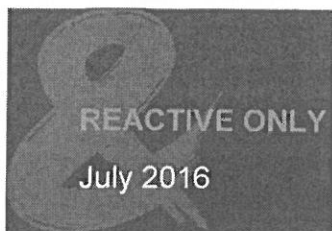


Mitteilung an alle Anteilseigner der M&G Fonds:

Anbei finden Sie die Information der Fondsgesellschaft, folgende Fonds sind betroffen:

GB00B89X8P64	M&G Property Portfolio I GBP DIS
GB00B8FSZ434	M&G Feeder of Property Pf A GBP CAP
GB00B8FWH509	M&G Feeder of Property Pf A GBP DIS
GB00B7SX7S61	M&G Feeder of Property Pf I GBP CAP



M&G Property Portfolio

Webcast and Question & Answer

Fund Manager – Fiona Rowley

The fund was suspended on 4 July 2016, as investor redemptions rose markedly because of the high levels of uncertainty in the UK commercial property market following the outcome of the UK referendum on European Union membership.

Fiona Rowley, manager of the M&G Property Portfolio yesterday spoke to investors via webcast and answered questions regarding the fund and the outlook for UK commercial property. In her presentation, she was keen to emphasise that whilst it is still early days, she believes that any fall in commercial property prices should be less severe than that witnessed following the global financial crisis (GFC).

Fiona and her team are very much running the fund as 'business as usual' and have been busy talking to tenants and prospective buyers over the past three to four weeks. Whilst some retail funds have rushed to sell assets, Fiona believes it is in the best interests of all shareholders if assets are sold in an orderly fashion with a keen eye on opening the fund as soon as is practicably possible.

In her opinion, many of the fundamentals that underpin the property market are still reasonably solid and it is not all 'doom and gloom'. Indeed, Fiona has completed sales that were being marketed before the referendum and she has not had to reduce the selling price, despite the 'Leave' vote. However, she does expect capital values to fall over the next 12 months as buyers, who have become more risk averse, demand a higher yield from investing in property.

Fiona does not believe we will see the collapse in commercial property values that we saw following the GFC. Not least because oversupply in the market is less evident today, tenant demand is stronger this time, equity rather than debt financing has played a more important role in property purchases over the past few years and the banking sector is much healthier. Furthermore, selling pressure to date has come from retail funds that make up less than 5% of the UK commercial property market, and overseas investors (who have benefited from sterling's decline) are more active than they were eight years ago.

The presentation and a recording of the webcast are available on M&G's website [here](#).

Q. Why did you suspend the fund?

The fund was suspended as investor redemptions rose markedly because of the high levels of uncertainty in the UK commercial property market following the outcome of the UK referendum on European Union membership. Additionally, other funds in the sector suspended ahead of M&G, which unnerved investors further. We believe that a temporary suspension in trading can best protect the interests of the funds' shareholders.

Q. Why did you not apply a dilution levy like some other funds to try and keep the fund open?

We believe suspension of the fund is the best way to treat all customers fairly. This will allow time to raise cash levels in a controlled manner, ensuring that any asset disposals are achieved at reasonable values.

Q. Have you been able to sell any assets since the referendum?

Given the size of the fund, there is hardly a point in the year when we do not have some properties in solicitors' hands. Since the 'Brexit' vote, we have completed on around £20 million of assets and have exchanged on a further £40 million. In both cases, no discount was taken to the price agreed before the vote.

There are a further £65 million of property sales in solicitors' hands. Again, the price agreed with purchasers is the price agreed before the 'Brexit' vote and no discount has been necessary.

We have had other properties for sale under consideration, but when one of the other funds in our peer group offered assets for sale at a steep discount in order to achieve a quick transaction, our buyers went away. We believe it is best to act calmly and not to be seen as a forced seller.

Q. For how long will the fund be suspended?

There is no maximum time limit on how long the fund is permitted to be closed. We are currently unable to say how long we expect the suspension to last, but we will monitor the situation closely and keep shareholders fully informed. Please refer to the M&G website for updates.

Q. Can I buy and sell shares while the fund is suspended?

No. Any trades placed during the suspension period will be held until the suspension is lifted. However, any trades placed during suspension can be cancelled before trading is re-opened.

Q. Will you have to sell properties you would rather keep?

Which assets we sell will be driven by how Fiona wants the overall shape of the portfolio to look going forward. This will obviously be a reflection of where she sees the strongest future returns. Fiona believes that the portfolio has a large number of attractive assets (many of them with long leases and liquid, as they are of relatively low value) that she expects to sell for keen prices.

Q. How strong is demand for UK property from overseas investors?

Demand from overseas investors is strong, particularly in light of the decline in sterling. Overseas investors are no longer focused on London; last year we saw a lot of overseas investors getting comfortable with investing outside London.

Q. Will my income payments be affected by suspension?

No. The fund will continue to make income payments, which will be based on the investment income generated by the fund's assets, which is not directly affected by the dealing suspension.

Q. How will the fund be valued going forward?

In normal market conditions, the portfolio is valued monthly by independent valuers (Knight Frank). At certain times (the UK's vote to leave the EU being one of them), valuation moves to a more frequent basis. In

the case of the 'Brexit' vote, a valuation was conducted on 24 June and 27 June and has now moved to a weekly basis. Independent valuers Knight Frank reduced the value of the fund's assets by a total of 2.9% prior to the webcast. In total, the fund's NAV has fallen by a little over 7% since 27 June, including the fair value adjustment (FVA) of 4.5% made on 1 July.

Q. How much of M&G's forecast drop in commercial property capital values is priced into the portfolio's valuation?

Fiona forecasts capital values to decline by around 11% in the year to June 2017. So far, the fund's value has fallen by a little over 7% since 27 June, based on both the evidence in the market and the FVA. Knight Frank continues to value the fund and make adjustments based on transactional activity. This includes adjustments to the FVA, which may increase, or decrease as the market stabilises.

Q. Is the fund able to borrow?

The fund is able to borrow. The credit facility is intended to be used if contracts have been exchanged on the sales of a property and cash is required (for example, to meet redemptions) whilst the transaction completes.

Q. What is the fund's cash balance?

The cash balance was 6.7% at the end of June. The end-July cash balance figure will be released in August. Fiona aims to get the cash balance back to the top end of the fund's desired range (7.5% to 12.5%) through the disposal of assets in an orderly fashion.

Q. Has the fall in commercial property prices been caused solely by retail funds selling?

No, that would be too simplistic a view. Irrespective of selling by retail investors, property prices would have come under pressure following the 'Brexit' vote as investors' risk aversion has increased. In other words investors now require a higher yield to compensate them for additional risk. This translates into lower capital values.

M&G
July 2016

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