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.

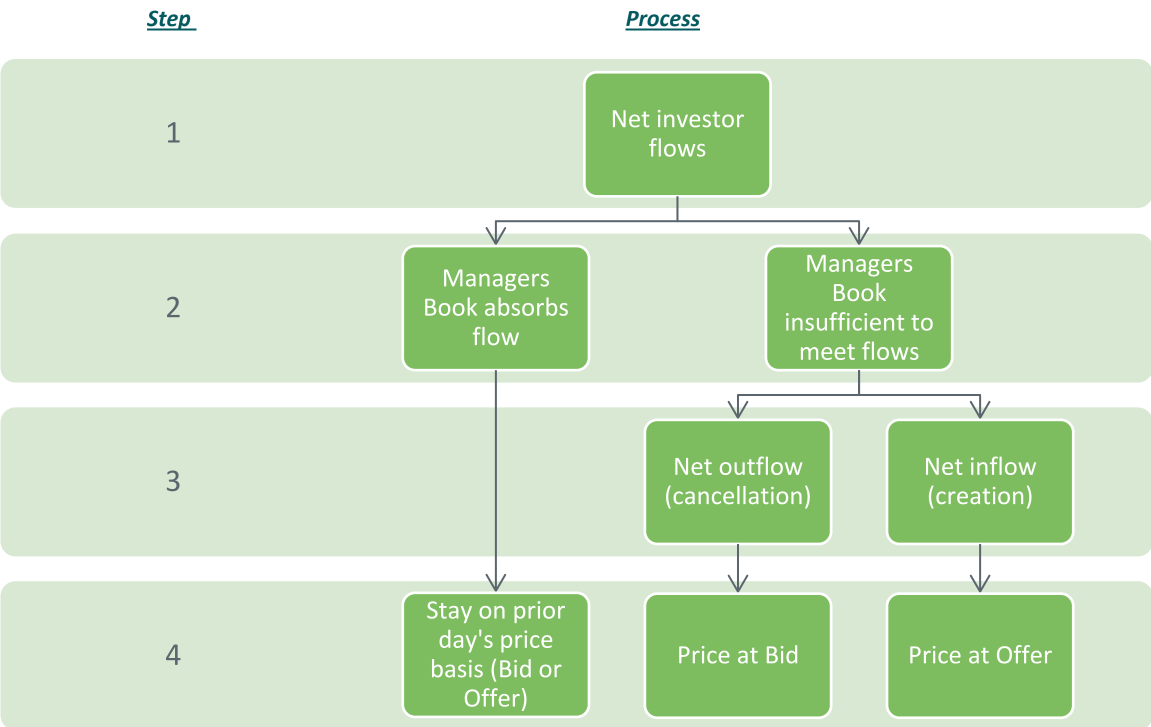
What is "dilution"?

- 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

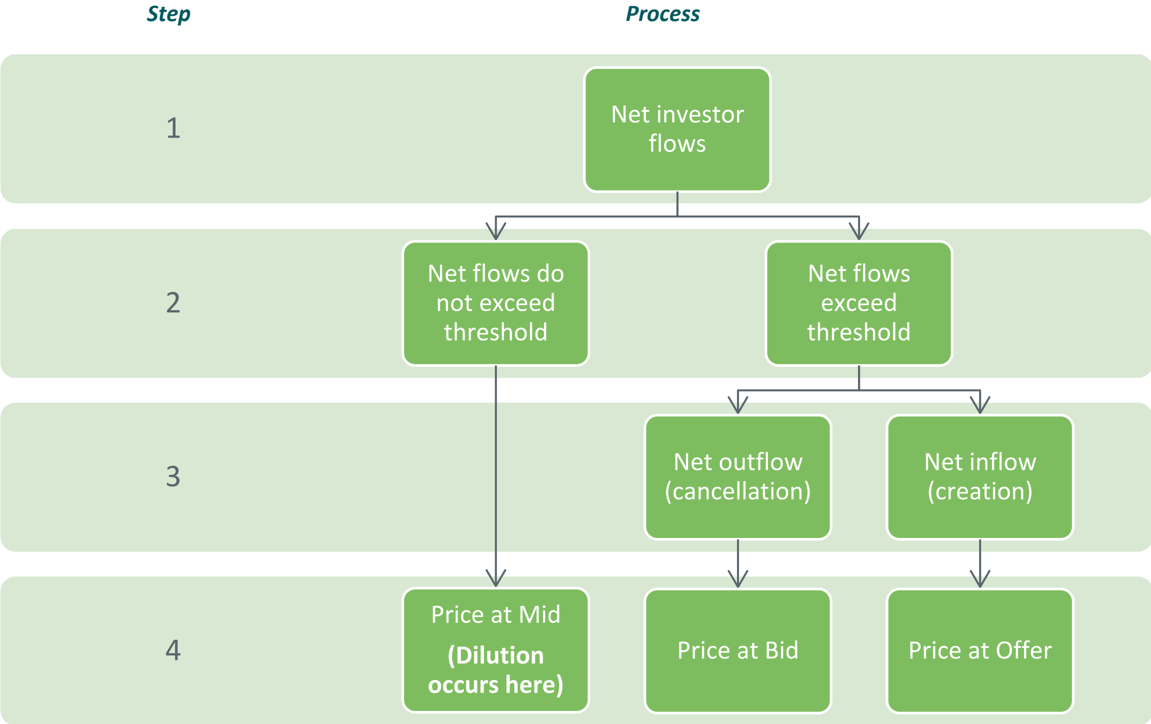
Our dilution policy considers the fund as a whole. At each valuation point, we will aggregate all sales in and out of the fund to determine an overall net flow for the fund. This could be an inflow, where investors are buying more than they are selling, or an outflow, where investors are selling more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