Important Information

M&G (Lux) Investment Funds 1

This document is important and requires your attention

We are writing to inform you of changes we are making to a number of sub-funds of M&G (Lux) Investment Funds 1 (the “Funds”) which you are invested in.

All changes are reflected in an updated version of the Prospectus available on our website **www.mandg.com** or by contacting our Customer Services team using the contact details below. You should also refer to the Prospectus for a detailed description of the risks associated with the Fund(s) you are invested in.

You do not need to take any action, but we recommend that you read it carefully.

Other changes may have been made to the Prospectus that are not mentioned in this letter.

Please note that the investment objectives, investment policies and investment approaches included in this document are translations of the original English wording included in the latest, legally valid version of the English Prospectus, as approved by the Commission de Surveillance du Secteur Financier (CSSF). The original English wording should under all circumstances take precedence over any translation.

Please note that some of the Funds disclosed in this letter may not be registered and/or authorised for distribution in your country. The purpose of this letter is to inform shareholders who have already invested in one or more of the Funds disclosed in this document. This letter should therefore not be considered or read as any form of marketing.

Making changes to your investment
If the changes detailed in this letter do not suit your investment need, you may sell your investment in any of the Funds affected by the changes, or switch it to another M&G fund, free of charge, at any point before the changes take place subject to our terms and conditions and in accordance with the terms of the Prospectus.

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 our **Customer Services** team by email at **csmandg@rbc.com** or by telephone **+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.

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.

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1. POLICY CHANGE TO M&G (LUX) GLOBAL HIGH YIELD ESG BOND FUND

Please note that there will be no change to the Fund's investment objective and investment approach, nor to the way the Fund is managed.

The changes will be effective from Monday 22July 2019.

What are the changes and why are they happening?
Under the new investment policy, the Fund will no longer be permitted to invest in the nuclear power industry. The change will align the Fund's investment policy with institutional ESG investors' expectations, allowing us to seek further growth opportunities for the Fund.

We are also taking this opportunity to reorganise the Fund's investment policy wording to clarify which investments are excluded under the ESG criteria.

There will be no change to the way the Fund is managed, and its risk profile will not be affected.

The table below shows a comparison of the current and new investment policy together with the Fund's investment objective, which will remain unchanged.

Investment objective (unchanged)	
The Fund aims to provide capital growth and income, while considering environmental, social and governance (ESG) factors, and seeks to achieve a higher ESG rating than the global high yield market.	
Current investment policy	**New investment policy (effective from Monday 22 July 2019)**
The Fund invests at least 80% of its Net Asset Value in high yield bonds issued by companies denominated in any currency. The Fund does not take currency views and aims to hedge any non-USD assets to USD. Issuers of these securities may be located in any country, including emerging markets. There are no credit quality restrictions with respect to the high yield debt securities in which the Fund may invest. The investment process of the Fund is based on the bottom-up analysis of individual bond issues whilst remaining aware of the macroeconomic environment. Environmental, social and governance (ESG) considerations are fully integrated in the investment process via the use of third party ESG information and analysis and proprietary assessment of ESG characteristics. ▪ Companies that are assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment and anti-corruption are also excluded from the investment universe.	The Fund invests at least 80% of its Net Asset Value in high yield bonds issued by companies denominated in any currency. The Fund does not take currency views and aims to hedge any non-USD assets to USD. Issuers of these securities may be located in any country, including emerging markets. There are no credit quality restrictions applicable to the investments and the Fund may invest up to 100% of its Net Asset Value in high yield and unrated debt securities. The Fund invests in securities that meet the Investment Manager's environmental, social and governance (ESG) criteria. This is achieved through the use of third party ESG information and/or proprietary analysis. In addition, the Fund aims to exclude securities issued by: ▪ Companies that are assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment and anti-corruption; ▪ Companies that derive any revenue from defence and weapons; and

Current investment policy (continued)	New investment policy (effective from Monday 22 July 2019) (continued)
▪ In addition, a screen is applied which seeks to filter out companies that derive revenue of more than 5% for producers, and 10% for distributors, from the following sectors and sub-sectors: tobacco, alcohol, adult entertainment, gambling or thermal coal. In addition, and on a best-effort basis, subject to source information, companies that derive any revenue from defence and weapons are excluded. Finally, the Fund excludes holdings which have below average ESG industry-adjusted ratings based on third party ESG ratings and proprietary information. To a limited extent the Fund may invest in securities that have not yet been ESG rated. The Fund may invest up to a combined maximum of 100% of the Fund's Net Asset Value in high yield and unrated securities. The Fund may hold up to a maximum of 20% of its Net Asset value in Asset-backed Securities and up to a maximum of 20% of its Net Asset value in Contingent Convertible Debt Securities. The Fund may invest indirectly via derivative instruments to take long and short positions 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 and Interest Rate Swaps. The Fund may also invest in other assets including, collective investment schemes, cash and near cash, deposits, equities, warrants and other debt securities.	▪ Companies that derive revenue of more than 5% for producers, and 10% for distributors, from the following industries: tobacco, alcohol, adult entertainment, gambling, nuclear power or thermal coal. The Fund may invest up to 20% of its Net Asset value in Asset-backed Securities and up to 20% of its Net Asset value in Contingent Convertible Debt Securities. The Fund may also invest in, other transferable securities, cash, and near cash, directly or via collective investment schemes (including funds managed by M&G). 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, Exchanged Traded Futures, Credit Default Swaps and Interest Rate Swaps and Credit Linked Notes. Derivatives, transferable securities, cash and near cash may not be subject to the same ESG restrictions as other securities held in the portfolio.

2. POLICY CHANGE TO M&G (LUX) JAPAN SMALLER COMPANIES FUND

Please note that there will be no change to the Fund's investment objective, nor to the way the Fund is managed or to the types of investments it is allowed to hold.

The changes will be effective from Monday 22 July 2019.

What are the changes and why are they happening?

- **Change to the definition of smaller companies in the investment policy**
  The new investment policy will expand the definition of smaller Japanese companies as those included in the bottom *half*, rather than the bottom *third*, in terms of market capitalisation, of all publicly listed companies in Japan. This is because the fund manager considers that a large percentage of the smallest companies in Japan do not have sufficient liquidity or market capital to make them suitable investments for the Fund.

  We do not expect this amendment to result in immediate changes to the portfolio, but we believe that it will increase the Fund's potential for future returns by allowing the fund manager to take advantage of a larger number of investment opportunities.

- **Reorganisation of wording within the investment policy and investment approach**
  The investment policy should clearly explain what the Fund can invest in and sets out any limits on investments. The current investment policy for the Fund includes several paragraphs describing the fund manager's investment process. We felt that this information was better included as part of the Fund's investment approach, which provides details on how the fund is managed and how the fund manager constructs its portfolio. The information has therefore been redrafted and added to the Fund's investment approach.

The table below shows a comparison of the current and new investment policy and investment approach together with the Fund's investment objective, which will remain unchanged.

Investment objective (unchanged)	
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 Russell Nomura Mid-Small Cap Index over any five-year period.	
Current investment policy	**New investment policy (effective from Monday 22 July 2019)**
The Fund invests at least 80% of its Net Asset Value in the equity securities of smaller companies that are domiciled in, or conducting the major part of their economic activity in Japan. The Fund usually holds fewer than 50 stocks. Smaller companies are defined as the bottom third in terms of total market capitalisation of all publicly listed companies in Japan.	The Fund invests at least 80% of its Net Asset Value in the equity securities of smaller companies that are incorporated, domiciled or do most of their business in Japan. Smaller companies are defined as the bottom half in terms of total market capitalisation of all publicly listed companies in Japan. The Fund usually holds a concentrated portfolio of fewer than 50 companies.

Current investment policy (continued)	New investment policy (effective from Monday 22 July 2019) (continued)
The Investment Manager believes that market mis-pricings can and often do occur because psychological factors (i.e. behavioural biases) may prevent investors from always assessing investments rationally. As a result, market prices do not always reflect fundamental values. The Investment Manager believes that it is possible to profit systematically from such behavioural biases that are prevalent in the Japanese Smaller Companies equity market. The Fund may also invest in other assets including collective investment schemes, cash and near cash, deposits and warrants. The Fund may use derivative instruments for the purposes of hedging and efficient portfolio management.	The Fund may also invest in other transferable securities, cash and near cash, directly or via collective investment schemes (including funds managed by M&G) Derivatives may be used for efficient portfolio management and hedging.
Current investment approach	**New investment approach (effective from Monday 22 July 2019)**
The Investment Manager aims to take advantage of market mis-pricings by adopting a disciplined, long-term investment approach. The Fund screens a wide investment universe to form a focused list of stocks which will trade on low valuations relative to their history and the market. These companies are then subject to disciplined and rigorous fundamental analysis. Attaining an understanding of a company's sustainable earnings ensures our fundamental analysis leads to a high level of conviction for each of the companies held in the Fund. The Investment Manager aims to construct a reasonably diversified portfolio and expects stock selection to be the main driver of performance.	The Fund employs a disciplined approach to investment which concentrates on the analysis and selection of individual companies. The Investment Manager believes that stock market mis-pricings can and often do occur because psychological factors (i.e. behavioural biases) may prevent investors from always assessing investments rationally. This can lead to companies being priced differently to what the Investment Manager believes is the true value, which can cause volatility in prices. The Fund seeks to profit from such behavioural biases by employing an investment approach which aims to take advantage of this price volatility. The investment approach filters the Fund's investment universe down to a focused list of companies whose shares trade on low valuations relative to their history and the market. These companies are then subject to rigorous fundamental analysis to attain an understanding of a company's sustainable earnings. This fundamental analysis leads to a high level of conviction for each of the companies held in the Fund. The Investment Manager expects stock selection to be the main driver of performance.

3. POLICY CHANGES TO:

- M&G (Lux) Absolute Return Bond Fund
- M&G (Lux) Conservative Allocation Fund
- M&G (Lux) Dynamic Allocation Fund
- M&G (Lux) Emerging Markets Bond Fund
- M&G (Lux) Emerging Markets Hard Currency Bond Fund
- M&G (Lux) Emerging Markets Income Opportunities Fund
- M&G (Lux) Episode Macro Fund
- M&G (Lux) Global Macro Bond Fund
- M&G (Lux) Global Target Return Fund
- M&G (Lux) Income Allocation Fund
- M&G (Lux) Optimal Income Fund
- M&G (Lux) Sustainable Allocation Fund

Please note that there will be no change to any of the Funds' investment objectives nor to their overall investment approaches.

The changes will be effective from Monday 22 July 2019.

What are the changes and why are they happening?
Each Fund's investment policy will be updated to incorporate the fact that the Fund may invest in Chinese onshore debt securities denominated in CNY (the Chinese onshore Renminbi accessible within China) and traded on the China Interbank Bond Market (the "CIBM").

Over the last three years, the People's Bank of China has progressively opened the CIBM to foreign institutional investors, including investment funds. The launch of Bond Connect in July 2017 made it possible for investment funds to buy bonds and debt instruments trading on the CIBM directly through the Hong Kong exchange.

We are therefore amending the Funds' investment policies to allow their fund managers to take advantage of these additional investment opportunities in China.

What are the risk considerations associated with the changes?
Although the changes will not result in a significant change to the Funds' overall risk profiles, we recommend that you read the important information included below regarding the risk specifically associated with investing in the CIBM as well as the "China Risk" section of the Prospectus.

> The CIBM is an Over-The-Counter (OTC) market, where the majority of CNY bond trading takes place. The CIBM is at a stage of development and internationalisation. Bond Connect is a bond trading link between China and Hong Kong which allows eligible foreign investors to invest in onshore Chinese bonds traded on the CIBM.
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> Market volatility and potential lack of liquidity due to low trading volumes may cause prices of Chinese onshore bonds to fluctuate significantly, and Funds investing in the CIBM may suffer losses. The Funds may also be exposed to risks associated with settlement procedures and default of counterparties.
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> Investing in the CIBM via Bond Connect is also subject to regulatory risks. The rules and regulations on these regimes are subject to change which may have a potential retrospective effect. A suspension of the account opening or trading in the CIBM by the relevant PRC authorities would adversely affect the Funds' ability to trade in the CIBM and to achieve their respective investment objectives.