This ensures that these investment dealing costs are borne by those investors who have been buying or selling shares in the fund, rather than by ongoing investors in the fund. The daily share price published on the M&G website takes into account any dilution adjustment.

A downside of applying a dilution adjustment is that it can increase the size of fund share price movements. At M&G, we currently try to reduce these fluctuations in share price through investing our own capital in our funds.

continued overleaf

Why is the policy changing?

The current policy for applying a dilution adjustment is bespoke to M&G and so is not always easily understood by investors. The new policy moves us in line with common market practice. As such we believe it will be better understood by investors.

What is changing?

We will continue to apply a dilution adjustment to reduce the impact of dilution on our funds. However, we are changing the way we apply the dilution adjustment. From the Effective Date, we will introduce a minimum threshold for the application of the dilution adjustment. This means that the dilution adjustment will only come into force on days when investors, taken together, are either buying or selling amounts in a fund that exceed the minimum threshold or where M&G believes it is in the best interest of investors. As a result, M&G will no longer need to actively manage fluctuations on a daily basis.

The change may lead to a slight increase in the amount of dilution experienced by each fund. We estimate this could result in an additional cost of between less than 0.01% and 0.12% per annum per fund, or approximately the equivalent of between less than £1 and £12 per annum for every £10,000 invested. Please note that these figures were calculated based on data for the 12 months to December 2023 and could be higher or lower in the future.

There will be no change in the way you deal in the funds, and daily prices will still be published on our website at **www.mandg.co.uk/funds**

If you would like more detail on the change in process used to manage dilution, please visit our website at **www.mandg.co.uk/investor** or contact us using the details below .

Legal and administration costs associated with making the changes

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

For more information

If you have any questions about the changes, please contact our **Customer Relations** team on **0800 390 390** or **0044 1268 44 8031** if calling from overseas. Our team can take your call from (UK time) 08:00 to 18:00, Monday to Friday and 09:00 to 13:00 Saturday. For your security and to improve the quality of our service we may record and monitor telephone calls. Alternatively, you may want to consider registering for our online My Account service at **www.myaccount.mandg.com** where you can manage your account and contact us by secure message or our chat facility. For alternative ways to get in touch please visit **www.mandg.co.uk/investor**

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. You can find Information on how to access financial advice on our website **www.mandg.co.uk/getfinancialadvice**

Yours faithfully

Laurence Mumford

Laurence Mumford
Director, M&G Securities Limited

Change in Dilution Policy

For M&G's UK Funds

This document gives more information to investors about the change in dilution policy being made in the UK domiciled funds, as outlined in our letter to investors dated April 2024.

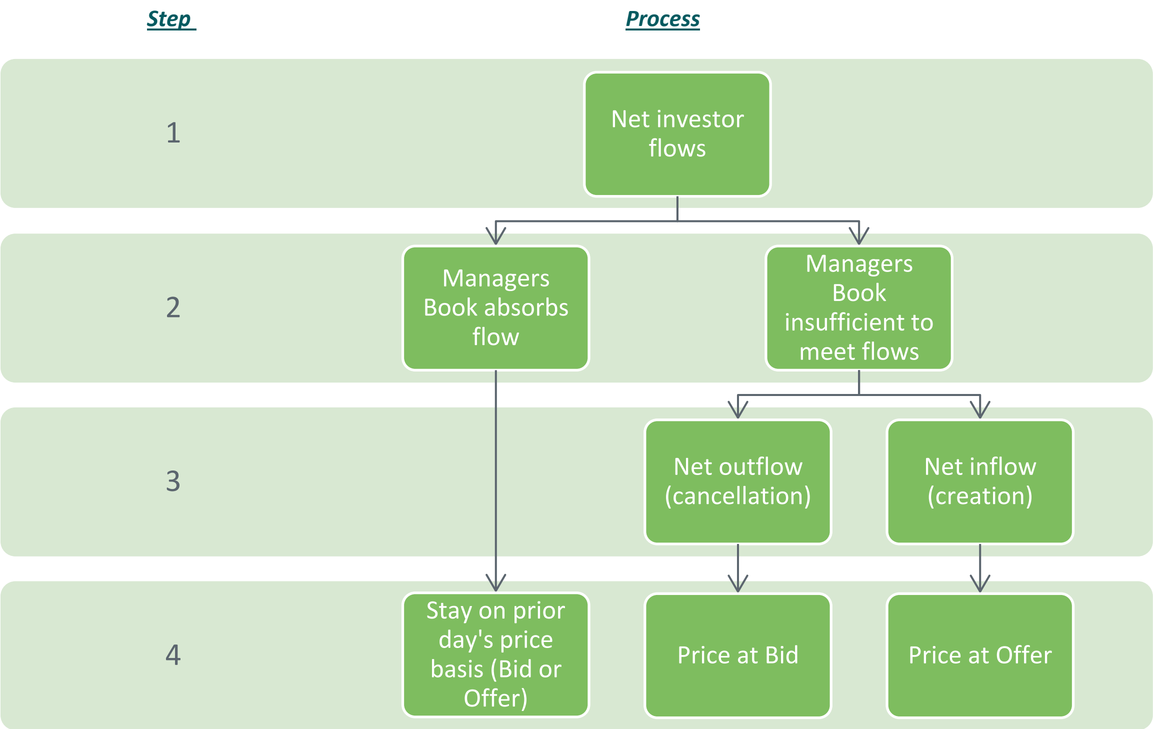
What is "dilution"?

- When we value each of the investments held by our funds, we use what is called a "mid-market" price. This is the average price to buy and sell each investment. However, as this is an average of the buying and selling prices of each investment, the actual cost of buying or selling investments may be different due to dealing costs such as broking charges, taxes, and any spread or difference between the buying and selling prices of such investments. These dealing costs and the spread or difference between the buying and selling price can have an adverse effect on the value of a fund, known as "dilution".

- There are a number of ways that we can reduce the impact of dilution, and one such way is the application of a "dilution adjustment" to the price that you can buy and sell fund shares at (or fund units in the case of charity funds). Even then, there are different ways that the dilution adjustment may be applied. We are changing how we apply dilution adjustments to our funds' prices.

Current process

The below diagram and explanatory text outlines the process currently in use until 21 July 2024. This process operates individually for each fund.



Explanations

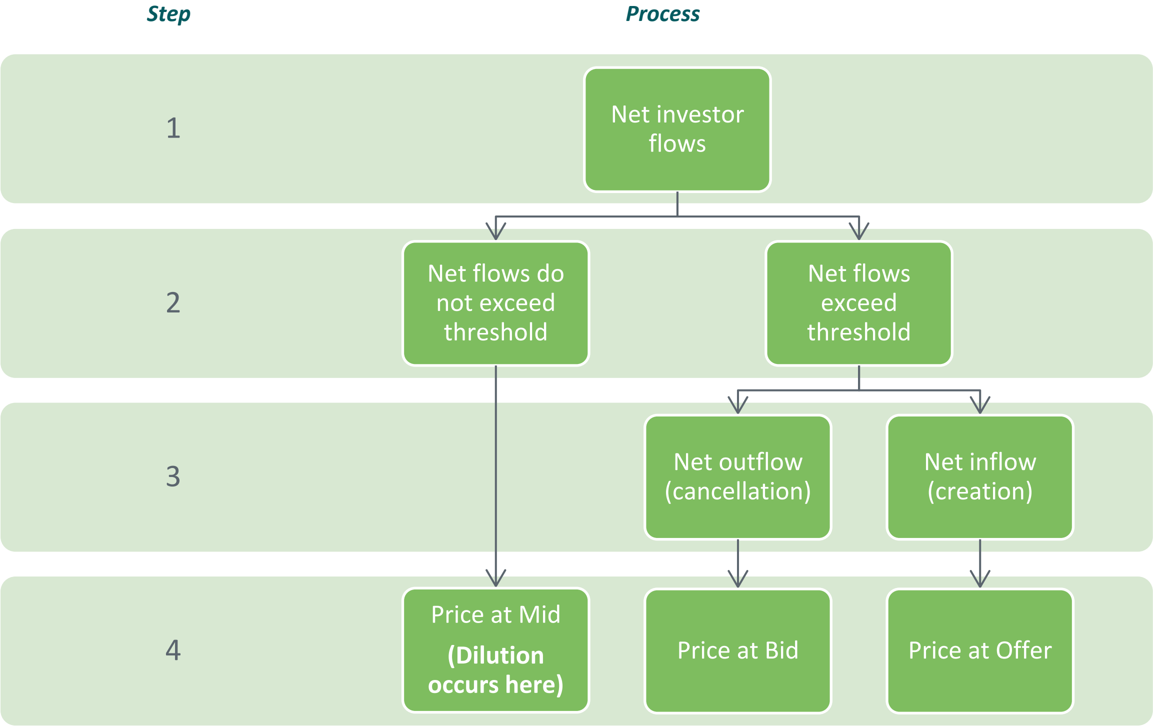
Our dilution policy considers the fund as a whole. At each valuation point, we will aggregate all sales in and out of the fund to determine an overall net flow for the fund. This could be an inflow, where investors are buying more than they are selling, or an outflow, where investors are selling more than they are buying.

1. The Managers Book is a process where M&G will invest its own money into the fund. The use of the Managers Book is one way we can reduce the number of times a fund's prices swing from the offer price to the bid price and vice versa (see "3" below).
    - M&G sets a maximum book size based on how much of our own money we are willing to commit to our funds.
    - If the net client flows are into the fund, then any shares or units in the fund that M&G hold in its book will be sold to investors reducing the size of the book. If the net client flows are an outflow, then the book will grow in size.
    - If there is an inflow that is less than the size of the book that M&G holds in the fund, then no further action will be taken. If the outflow and the pre-existing book in the fund added together are less than the maximum book set by M&G, then again, no further action will be taken.
    - If there is an inflow that is greater than the book M&G holds, then M&G will create extra shares/units in the fund, to meet the demand of investors. This will typically also result in the fund manager using the money to buy more investments.
2. If there is an outflow that when added to the existing shares/units held in the Managers Book take the fund over M&G's maximum book size, then M&G will cancel shares/units in the fund. This typically will result in the fund manager needing to sell investments to raise cash to pay out to investors. M&G's funds may be priced at either their Bid or Offer price. The Bid price will be lower than the Offer price.
    - The Bid price is when a fund is priced to reflect the amount that could be raised if the fund's investments were sold, and the costs of selling them. These costs could include broker commissions and taxes.
3. The Offer price is when a fund is priced to reflect the cost of buying the investments in the fund, minus the costs of buying them. These costs could include broker commissions and taxes.
    - If there is neither an inflow nor outflow, then the fund will remain on the same price as the prior day. This could be either Bid or Offer.
4. **Bid price**: If we have had to cancel shares or units, then the fund will be priced on a Bid price. If the prior day was also Bid, then the price will not "swing". If the prior day was an Offer price, then the price will swing down to Bid.

    Offer price: If we have had to create shares or units, then the fund will be priced on an Offer price. If the prior day was also Offer, then the price will not swing. If the prior day was a Bid price, then the price will swing up to Offer.

Proposed process

The below diagram outlines the process from 22 July 2024. This process operates individually for each fund.



Explanations

1. Our dilution policy considers the fund as a whole. At each valuation point, we will aggregate all client buys into the fund and sales out of the fund to determine an overall net flow for the fund. This could be an inflow, where investors are buying more than they are selling, or an outflow, where investors are selling more than they are buying.
2. The new process being adopted will not operate a Managers Book as described above. In its place, M&G will introduce a threshold of net client flows (as a percentage of the fund size) to determine whether to swing the price or not. The setting of a threshold is another way we can reduce the number of times a fund's prices swing to either the offer price or the bid price.
3. If the inflows or outflows as a percentage of the overall fund size are less than the threshold, then the fund will be priced at its Mid-price, regardless of the price used on the prior day. The Mid-price is a price between the Bid and Offer Prices that does not take into account any transaction costs.
    - As the fund manager may need to buy or sell investments, the fund may incur transaction costs. However as the investors entering or exiting the fund have paid/received a Mid-price, this does not cover any costs of transactions. As such, these costs of transactions are borne by the whole fund and dilution may occur by reducing the fund performance for all investors.
4. **Bid price**: If the funds outflow is greater than the threshold, then the fund will be priced using the Bid price.
    - In this scenario, the fund has typically incurred costs in selling investments to pay out cash to the investors. However those investors that have transacted will receive a Bid price that takes into account these costs, therefore there should be minimal dilution incurred by the fund. Note there may still be some dilution as the Bid price will be an estimate of the costs incurred and may differ from the actual costs incurred in any transactions placed.

   Offer price: If the funds inflow is greater than the threshold, then the fund will be priced using the Offer price.
    - In this scenario, the fund has typically incurred costs in buying investments to invest the cash from the investors. However those investors that have transacted will pay an Offer price that takes into account these costs, therefore there should be minimal dilution incurred by the fund. Note there may be still some dilution as the Offer price will be an estimate of the costs incurred and may differ from the actual costs incurred in any transactions placed.