

Annual Short Report November 2013
For the period from 18 January 2013 to
30 September 2013

M&G Property Portfolio

How to contact us



Customer Relations*
0800 390 390



Write to us at:**
M&G Securities Limited
PO Box 9039, Chelmsford CM99 2XG



Our website:
www.mandg.co.uk



Email us with queries:†
info@mandg.co.uk

* For security purposes and to improve the quality of our service, we may record and monitor telephone calls. You will require your M&G client reference. Failure to provide this will affect your ability to transact with us.

** Please remember to quote your name and M&G client reference and sign any written communication to M&G. Failure to provide this may affect your ability to transact with us.

† Please note that information contained within an email cannot be guaranteed as secure. We advise that you do not include any sensitive information when corresponding with M&G in this way.

INVESTMENT OBJECTIVE, POLICY AND APPROACH

Reconstruction of the M&G Property Portfolio into a Property Authorised Investment Fund ('PAIF') and a Feeder Fund

Immediately after 18 January 2013, the M&G Property Portfolio, an authorised unit trust, was converted into a PAIF by merging it into an open-ended investment company (OEIC) of the same name. At the same time, a feeder fund (the M&G Feeder of Property Portfolio) was launched for those investors unable to hold shares in the PAIF. As a result of the reconstruction, the original unit trust has been wound up and is therefore no longer available for investment.

Investment objective and policy of the predecessor M&G Property Portfolio

The Trust aims to maximise long term total return (the combination of income and growth of capital) through investment mainly in commercial property.

The Trust invests in a diversified portfolio of commercial property mainly in the UK, seeking to add value through strategic asset allocation, stock selection and asset management. The Trust may also invest in other property related assets, including collective investment schemes, securities, derivatives and debt instruments, as well as government debt, money market instruments and cash.

Investment objective of the M&G Property Portfolio (PAIF)

The investment objective of the Fund is to carry on Property Investment Business and to manage cash raised from investors for investment in the Property Investment Business. In so doing, the Fund aims to maximise long term total return (the combination of income and growth of capital) through investment mainly in commercial property.

Investment policy of the M&G Property Portfolio (PAIF)

The Fund invests in a diversified portfolio of commercial property mainly in the UK, seeking to add value through strategic asset allocation, stock selection and asset management. The Fund may also invest in other property related assets, including collective investment schemes, transferable securities, derivatives and debt instruments, as well as government debt, money market instruments and cash. Derivatives may be used for investment purposes as well as for efficient portfolio management.

Investment approach

The M&G Property Portfolio aims to maximise long-term total return through direct investment in commercial property. The fund is diversified across different property sectors (such as retail, offices and industrial). This is done by reviewing the structural and portfolio risk implications of holding various assets within the fund and when acquiring new assets for the fund. In researching properties and therefore the associated risk, the manager considers location, property type, rent review and lease expiry pattern, tenant, industry sector, tenure, lease covenants and physical and environmental factors.

Risk and reward profile

- The value of stockmarket investments, and the income from them, will fluctuate. This will cause the Fund price to fall as well as rise and you may not get back the original amount you invested.
- **Liquidity** – In difficult market conditions the value of certain fund investments may be less predictable than normal. In some cases this may make such investments harder to sell at the last quoted market price, or at a price considered to be fair. Such conditions could result in unpredictable changes in the value of your holding.
- Property investments can be harder to buy and sell when compared to investments in fixed income securities and shares.

There is no guarantee that investments in property will increase in value or that rental growth will take place.

There is a risk that a property held in the Fund's portfolio could default on its rental payments.

If significant numbers of investors withdraw their investments from the Fund at the same time, the manager may be forced to dispose of property investments. This may result in a less than favourable price being obtained in the market.

The Fund invests mainly in one type of asset. It is therefore more vulnerable to the market sentiment of that specific type of asset. This type of fund can carry a higher risk and can experience larger than average price fluctuations when compared to a fund with a broader investment universe.

There is the possibility that a portion of the portfolio will be held in cash if the supply of new investment opportunities is limited which, if the situation persists, may restrict the performance of the Fund.

Property valuations are provided by an independent valuer and are therefore subjective.

The Fund can invest in international property which means that it will be impacted by currency exchange rate fluctuations.

An investment in the Fund may be linked to those risks normally associated with an investment in company shares or fixed income securities (investments which provide a certain level of income or

interest). This means that the price of the Fund will fall as well as rise and you may not get back the original amount you invested. Any income earned by the Fund will also vary.

As the Fund is dual priced, there is a price to buy shares and a price to sell them. The difference between the two prices is called the spread. The spread is likely to be wider for the Fund than for other less specialist funds and may vary. We reserve the right to change the pricing basis of the Fund and any change will mean an increase or decrease in the price at which you deal.

All of the above factors could have an adverse effect on the value of your investment.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 1 October 2013, for the period ended 30 September 2013

We were particularly active in terms of acquisitions for the portfolio during the review period, investing more than £320 million.

The largest deal was an asset swap in which we bought two retail parks, in Northampton and High Wycombe, in return for a supermarket and a department store. Both parks are dominant in their catchment areas, with a well-balanced mix of tenants providing secure income returns. We are increasing the fund's holdings of such retail outlets since we believe they should benefit from the continued rise of 'click & collect' shopping, whereby goods are reserved online and collected from an out-of-town location. In exchange, we sold a Tesco Extra store in Dover and a Debenhams in Taunton and made a balancing cash payment. After three years of strong performance from supermarkets, we decided to reduce the focus on the sector.

The asset swap was an innovative solution to the current difficulties of identifying worthwhile investment opportunities in a market characterised by increasing competition for high-quality properties.

Also in the retail sector, we purchased the Gracechurch Centre in Sutton Coldfield, one of the most affluent of Birmingham's suburbs. In our opinion, the ability to change the tenant mix and reconfigure stores within shopping centres make them more attractive investments than high street shops.

In anticipation of rental growth in the office sector spreading outwards from the City and West End of London, we acquired office buildings in carefully selected locations, all of which enhance the average yield on the portfolio. We bought a building in London's South Bank, an area benefiting from significant improvements in infrastructure and new development, and Toronto Square, in the heart of the business district in Leeds.

The rise of internet shopping, combined with a lack of recent development, is increasing the requirements for well-located distribution centres. In order to take advantage of this, we bought a warehouse in Bristol, a key South West hub for many retailers. The property has access to several major motorways and is also close to the container terminal at Avonmouth, one of the fastest growing ports in the country. Similarly, we secured a distribution warehouse in the East Midlands, with good motorway access.

Asset management

Optimisation of the fund's assets through active management is a key strategy in our management of commercial property. The aim is to maintain values and enhance the performance of the portfolio.

Retail

We obtained planning permission to construct a Costa Coffee outlet on the retail park in Cheadle so as to secure further income for the fund and boost the capital value of the site. We also completed the let of a restaurant unit on the Castle Vale retail park in Birmingham and agreed an extension to the lease on the Wetherspoons outlet in The Square, Bristol, together with fixed rent increases.

Meanwhile, in Wakefield, the term of the lease on a retail warehouse was extended and the rent rebased to a market level. Although this will reduce the amount of rental income received from the property, it minimises the likelihood of default and makes the store more marketable than it was previously.

Offices

A recently completed pavilion in the fund's City View office development project in Aberdeen, was let for 10 years.

Industrial

Also in Aberdeen, rent reviews were concluded at three units on the West Tullos Industrial Estate in Aberdeen, resulting in higher rents being agreed, while on the Souterhead Industrial Estate, an existing tenant has expanded into an additional unit, with the lease extended to apply to both units for four years. All units of the Souterhead estate are now let.

On the Junction 6 Industrial Park adjacent to Spaghetti Junction in Birmingham, a refurbished warehouse was let for five years and an existing tenant agreed to lease another unit for 11 years.

Other

Planning permission was granted for a new restaurant unit at the fund's leisure park in Rochester.

Fiona Rowley

Fund manager

Fiona Rowley is an employee of M&G Limited which is an associate of M&G Securities Limited.

Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial Adviser.

FUND SUMMARY

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
First interim	02.01.14	28.02.14
Second interim	01.04.14	31.05.14
Third interim	01.07.14	31.08.14
Final	01.10.14	30.11.14

FINAL DISTRIBUTION

	Inc 30.11.13 ^[a]	Acc 01.10.13 ^[a]
Sterling	p	p
Class 'A'	0.8926	0.9046
Class 'D'	10.7569	10.9078
Class 'F'	1.1977	n/a
Class 'I'	10.4540	10.6120
Class 'R'	0.9936	1.0093
Class 'X'	0.8922	n/a

^[a] The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

EXPENSE RATIOS ^[a]

as at 30 September 2013

	Sterling Class 'A'	Sterling Class 'D'	Sterling Class 'F'	Sterling Class 'I'	Sterling Class 'R'	Sterling Class 'X'
	%	%	%	%	%	%
Fund management fees	1.51	0.60	0.01	0.76	1.01	1.51
Fund operating expenses	0.16	0.16	0.16	0.16	0.16	0.16
Ongoing charges figure (OCF) ^[a]	1.67	0.76	0.17	0.92	1.17	1.67
Property expense ratio (PER)	0.13	0.12	0.13	0.13	0.13	0.13
Real estate expense ratio (OCF + PER)	1.80	0.88	0.30	1.05	1.30	1.80
Transaction costs	1.05	1.58	1.03	1.01	1.03	1.02

^[a] The Ongoing Charges Figure is the ratio of the relevant annualised total disclosable costs of each share class from the most recent reporting period to the average net asset value for that share class over the same period. The Fund Management Fees form part of the TER and also include the annualised Investment Accounting Fee. The Property Expense Ratio (PER) shows the operating expenses that relate to the management of the property assets.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.09.13	
	Inc	Acc
Sterling	p	p
Class 'A'	99.99	102.39
Class 'D'	1,000.77	1,028.57
Class 'F'	100.13	n/a
Class 'I'	1,000.73	1,027.74
Class 'R'	100.07	102.63
Class 'X'	100.07	n/a

As the fund has not yet operated for a 12 month period, performance since launch figures and single year performance figures have not been calculated.

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest offer	Lowest bid	Highest offer	Lowest bid
Sterling (net)		p	p	p	p
Class 'A'	2013 <i>[a]</i>	111.18	98.91	112.77	99.22
Class 'D'	2013 <i>[a]</i>	1,079.94	989.85	1,098.77	993.04
Class 'F'	2013 <i>[a]</i>	105.96	99.04	n/a	n/a
Class 'I'	2013 <i>[a]</i>	1,079.57	989.68	1,097.85	992.83
Class 'R'	2013 <i>[a]</i>	107.89	98.95	109.63	99.27
Class 'X'	2013 <i>[a]</i>	105.63	98.91	n/a	n/a

[a] From 18 January 2013, the launch date of the fund.

Past performance is no indication of current or future performance and the performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

The price of shares and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

Dividend income per share

	Calendar year	Interims	Distributed Final	Total	Reinvested
Sterling (net)		p	p	p	p
Class 'A'	2013 ^[a]	1.3609	0.8926	2.2535	2.2706
Class 'D'	2013 ^[a]	16.8532	10.7569	27.6101	27.8053
Class 'F'	2013 ^[a]	1.9008	1.1977	3.0985	n/a
Class 'I'	2013 ^[a]	16.3131	10.4540	26.7671	26.9790
Class 'R'	2013 ^[a]	1.5414	0.9936	2.5350	2.5560
Class 'X'	2013 ^[a]	1.3618	0.8922	2.2540	n/a

^[a] Up to final: ex distribution date 1 October 2013;
payment date 30 November 2013.

MAJOR HOLDINGS

The major holdings at the end of this period are shown below.

As at 30 September 2013

Property investments

Property	Location	Sector
The Gracechurch Centre	Sutton Coldfield	Retail
Castle Vale Retail Park	Birmingham	Retail
Riverside Retail Park	Northampton	Retail
Alder Castle 10 Noble Street	London, EC2	Office
Ravenside Retail Park	London, N18	Retail
Wycome Retail Park	High Wycombe	Retail
Chiswick Green, 610-624 Chiswick High Road	London, W4	Office
Tesco Supermarket Kilverstone	Thetford	Retail
Waverley Gate, 2-4 Waterloo Place	Edinburgh	Office
Tesco Supermarket, London Road, Loudwater	High Wycome	Retail

Non-property investments

Treasury 0% (18 Nov 2013)
The Brewery, Romford (25% of Trust for Land)
Treasury 0% (11 Nov 2013)
The Fort Retail Park, Birmingham (12.5% of Trust for Land)
Treasury 0% (14 Oct 2013)
Treasury 0% (28 Oct 2013)
MedicX Healthfund I LP
inProp UK Commercial Property Fund Class 'B'

CLASSIFICATION OF INVESTMENTS

The table below shows the percentage holding per sector.

	% of fund as at 30.09.13
Retail	40.43
Office	22.66
Industrial	14.39
Leisure	8.14
Other investments	10.56

OTHER INFORMATION

The information in this Report is designed to enable shareholders to make an informed judgement on the activities of the fund during the period covered by the Report and the results of those activities at the end of the period. For more information about the activities and performance of the fund during this period please contact the manager.

Short Reports

This short report is issued in accordance with the requirements of the Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Conduct Authority. This short report does not contain the financial statements of the M&G Property Portfolio, and it is unaudited.

Investment Report and Financial Statements

A copy of the Manager's Annual Investment Report and audited Financial Statements for the M&G Property Portfolio is available free of charge on request from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations on 0800 390 390.

Notes to shareholders

Please note that for the purposes of the fund's 'Large Deal Provision', with effect from 15 November 2013, a large deal is considered to be a deal or series of deals that total in excess of £50,000 for the same valuation point.

Authorised Corporate Director (ACD)

M&G Securities Limited, Laurence Pountney Hill,
London EC4R 0HH Telephone: 0800 390 390
(Authorised and regulated by the Financial Conduct Authority)

Directors of the ACD

W J Nott (Chief Executive),
G N Cotton, P R Jelfs, M Lewis, G W MacDowall, L J Mumford

Investment Manager

M&G Investment Management Limited, Laurence Pountney Hill,
London EC4R 0HH Telephone: 020 7626 4588
(Authorised and regulated by the Financial Conduct Authority)

Fund manager

Fiona Rowley (an employee of M&G Limited which is an associate of M&G Securities Limited)

Registrar

International Financial Data Services (UK) Limited,
IFDS House, St. Nicholas Lane, Basildon, Essex SS15 5FS
(Authorised and regulated by the Financial Conduct Authority)

Depository

National Westminster Bank Plc, Trustee & Depository Services,
Younger Building, 3 Redheughs Avenue, Edinburgh EH12 9RH
(Authorised and regulated by the Financial Conduct Authority)

Investment accounting services

State Street Global Services,
20 Churchill Place, London E14 5HJ
(Authorised and regulated by the Financial Conduct Authority)

Property manager

Prudential Property Investment Managers Limited
Princeton House, 271 - 273 High Holborn, London WC1V 7NE

Standing independent valuer

Knight Frank LLP, 55 Baker Street, London W1U 8AN

Independent Auditors

PricewaterhouseCoopers LLP,
7 More London Riverside, London SE1 2RT

M&G is a member of the Investment Management Association and of the Tax Incentivised Savings Association.

The Instrument of Incorporation can be inspected at our offices or at the office of the Depository.

M&G Securities Limited is authorised and regulated by the Financial Conduct Authority and provides investment products. The company's registered office is Laurence Pountney Hill, London EC4R 0HH. Registered in England number 90776.