

Issued by M&G Securities Limited 18 October 2013



# Prospectus

## M&G Optimal Income Fund

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This document constitutes the prospectus for M&G Optimal Income Fund (the 'Company') which has been prepared in accordance with the Open-Ended Investment Companies Regulations 2001 and the rules contained in the Collective Investment Schemes Sourcebook published by the FCA as part of its Handbook of Rules and Guidance.

The prospectus is dated and is valid as at 18 October 2013.

Copies of this prospectus have been sent to the Financial Conduct Authority and National Westminster Bank Plc as Depositary.

The prospectus is based on information, law and practice at the date hereof but where it refers to any statutory provision or regulation this includes any modification or re-enactment that has been made. The Company is not bound by any out of date prospectus when it has issued a new prospectus and potential investors should check that they have the most recently published prospectus.

M&G Securities Limited, the Authorised Corporate Director of the Company, is the person responsible for the information contained in this prospectus. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained herein does not contain any untrue or misleading statement or omit any matters required by the Regulations to be included in it. M&G Securities Limited accepts responsibility accordingly. No person has been authorised by the Company to give any information or to make any representations in connection with the offering of Shares other than those contained in the prospectus and, if given or made, such information or representations must not be relied on as having been made by the Company. The delivery of this prospectus (whether or not accompanied by any reports) or the issue of Shares shall not, under any circumstances, create any implication that the affairs of the Company have not changed since the date hereof.

The distribution of this prospectus and the offering of Shares in certain jurisdictions may be restricted. Persons into whose possession this prospectus comes are required by the Company to inform themselves about and to observe any such restrictions. This prospectus does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

Shares in the Company are not listed on any investment exchange.

Potential investors should not treat the contents of this prospectus as advice relating to legal, taxation, investment or any other matters and are recommended to consult their own professional advisers concerning the acquisition, holding or disposal of Shares.

The provisions of the Instrument of Incorporation are binding on each of its Shareholders (who are taken to have notice of them).

This prospectus has been approved for the purpose of section 21(1) of the Financial Services and Markets Act 2000 by M&G Securities Limited.

The Depositary is not a person responsible for the information contained in this prospectus and accordingly does not accept any responsibility therefore under the Regulations or otherwise.

If you are in any doubt about the contents of this prospectus you should consult your professional adviser.

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**Customer Helpline:0800 390 390**

Non-UK investors should refer to Appendix 4

# Definitions

## M&G Optimal Income Fund

**Accumulation Share:** a Share in the Company in respect of which income allocated thereto is credited periodically to capital pursuant to the Regulations;

**ACD:** M&G Securities Limited, the Authorised Corporate Director of the Company;

**ACD Agreement:** The agreement entered into between the Company and the ACD authorising the ACD to manage the affairs of the Company;

**Approved Bank in relation to a bank account opened by the Company:**

- (a) if the account is opened at a branch in the United Kingdom;
  - (i) the Bank of England; or
  - (ii) the central bank of a member state of the OECD; or
  - (iii) a bank or a building society; or
  - (iv) a bank which is supervised by the central bank or other banking regulator of a member state of the OECD; or
- (b) if the account is opened elsewhere:
  - (i) a bank in (a); or
  - (ii) a credit institution established in an EEA State other than in the United Kingdom and duly authorised by the relevant Home State Regulator; or
  - (iii) a bank which is regulated in the Isle of Man or the Channel Islands; or
- (c) a bank supervised by the South African Reserve Bank

**Associate:** an associate in accordance with the FCA Handbook of Rules and Guidance;

**Base Currency:** the base currency of the Company is Sterling;

**BCD Credit Institution:** a credit institution under the Banking Consolidation Directive;

**Class or Classes:** in relation to Shares, means (according to the context) all of the Shares related to the Company or a particular class or classes of Share related to the Company;

**COLL:** refers to the appropriate chapter or rule in the COLL Sourcebook issued by the FCA;

**COLL Sourcebook:** The Collective Investment Schemes Sourcebook issued by the FCA as amended or re-enacted from time to time

**Client Account:** A bank account held by us in accordance with the FCA Handbook of Rules and Guidance;

**Company:** M&G Optimal Income Fund;

**Conversion:** the exchange of Shares of one Class for Shares of another Class of the Company;

**Dealing Day:** Monday to Friday except for bank holidays in England and Wales and other days at the ACD's discretion;

**Depository:** National Westminster Bank Plc the depository of the Company;

**Eligible Institution:** one of certain eligible institutions being a BCD credit institution authorised by its home state regulator or an ISD investment firm authorised by its home state regulator as defined in the glossary of definitions in the FCA Handbook

**Fraction:** a smaller denomination Share (on the basis that one thousand smaller denomination Shares make one larger denomination Share);

**FCA:** the Financial Conduct Authority;

**Income Share:** a Share in the Company in respect of which income allocated thereto is distributed periodically to the holders thereof pursuant to the Regulations;

**Instrument of Incorporation:** the instrument of incorporation of the Company as amended from time to time;

**Intermediate Unitholder:** a firm whose name is entered in the register of the Company, or which holds Shares indirectly through a third party acting as a nominee, and which:

(a) is not the beneficial owner of the relevant Share; and

(b) does not manage investments on behalf of the relevant beneficial owner of the Share; or

(c) does not act as a depository of a collective investment scheme or on behalf of such a depository in connection with its role in holding property subject to the scheme;

**Investment Manager:** M&G Investment Management Limited;

**ISD investment firm:** an investment firm under the Investment Services Directive;

**Member State:** those countries which are members of the European Union or the European Economic Area at any given time;

**Net Asset Value or NAV:** the value of the Scheme Property of the Company less the liabilities of the Company as calculated in accordance with the Company's Instrument of Incorporation;

**the Regulations:** the Open-Ended Investment Companies Regulations 2001 and the rules contained in the COLL Sourcebook;

**SDRT:** Stamp Duty Reserve Tax;

**Scheme Property:** the property of the Company to be given to the Depository for safekeeping, as required by the Regulations;

**Share or Shares:** a share or shares in the Company (including larger denomination Shares and Fractions);

**Shareholder:** a holder of a registered Share in the Company.

**XD date:** the XD (or Ex-Dividend) date is the date on which the income is removed from the price of an Income Share pending the payment of a distribution.

# Prospectus

## M&G Optimal Income Fund

### 1 The Company

- 1.1 M&G Optimal Income Fund is an Open-Ended Investment Company with variable capital, incorporated in England and Wales under registered number IC 490 and authorised by the Financial Conduct Authority with effect from 17 November 2006. The Company has been established for unlimited duration.
- 1.2 The Company has been certified by the FCA complying with the conditions necessary for it to enjoy the rights conferred by the EC Directive on undertakings for collective investment in transferable securities ('UCITS').
- 1.3 The Head Office of the Company is at Laurence Pountney Hill, London EC4R 0HH and is also the address of the place in the United Kingdom for service on the Company of notices or other documents required or authorised to be served on it. The Company does not have any interest in immovable property or any tangible moveable property.
- 1.4 The base currency of the Company is pounds sterling.
- 1.5 The maximum share capital of the Company is currently £250,000,000,000 and the minimum is £100. Shares in the Company have no par value and therefore the share capital of the Company at all times equals the Company's current Net Asset Value.
- 1.6 Shareholders in the Company are not liable for the debts of the Company (see also paragraph 28 - Risk Factors).

### 2 Company structure

- 2.1 The Company is a UCITS scheme for the purposes of the COLL Sourcebook.
- 2.2 The investment objective, investment policy and other details of the Company are set out in Appendices 1 & 4. The investment and borrowing powers under the COLL Sourcebook applicable to the Company are set out in Appendix 2 and the eligible markets on which the Company can invest are set out in Appendix 3.

### 3 Classes of Share within the Company

- 3.1 Several Share Classes may be issued in respect of the Company. The Share Classes in issue are shown in Appendix 1 & 4. These are one or more of the following:
  - Euro Class A-H Gross Accumulation Shares (Hedged)
  - Euro Class A-H Gross Income Shares (Hedged)
  - Euro Class B Gross Accumulation Shares\*
  - Euro Class C-H Gross Accumulation Shares (Hedged)
  - Sterling Class A Net Income Shares
  - Sterling Class A Net Accumulation Shares
  - Sterling Class X Net Income Shares
  - Sterling Class X Net Accumulation Shares
  - Sterling Class R Net Income Shares
  - Sterling Class R Net Accumulation Shares
  - Sterling Class I Net Income Shares
  - Sterling Class I Net Accumulation Shares
  - US Dollar Class A-H Gross Accumulation Shares (Hedged)
  - US Dollar Class C-H Gross Accumulation Shares (Hedged)
  - Swiss Franc A Gross Accumulation Shares
  - Swiss Franc A-H Gross Accumulation Shares (Hedged)
  - Swiss Franc C Gross Accumulation Shares
  - Swiss Franc C-H Gross Accumulation Shares (Hedged)

\* Not currently available

The Instrument of Incorporation allows gross Income and gross Accumulation Shares to be issued as well as net Income and net Accumulation Shares. Net Shares are Shares in respect of which income allocated to them is distributed periodically to the relevant Shareholders (in the case of income Shares) or credited periodically to capital (in the case of Accumulation Shares), in either case in accordance with relevant tax law net of any tax deducted or accounted for by the Company. Gross Shares are Income or Accumulation Shares where, in accordance with relevant tax law, distribution or allocation of income is made without any UK tax being deducted or accounted for by the Company.

All references in this prospectus to Sterling Class Shares are to net Sterling Class Shares. All references in this prospectus to Euro and US Dollar Class Shares are to gross Euro and US Dollar Class Shares.

- 3.2 The Company may make available such further Classes of Share as the ACD may decide.
- 3.3 Holders of Income Shares are entitled to be paid the income attributed to such Shares on the relevant interim and annual allocation dates net of tax. The price of such Shares immediately after the end of an accounting period reduces to reflect these allocations of income.
- 3.4 Holders of Accumulation Shares are not entitled to be paid the income attributable to such Shares but that income is automatically transferred to (and retained as part of) the capital assets of the Company immediately after the relevant interim and / or annual accounting dates. The price of such Shares continues to reflect this retention of the income entitlement, which will be transferred after deduction of applicable tax, where appropriate.
- 3.5 Where the Company has different Classes of Share available, each Class may attract different charges and expenses and so monies may be deducted from Classes in unequal proportions. For this and like reasons, the proportionate interests of the Classes within the Company will vary from time to time.
- 3.6 Holders of Income Shares may convert all or some of their Shares to Accumulation Shares of the same Class and holders of Accumulation Shares may convert all or some of their Shares to Income Shares of the same Class. Details of this conversion facility are set out in paragraph 15.7 of this document.
- 3.7 The Company may undertake transactions specifically to reduce Sterling currency exposure for the Euro Class A-H, Euro Class C-H, US Dollar Class A-H and US Dollar Class C-H Shares. All costs associated with operating hedging transactions for these Share Classes will be borne by Shareholders in these Share Classes.

Holders of non-Sterling Share Classes should note that these Share Classes undertake transactions specifically to reduce Base Currency exposure.

Forward currency contracts, or other instruments that may achieve a similar result, will be used to hedge the total return (capital and revenue) of the non-Sterling Share Classes thereby reducing exposure to movements in rates of currency exchange between the currency of the Share Classes and the Base Currency of the Company.

The hedging position will be reviewed on each Dealing Day and adjusted when there is a material change, for example, to the dealing volume of Shares in non-Sterling Share Classes.

- 3.8 Sterling Class R Shares are available only to Intermediate Unitholders or where the deal has been arranged by a financial adviser.

### 4 Management and administration

#### 4.1 Authorised Corporate Director

- 4.1.1 The Authorised Corporate Director of the Company is M&G Securities Limited which is a private company limited by shares incorporated in England and Wales under the

# Prospectus

## M&G Optimal Income Fund

Companies Acts 1862 to 1900 on 12 November 1906. The ultimate holding company of the ACD is Prudential plc, a company incorporated in England and Wales.

### 4.1.2 Registered office and head office:

Laurence Pountney Hill, London EC4R 0HH.

#### Share capital:

Authorised	£100,000
Issued and paid-up	£100,000

#### Directors:

Mr Gary Cotton,

Mr Martin Lewis,

Mr Graham MacDowall,

Mr Laurence Mumford,

Mr William Nott,

Mr John Talbot,

Philip Jelfs.

All of the directors have significant business activities which are not connected to those of the ACD but of other companies within the M&G Group.

- 4.1.3 The ACD is responsible for managing and administering the Company's affairs in compliance with the Regulations. Other collective investment schemes for which the ACD has these responsibilities are set out in Appendix 6.

## 4.2 Terms of appointment

- 4.2.1 The ACD Agreement provides that the appointment of the ACD is for an initial period of three years and thereafter may be terminated upon 12 months written notice by either the ACD or the Company although in certain circumstances the agreement may be terminated forthwith by notice in writing by the ACD to the Company or the Depositary, or by the Depositary or the Company to the ACD. The ACD cannot be replaced until the FCA has approved the appointment of another director in place of the retiring ACD. The ACD Agreement may be inspected at the offices of the ACD during normal business hours by any Shareholder or any Shareholder's duly authorised agent. Alternatively, a copy of the ACD Agreement may be sent to any Shareholder at his request within 10 days of the Company's receipt of such request.
- 4.2.2 The ACD is entitled to its pro rata fees and expenses to the date of termination and any additional expenses necessarily realised in settling or realising any outstanding obligations. No compensation for loss of office is provided for in the agreement. The ACD Agreement provides indemnities by the Company to the ACD other than for matters arising by reason of the ACD's negligence, default, breach of duty or breach of trust in the performance of the ACD's duties and obligations.
- 4.2.3 The ACD is under no obligation to account to the Depositary or the Shareholders for any profit it makes on the issue or re-issue of Shares or cancellation of Shares which it has redeemed. The fees to which the ACD is entitled are set out in paragraph 30.

## 5 The Depositary

The National Westminster Bank Plc is the Depositary of the Company. The Depositary is a public limited company incorporated in England and Wales. Subject to the Regulations the Depositary is responsible for the safekeeping of the property of the Company entrusted to it and has a duty to take reasonable care to ensure that the Company is managed in accordance with the provisions of the

COLL Sourcebook relating to the pricing of, and dealing in, Shares of the Company and to the allocation of the income of the Company. The appointment of the Depositary was made under an agreement between the Company, the ACD and the Depositary.

### 5.1 Registered office:

135 Bishopsgate, London, EC2M 3UR.

### 5.2 Head office:

135 Bishopsgate, London, EC2M 3UR.

### 5.3 Ultimate holding company:

The Royal Bank of Scotland Group plc.

### 5.4 Principal business activity:

The principal business activity of the Depositary is banking.

### 5.5 Terms of appointment:

- 5.5.1 The Depositary provides its services under the terms of a depositary agreement between the Company and the Depositary (the 'Depositary Agreement'). Subject to the Regulations, the Depositary has full power under the Depositary Agreement to delegate (and authorise its sub-delegates to sub-delegate) all or any part of its duties as Depositary.
- 5.5.2 The Depositary Agreement may be terminated by three months notice given by either the Company or the Depositary, provided that the Depositary may not voluntarily retire except on the appointment of a new Depositary.
- 5.5.3 The Depositary Agreement contains indemnities by the Company in favour of the Depositary against (other than in certain circumstances) any liability incurred by the Depositary as a consequence of its safe keeping of any of the Scheme Property or incurred by it as a consequence of the safe keeping of any of the Scheme Property by anyone retained by it to assist it to perform its functions of the safe keeping of the Scheme Property and also (in certain circumstances) exempts the Depositary from liability.
- 5.5.4 The Depositary is entitled to the fees, charges and expenses detailed under 'Depositary's Fee, Charges and Expenses' in paragraph 32.
- 5.5.5 The Depositary has appointed State Street Bank and Trust Company to assist the Depositary in performing its functions of custodian of the documents of title or documents evidencing title to the property of the Company. The relevant arrangements prohibit State Street Bank and Trust Company as such custodian from releasing the documents into the possession of a third party without the consent of the Depositary. The Depositary has appointed International Financial Data Services (UK) Limited in its capacity as registrar to assist the Depositary in performing its functions in relation to the distribution of income.

## 6 The Investment Manager

The ACD has appointed M&G Investment Management Limited ("MAGIM") to provide investment management and advisory services in respect of the Company. The Investment Manager has authority to make decisions on behalf of the Company and the ACD in respect of the acquisition and disposal of property at any time comprising the Company and to advise in respect of the rights associated with the holding of such property. The Investment Manager has been appointed under an agreement between the ACD and the Investment Manager whereby the ACD accepts responsibility for all these services provided by the Investment Manager to the Company. The investment management agreement may be terminated on six months written notice by the Investment Manager or the ACD, or immediately if the ACD believes this is in the best interests of Shareholders.



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The Investment Manager's principal activity is acting as an investment manager and it is an Associate of the ACD by being a subsidiary of Prudential plc.

### 7 Administrator and Registrar

The ACD employs International Financial Data Services (UK) Limited ('IFDS') to provide certain administration services and act as registrar to the Company.

### 8 The Auditor

The auditor of the Company is PricewaterhouseCoopers LLP of 7 More London Riverside, London, SE1 2RT

### 9 Register of Shareholders

The Register of Shareholders is maintained by IFDS at its office at IFDS House, St Nicholas Lane, Basildon, Essex SS15 5FS and may be inspected at that address during normal UK business hours by any Shareholder or any Shareholder's duly authorised agent.

### 10 Fund Accounting, Pricing, and Share Class Hedging

The ACD has appointed State Street Bank and Trust Company to undertake the fund accounting and pricing functions on behalf of the Company.

The ACD has appointed State Street Bank Europe Limited to undertake currency share class hedging functions for the Euro A-H, Euro C-H, US Dollar A-H and US Dollar C-H Share Classes.

### 11 Collateral Management

Where the Company enters into OTC derivative transactions, JPMorgan Chase Bank, N.A. will provide administrative services in connection with the collateral management functions.

### 12 Buying, selling and converting Shares

The address for postal dealing is P.O. Box 9039, Chelmsford, CM99 2XG. Telephone deals can be placed between 8.00 am and 6.00 pm UK time on each Dealing Day (except for Christmas Eve and New Year's Eve when the office closes early) for the sale, redemption and converting of Shares. Deals will be effected at prices determined at the next valuation point following receipt of the request, i.e. on a forward pricing basis. Subject to paragraphs 13, 14 and 15, requests may be made by post, telephone or any electronic or other means which the ACD may from time to time determine, either directly or via an authorised intermediary. Prices are calculated every Dealing Day at the valuation point (12.00 noon UK time).

Postal deals received at our postal dealing address and requests communicated by other means to the ACD before the valuation point will be dealt with at the price calculated on that Dealing Day; requests received after the valuation point will be dealt with at the price calculated on the next following Dealing Day.

The ACD does not currently permit the transfer of Shares by electronic means but may do so in the future at its discretion. For further details please contact the ACD.

### 13 Buying Shares

#### 13.1 Procedure for investors in Sterling Share Classes

(Non-UK investors should refer to Appendix 4)

13.1.1 On any given Dealing Day the ACD will be willing to sell Shares of at least one Class in the Company. Shares can be bought as a lump sum investment or by way of a regular savings plan.

13.1.2 Postal applications may be made on application forms obtained from the ACD. Alternatively, lump sum investment

can be made under approved circumstances by telephoning M&G's Customer Dealing Line 0800 328 3196 between 8.00 am and 6.00 pm UK time on Dealing Days.

13.1.3 The ACD has the right to reject, on reasonable grounds relating to the circumstances of the applicant, any application for Shares in whole or part, and in this event the ACD will return any money sent, or the balance of such monies, at the risk of the applicant. The ACD may also cancel any previously accepted request for the issue of Shares in the event of either non-payment of the amount due, including any provision for SDRT, or undue delay in payment by the applicant, including the non-clearance of cheques or other documents presented in payment. Please note that:

- Sterling Class R Shares are available only to Intermediate Unitholders or where the deal has been arranged by a financial adviser.

13.1.4 Any subscription monies remaining after a whole number of Shares has been issued may not be returned to the applicant. Instead, Fractions may be issued in such circumstances. A Fraction is equivalent to one thousandth of a larger denomination Share.

#### 13.2 Documentation

13.2.1 A contract note giving details of the Shares purchased and the price used will be issued by the end of the business day following the valuation point by reference to which the price is determined, together with, where appropriate, a notice of the applicant's right to cancel.

13.2.2 Payment for Shares purchased by post must accompany the application; payment for Shares purchased by other means must be made by no later than four business days after the valuation point following receipt of the instructions to purchase.

13.2.3 Currently Share certificates will not be issued in respect of Shares. Ownership of Shares will be evidenced by an entry on the Company's Register of Shareholders. Statements in respect of periodic allocations of income will show the number of Shares held by the recipient in the Company. Individual statements of a Shareholder's Shares will also be issued at any time on request by the registered holder (or, when Shares are jointly held, the first named holder).

#### 13.3 Minimum subscriptions and holdings

13.3.1 The minimum initial lump sum and regular savings plan subscriptions for Shares and the minimum holding in the Company are set out in Appendices 1&4. If at any time a Shareholder's holding is below the specified minimum, the ACD reserves the right to sell the Shares and send the proceeds to the Shareholder, or at its absolute discretion convert the Shares to another Share Class.

#### 13.4 Holdings of Class R Shares

13.4.1 Where a purchase by a Shareholder of Sterling Class R Shares has been arranged by a financial adviser the ACD will maintain a record of that financial adviser linked to their account with the ACD. If a Shareholder of Class R Shares has their financial adviser removed from their account (whether at the request of the Shareholder or the financial adviser, or as a result of the financial adviser no longer being authorised by the FCA), the ACD reserves the right at its absolute discretion to convert those Shares to Class A Shares. Shareholders should note that the on-going charge of Class A Shares is greater than that of Class R Shares.

### 14 Selling Shares

#### 14.1 Procedure for investors in Sterling Share Classes

(Non-UK investors should refer to Appendix 4)

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## M&G Optimal Income Fund

- 14.1.1 Shareholders have the right to sell Shares back to the ACD or require that the ACD arranges for the Company to buy their Shares on any Dealing Day unless the value of Shares which a Shareholder wishes to sell will mean that the Shareholder will hold Shares with a value less than the required minimum holding in the Company, in which case the Shareholder may be required to sell the entire holding.
- 14.1.2 Requests to sell Shares may be made by post, telephone, or any electronic or other means which the ACD may from time to time determine, either directly or via an authorised intermediary; the ACD may require telephonic or electronic requests to be confirmed in writing.

### 14.2 Documents the seller will receive

A contract note giving details of the Shares sold and the price used will be sent to the selling Shareholder (the first named, in the case of joint Shareholders) or to an authorised agent not later than the end of the business day following the valuation point by reference to which the price is determined. Payment of proceeds will be made within four business days of the later of:

- receipt by the ACD, when required, of sufficient written instructions duly signed by all the relevant Shareholders and completed as to the appropriate number of Shares, together with any other appropriate evidence of title; and
- the valuation point following receipt by the ACD of the request to sell.

14.2.1 The requirement for sufficient written instructions is normally waived if all the following conditions are met:

- Dealing instructions are given by the registered holder in person;
- The holding is registered in a sole name;
- The sale proceeds are to be made payable to the registered holder at their registered address, which has not changed within the previous 30 days; and
- The total amount payable in respect of sales by that holder on one business day does not exceed £11,520.

### 14.3 Minimum redemption

Subject to the Shareholder maintaining the minimum holding stated in this prospectus, part of a Shareholder's holding may be sold but the ACD reserves the right to refuse a request to sell Shares if the value of the Class of Shares to be sold is less than the sum specified in Appendix 1.

## 15 Converting between Share Classes

- 15.1 Conversions of Income Shares to Accumulation Shares and Accumulation Shares to Income Shares of the same Class are undertaken by reference to the respective Share prices. For persons subject to UK taxation, this will not be a realisation for the purposes of capital gains taxation.
- 15.2 Where the Company issues multiple Share Classes, a Shareholder may convert Shares of one Class for Shares in another Class where they are eligible to hold the other Class. Requests to convert between Share Classes must be submitted using the appropriate form available from the ACD. Such conversions will be executed within three Dealing Days of receipt of a valid instruction. Requests to convert between Share Classes are undertaken by reference to the respective Share prices of each Class. For interest distributing funds, whose prices are calculated net of income tax, these prices will be "net" prices. The impact of using net prices where the conversion of Shares is to a Class with a lower ACD's annual remuneration (see Appendix 1) is that the Company's total tax charge will increase and this increase will be borne by all Shareholders in the receiving Share Class. This approach has been agreed with the Depository subject to the total impact to

Shareholders being immaterial. Where the ACD determines at its absolute discretion that Share Class conversions are materially prejudicial to the Shareholders of a Share Class, instructions to convert between Share Classes will only be executed on the Dealing Day following the relevant Company's XD date. In such circumstances, instructions to convert between Share Classes must be received by the ACD no sooner than ten business days before the Company's relevant XD date.

- 15.3 Please note that conversions may be subject to a fee. The fee will not exceed an amount equal to the aggregate of the then prevailing redemption charge (if any) in respect of Original Shares and the initial charge (if any) in respect of New Shares and is payable to the ACD.

## 16 Dealing charges

### 16.1 Initial charge

The ACD may impose a charge on the buying of Shares. This charge is a percentage of the total amount of your investment and is deducted from your investment before Shares are purchased. The current level in relation to the Company is set out in Appendices 1 & 4 and is subject to discounts that the ACD at its absolute discretion may apply from time to time. Increases from the current rates of charge can only be made in accordance with the COLL Sourcebook and after the ACD has revised the prospectus to reflect the increased rate.

### 16.2 Redemption charge

16.2.1 The ACD may make a charge on the cancellation and redemption (including transfer) of Shares. At present, a redemption charge is levied only on Sterling Class X Income and Accumulation Shares. Other Shares issued and bought, and persons known to the ACD to have made arrangements for the regular purchase of other Shares while this prospectus is in force, will not be subject to any redemption charge introduced in the future in respect of those Shares. Currently, those Shares deemed to carry a redemption charge will carry a reducing redemption charge calculated in accordance with the table below. With Accumulation Shares, where any income is reinvested back into the share price, the valuation when calculating a redemption will include the capital increment associated with this reinvested income. In relation to the imposition of a redemption charge as set out above, where Shares of the Class in question have been purchased at different times by a redeeming Shareholder, the Shares to be redeemed shall be deemed to be the Shares which incur the least cost to the Shareholder and thereafter the Shares purchased first in time by that Shareholder.

#### Redemption charge table

The deduction from the mid value for redemption before the following anniversaries on the Sterling Class X Income and Accumulation Shares would be:

1st year	4.5%
2nd year	4.0%
3rd year	3.0%
4th year	2.0%
5th year	1.0%
Thereafter	Nil

- 16.2.2 The ACD may not introduce or increase a redemption charge on Shares unless:
- 16.2.2.1 the ACD has complied with the Regulations in relation to that introduction or change; and
- 16.2.2.2 the ACD has revised the prospectus to reflect the introduction or change and the date of its



commencement and has made the revised prospectus available.

- 16.2.3 In the event of a change to the rate or method of calculation of a redemption charge, details of the previous rate or method of calculation will be available from the ACD.

### 16.3 Conversion fee

- 16.3.1 On the conversion of Shares for Shares of another Class, the Instrument of Incorporation authorises the Company to impose a fee at the discretion of the ACD. The fee will not exceed an amount equal to the aggregate of the then prevailing redemption charge (if any) in respect of Original Shares and the initial charge (if any) in respect of New Shares and is payable to the ACD.
- 16.3.2 There is currently no fee payable on a conversion between Classes of Shares unless the Classes are issued in a different currency or have a different charging structure.

## 17 Other dealing information

### 17.1 Dilution

- 17.1.1 The basis on which the Company's investments are valued for the purpose of calculating the price of Shares as stipulated in the Regulations and the Company's Instrument of Incorporation is summarised in paragraph 24. However, the actual cost of purchasing or selling investments in the Company may deviate from the mid-market value used in calculating the price of Shares in the Company due to dealing costs such as broking charges, taxes, and any spread between the buying and selling prices of the underlying investments. These dealing costs can have an adverse effect on the value of the Company, known as "dilution". It is not, however, possible to predict accurately whether dilution will occur at any point in time. The Regulations allow the cost of dilution to be met directly from the Company's assets or to be recovered from investors on the purchase or redemption of Shares in the Company *inter alia* by means of a dilution adjustment to the dealing price, and this is the policy which has been adopted by the ACD. The ACD shall comply with COLL 6.3.8 in its application of any such dilution adjustment. The ACD's policy is designed to minimise the impact of dilution on the Company.
- 17.1.2 The dilution adjustment for the Company will be calculated by reference to the estimated costs of dealing in the underlying investments of the Company, including any dealing spreads, commissions and transfer taxes. The need to apply a dilution adjustment will depend on the relative volume of sales (where they are issued) to redemptions (where they are cancelled) of Shares. The ACD may apply a dilution adjustment on the issue and redemption of such Shares if, in its opinion, the existing Shareholders (for sales) or remaining Shareholders (for redemptions) might be adversely affected, and if in applying a dilution adjustment, so far as practicable, it is fair to all Shareholders and potential Shareholders. In specie transfers will not be taken into account when determining any dilution adjustment and any incoming portfolio will be valued on the same basis as the Company is priced (i.e. offer plus notional dealing charges, mid, or bid less notional dealing charges). When a dilution adjustment is not applied there may be a dilution of the assets of the Company which may constrain the future growth of the Company.
- 17.1.3 The ACD may alter its current dilution adjustment policy by giving Shareholders at least 60 days' notice and amending the prospectus before the change takes effect.
- 17.1.4 Based on experience, the ACD would typically expect to make a dilution adjustment on most days, and this is expected to be of the magnitude shown in the table below. The ACD reserves the right to adjust the price by a lesser

amount but will always make such an adjustment in a fair manner solely to reduce dilution and not for the purpose of creating a profit or avoiding a loss for the account of the ACD or an Associate. It should be noted that as dilution is related to inflows and outflows of monies and the purchase and sale of investments it is not possible to predict accurately if and when dilution will occur and to what extent.

Typical dilution adjustments for the Company are expected to be: +0.30% / -0.30%

Positive dilution adjustment figures indicate a typical increase from mid price when the Company is experiencing net issues. Negative dilution adjustment figures indicate a typical decrease from mid price when the Company is experiencing net redemptions.

Figures are based on the historic costs of dealing in the underlying investments of the Company for the twelve months to 30 September 2013, including any spreads, commissions and transfer taxes.

### 17.2 In specie issues and redemptions

At its absolute discretion the ACD may agree or determine that instead of payment in cash to, or from, the Shareholder for Shares in the Company, the settlement of an issue or redemption transaction may be effected by the transfer of property into or out of the assets of the Company on such terms as the ACD shall decide in consultation with the Investment Manager and the Depository. In the case of redemptions, the ACD shall give notice to the Shareholder prior to the redemption proceeds becoming payable of its intention to transfer property to the Shareholder and, if required by the Shareholder, may agree to transfer to the Shareholder the net proceeds of the sale of such property.

The ACD may also offer to sell an investor's property and invest the proceeds by purchasing Shares in the Company, subject to detailed terms and conditions available upon request.

### 17.3 Client account

Cash may be held for you in a client account in certain circumstances. Interest is not paid on any such balances.

### 17.4 Excessive Trading

17.4.1 The ACD generally encourages Shareholders to invest in the Company as part of a medium to long-term investment strategy and discourages excessive, short term, or abusive trading practices. Such activities may have a detrimental effect on the Company and other Shareholders. The ACD has several powers to help ensure that Shareholder interests are protected from such practices. These include:

17.4.1.1 Refusing an application for Shares (see paragraph 13.1.3);

17.4.1.2 Fair Value Pricing (see paragraph 24); and,

17.4.1.3 Applying the Dilution Adjustment (see paragraph 17.1).

17.4.2 We monitor shareholder dealing activity and if we identify any behaviour that, in our view, constitutes inappropriate or excessive trading, we may take any of the following steps with the shareholders we believe are responsible:

17.4.2.1 Issue warnings which if ignored may lead to further applications for Shares being refused;

17.4.2.2 Restrict methods of dealing available to particular Shareholders; and/or,

17.4.2.3 Impose a conversion fee (see paragraph 16.3).

17.4.3 We may take these steps at any time, without any obligation to provide prior notice and without any liability for any consequence that may arise.

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17.4.4 Inappropriate or excessive trading can sometimes be difficult to detect particularly where transactions are placed via a nominee account. The ACD therefore cannot guarantee that its efforts will be successful in eliminating such activities and their detrimental effects.

### 17.5 ACD dealing as principal

Where the ACD deals as principal in the Shares of the Company any profits or losses arising from such transactions shall accrue to the ACD and not to the Company. The ACD is under no obligation to account to the Depositary, or to Shareholders for any profit it makes on the issue or reissue of Shares or cancellation of Shares which it has redeemed.

## 18 Stamp Duty Reserve Tax ('SDRT')

18.1 HM Revenue & Customs regulations require a 0.5% SDRT charge to be made on the value of Shares redeemed by the ACD and on certain other transfers of Shares. The HM Treasury regulations call these transactions "surrenders". The liability for SDRT is calculated for each week by reference to Share sales and redemptions in that and the following week. This basic charge may be reduced if more Shares of the relevant type or Class are surrendered than issued over the relevant period or if the Company is invested in assets that are exempt from stamp duty and SDRT, i.e. other than in UK equities. When the Company does not issue any Shares during the relevant period or is invested wholly in exempt investments, there is no liability to SDRT.

18.2 This charge may have an adverse effect on the value of the Company. The Regulations allow the cost of SDRT to be met directly from the Company's assets or to be recovered from incoming investors as an entry charge or to outgoing investors as an exit charge. It is the ACD's current policy for the Company to meet any liability for SDRT out of Scheme Property. The ACD considers that paying SDRT out of the Company is efficient administratively and will have a minimal effect on its performance.

18.3 A charge for SDRT will only be made to either incoming or redeeming shareholders where a stampable event not covered by the dilution adjustment, would otherwise materially influence the price. The ACD deems "materially" in this case to be a charge which would have altered the fourth significant figure of the price. Any such provision will be paid to the Depositary to become part of the property of the Company.

The Company may refuse to register a transfer of Shares unless there has been paid, for the account of the Company, an amount determined by the ACD not exceeding the amount that would be derived by applying the rate of SDRT to the market value of the Shares being transferred. This shall not apply to transfers excluded by Schedule 19 of the Finance Act 1999 from a charge to SDRT.

## 19 Money laundering

As a result of legislation in force in the United Kingdom to prevent money laundering, firms conducting investment business are responsible for compliance with money laundering regulations. The ACD may verify your identity electronically when you undertake certain transactions. In certain circumstances investors may be asked to provide proof of identity when buying or selling Shares. Normally this will not result in any delay in carrying out instructions but, should the ACD request additional information, this may mean that instructions will not be carried out until the information is received. In these circumstances, the ACD may refuse to sell or, redeem Shares, release the proceeds of redemption or carry out such instructions.

## 20 Restrictions on dealing

The ACD may from time to time impose such restrictions as it may think necessary for the purpose of ensuring that no Shares are acquired or held by any person in breach of the law or governmental regulation (or any interpretation of a law or regulation by a competent authority) of any country or territory. In this

connection, the ACD may, inter alia, reject in its discretion any application for the issue, sale, redemption, cancellation or conversion of Shares or require the mandatory redemption of Shares or transfer of Shares to a person qualified to hold them.

The distribution of this prospectus and the offering of Shares in or to persons resident in or nationals of or citizens of jurisdictions outside the UK or who are nominees of, custodians or trustees for, citizens or nationals of other countries may be affected by the laws of the relevant jurisdictions. Such Shareholders should inform themselves about and observe any applicable legal requirements. It is the responsibility of any Shareholder to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant jurisdiction, including obtaining any governmental, exchange control or other consents which may be required, or compliance with other necessary formalities needing to be observed and payment of any issue, transfer or other taxes or duties due in such jurisdiction. Any such Shareholder will be responsible for any such issue, transfer or other taxes or payments by whomsoever payable and the Company (and any person acting on behalf of it) shall be fully indemnified and held harmless by such Shareholder for any such issue, transfer or other taxes or duties as the Company (and any person acting on behalf of it) may be required to pay.

If it comes to the notice of the ACD that any Shares ("affected Shares") are owned directly or beneficially in breach of any law or governmental regulation (or any interpretation of a law or regulation by a competent authority) of any country or territory, which would (or would if other Shares were acquired or held in like circumstances) result in the Company incurring any liability to taxation which the Company would not be able to recoup itself or suffering any other adverse consequence (including a requirement to register under any securities or investment or similar laws or governmental regulations of any country or territory) or by virtue of which the Shareholder or Shareholders in question is/are not qualified to hold such Shares or if it reasonably believes this to be the case, the ACD may give notice to the Shareholder(s) of the affected Shares requiring the transfer of such Shares to a person who is qualified or entitled to own them or that a request in writing be given for the redemption of such Shares. If any Shareholder upon whom such a notice is served does not within thirty days after the date of such notice transfer their affected Shares to a person qualified to own them or submit a written request for their redemption to the ACD or establish to the satisfaction of the ACD (whose judgement is final and binding) that they or the beneficial owner are qualified and entitled to own the affected Shares, they shall be deemed upon the expiration of that thirty day period to have given a request in writing for the redemption or cancellation (at the discretion of the ACD) of all the affected Shares pursuant to the Regulations.

A Shareholder who becomes aware that they are holding or own affected Shares shall forthwith, unless they have already received a notice as aforesaid, either transfer all their affected Shares to a person qualified to own them or submit a request in writing to the ACD for the redemption of all their affected Shares.

Where a request in writing is given or deemed to be given for the redemption of affected Shares, such redemption will be effected in the same manner as provided for under the Regulations, if effected at all.

## 21 Suspension of dealings in the Company

21.1 The ACD may with the agreement of the Depositary, or must if the Depositary so requires temporarily suspend for a period the issue, sale, cancellation and redemption of Shares or any Class of Shares in the Company if the ACD or the Depositary is of the opinion that due to exceptional circumstances there is good and sufficient reason to do so having regard to the interests of Shareholders.

21.2 The ACD will notify Shareholders as soon as is practicable after the commencement of the suspension, including details of the exceptional circumstances which have led to the suspension, in a

clear, fair and not misleading way and giving Shareholders details of how to find further information about the suspensions.

- 21.3 Where such suspension takes place, the ACD will publish, on its website or other general means, sufficient details to keep Shareholders appropriately informed about the suspension, including, if known, its possible duration.
- 21.4 During the suspension none of the obligations in COLL 6.2 (Dealing) will apply but the ACD will comply with as much of COLL 6.3 (Valuation and Pricing) during the period of suspension as is practicable in light of the suspension.
- 21.5 Re-calculation of the Share price for the purpose of sales and purchases will commence at the time the suspension is ended or at the next relevant valuation point following the ending of the suspension.

## 22 Governing law

All deals in Shares are governed by English law.

## 23 Valuation of the Company

- 23.1 The price of a Share of a particular Class in the Company is calculated by reference to the Net Asset Value of the Company to which it relates and attributable to that Class and adjusted for the effect of charges applicable to that Class and further adjusted to reduce any dilutive effect of dealing in the Company (for more detail of dilution adjustment see paragraph 17.1). The Net Asset Value per Share of the Company is currently calculated at 12:00 noon UK time on each Dealing Day.
- 23.2 The ACD may at any time during a Dealing Day carry out an additional valuation if the ACD considers it desirable to do so.

## 24 Calculation of the Net Asset Value

- 24.1 The value of the Scheme Property of the Company shall be the value of its assets less the value of its liabilities determined in accordance with the following provisions.
- 24.2 All the Scheme Property (including receivables) of the Company is to be included, subject to the following provisions.
- 24.3 Property which is not cash (or other assets dealt with in paragraph 24.4) or a contingent liability transaction shall be valued as follows and the prices used shall be (subject as follows) the most recent prices which it is practicable to obtain:
- 24.3.1 units or shares in a collective investment scheme:
- 24.3.1.1 if, a single price for buying and selling units or shares is quoted, at the most recent such price; or
- 24.3.1.2 if, separate buying or selling prices are quoted, at the average of the two prices provided the buying price has been reduced by any initial charge included therein and the selling price excludes any exit or redemption charge attributable thereto; or
- 24.3.1.3 if, in the opinion of the ACD, the price obtained is unreliable or no recent traded price is available or no recent price exists or if the most recent price available does not reflect the ACD's best estimate of the value of the units or shares, at a value which, in the opinion of the ACD, is fair and reasonable;
- 24.3.2 any other transferable security:
- 24.3.2.1 if, a single price for buying and selling the security is quoted, at that price; or
- 24.3.2.2 if, separate buying and selling prices are quoted, the average of those two prices; or

24.3.2.3 if, in the opinion of the ACD, the price obtained is unreliable or no recent traded price is available or if no price exist or if the most recent price available does not reflect the ACD's best estimate of the value of the securities, at a value which in the opinion of the ACD is fair and reasonable;

- 24.3.3 property other than that described in paragraphs 24.3.1 and 24.3.2 above: at a value which, in the opinion of the ACD, represents a fair and reasonable mid-market price.
- 24.4 Cash and amounts held in current and deposit accounts and in other time-related deposits shall normally be valued at their nominal values.
- 24.5 Property which is a contingent liability transaction shall be treated as follows:
- 24.5.1 if a written option (and the premium for writing the option has become part of the Scheme Property), the amount of the net valuation of premium receivable shall be deducted. If the property is an off-exchange derivative the method of valuation shall be agreed between the ACD and Depositary;
- 24.5.2 if an off-exchange future, it will be included at the net value of closing out in accordance with a valuation method agreed between the ACD and the Depositary;
- 24.5.3 if any other form of contingent liability transaction, it will be included at the mark to market value (whether as a positive or negative value). If the property is an off-exchange derivative, it shall be included at a method of valuation agreed between the ACD and Depositary.
- 24.6 In determining the value of the Scheme Property, all instructions given to issue or cancel Shares shall be assumed to have been carried out (and any cash paid or received) whether or not this is the case.
- 24.7 Subject to paragraphs 24.8 and 24.9 below, agreements for the unconditional sale or purchase of property which are in existence but uncompleted shall be assumed to have been completed and all consequential action required to have been taken. Such unconditional agreements need not be taken into account if made shortly before the valuation takes place and, in the opinion of the ACD, their omission will not materially affect the final Net Asset Value amount.
- 24.8 Futures or contracts for differences which are not yet due to be performed and unexpired and unexercised written or purchased options shall not be included under paragraph 24.7.
- 24.9 All agreements are to be included under paragraph 24.7 which are, or ought reasonably to have been, known to the person valuing the property.
- 24.10 An estimated amount for anticipated tax liabilities at that point in time including (as applicable and without limitation) capital gains tax, income tax, corporation tax, value added tax, stamp duty, SDRT and any foreign taxes and duties will be deducted.
- 24.11 An estimated amount for any liabilities payable out of the Scheme Property and any tax thereon treating periodic items as accruing from day to day will be deducted.
- 24.12 The principal amount of any outstanding borrowings whenever repayable and any accrued but unpaid interest on borrowings will be deducted.
- 24.13 An estimated amount for accrued claims for repayments of tax of whatever nature to the Company which may be recoverable will be added.
- 24.14 Any other credits or amounts due to be paid into the Scheme Property will be added.
- 24.15 A sum representing any interest or any income accrued due or deemed to have accrued but not received will be added.

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24.16 The amount of any adjustment deemed necessary by the ACD to ensure that the Net Asset Value is based on the most recent information and is fair to all Shareholders will be added or deducted as appropriate.

24.17 Currencies or values in currencies other than pounds sterling shall be converted at the relevant valuation point at a rate of exchange that is not likely to result in any material prejudice to the interests of Shareholders or potential Shareholders.

### 25 Price per Share in each Class

The price per Share at which Shares are bought by investors is the sum of the Net Asset Value of a Share adjusted to reduce any dilutive effect of dealing in the Company (for more detail of dilution adjustment see paragraph 17.1) before any initial charge. The price per Share at which Shares are sold by investors is the Net Asset Value per Share adjusted to reduce any dilutive effect of dealing in the Company (for more detail of dilution adjustment see 17.1) before any applicable redemption charge. In addition, there may, for both purchases and sales, be a charge for SDRT as described in paragraph 18.

### 26 Pricing basis

There shall be a single price for a Share in any Class. The Company deals on a forward pricing basis. A forward price is the price calculated at the next valuation point after the purchase or sale is agreed.

### 27 Publication of prices

(Non-UK investors should refer to Appendix 4)

The most recent price of Shares appear daily on our web-site at [www.mandg.co.uk](http://www.mandg.co.uk) or can be obtained from our Customer Relations Department.

### 28 Risk factors

Potential investors should consider the following risk factors before investing in the Company.

#### 28.1 General

The investments of the Company are subject to normal market fluctuations and other risks inherent in investing in shares, bonds and other stock market related assets. There can be no assurance that any appreciation in value of investments will occur or that the investment objectives of the Company will actually be achieved. The value of investments and the income derived from them will fall as well as rise and investors may not recoup the original amount invested in the Company. Past performance is not a guide to future performance.

#### 28.2 Currency and Exchange rates

Currency fluctuations will affect the value of each Share Class depending on the extent to which the Company holds assets denominated in a currency that differs from that of the shares held by the investor. This is because such assets are generally bought and sold in the local currency of the country in which they are listed and their values must be converted back into the base currency of the Company and the currency of each Share Class when calculating its net asset value.

#### 28.3 Emerging Markets

Where the Company invests substantially in securities listed or traded in emerging markets, the volatility of the net asset value of the Company may be more volatile than a fund that invests in the securities of companies in developed countries. Securities markets in these countries are generally not as large as those in more developed economies and have substantially less dealing volume, potentially resulting in a lack of liquidity and higher price volatility.

Substantial limitations may exist in certain countries with respect to a fund's ability to repatriate investment income, capital or the proceeds of sale of securities by foreign investors. The Company could be adversely affected by delays in, or a refusal to grant any required governmental approval for repatriation of capital, as well as by restrictions on investment that may apply from time to time.

#### 28.4 Risks affecting all fixed income investments

##### 28.4.1 Interest rate risk

Interest rate fluctuations will affect the capital and income value of fixed income investments. This effect will be more apparent if the Company holds a significant proportion of its portfolio in long dated securities.

##### 28.4.2 Credit risk

The value of your investment will fall in the event of the default or perceived increased credit risk of an issuer. This is because the capital and income value and liquidity of the investment is likely to decrease. AAA rated government and corporate bonds have a relatively low risk of default compared to non-investment grade bonds. However, the ratings are subject to change and they may be downgraded. The lower the rating the higher risk of default.

#### 28.5 Investments in Derivatives

The Company does undertake transactions in derivatives and forward transactions, both on exchange and over the counter (OTC), for the purposes of meeting the investment objective, protecting the risk to capital, duration and credit management, as well as for hedging.

Derivative transactions may include, but are not limited to, currency forwards, total return swaps, credit default swaps, dividend swaps, asset swaps, options, contracts for differences and futures.

##### 28.5.1 Leverage

Derivatives may be used to generate exposure to investments exceeding the net asset value of the Company, thereby exposing the Company to a higher degree of risk. As a result of increased market exposure, the size of any positive or negative movement in stock markets will have a relatively larger effect on the net asset value of the Company.

##### 28.5.2 Volatility

The use of derivatives may expose the Company to volatile investment returns and may increase the volatility of the net asset value.

##### 28.5.3 Short Sales

The Company may take short positions through the use of derivatives which are not backed by equivalent physical assets. Short positions reflect an investment view that the price of the underlying asset is expected to fall in value. Accordingly, if this view is incorrect and the asset rises in value, the short position could involve greater risk due to the theoretical possibility of an unlimited rise in their market price.

28.5.4 A number of risks arise in relation to derivatives transactions:

##### 28.5.4.1 Correlation (Basis risk)

The risk of loss due to divergence between two rates or prices. This applies particularly where an underlying position is hedged through derivative contracts which are not the same as (but may be similar to) the underlying position.

##### 28.5.4.2 Valuation

The risk of differing valuations of derivatives arising out of different permitted valuation methods. Many derivatives, in particular non-



exchange traded (“OTC”) derivatives, are complex and often valued subjectively and the valuation can only be provided by a limited number of market professionals which are often also acting as the counterparty to the transaction to be valued. Inaccurate valuations can result in inaccurate recognition of counterparty exposure.

### 28.5.4.3 Liquidity

Liquidity risk exists when a particular instrument is difficult to purchase or sell. Derivative transactions are particularly large or if traded off market (i.e. over the counter) may be less liquid and therefore not readily adjusted or closed out.

### 28.5.4.4 Counterparty

Certain derivative types may require the establishment of long term exposures to market counterparties, accordingly there is a risk that the counterparty may default on its obligations or become insolvent.

### 28.5.4.5 Delivery

The Company's ability to settle a derivative contract on their maturity may be affected by the illiquidity of the underlying asset. In such circumstances, there is a risk of loss to the Company.

## 28.6 Hedging Share Classes

Gains or losses arising from currency hedging transactions are borne by the Shareholders of the respective hedged Share Classes. Given that there is no segregation of liabilities between Share Classes, there is a risk that, under certain circumstances, the settlement of currency hedging transactions or the requirement for collateral (if such activity is collateralised) in relation to one Share Class could have an adverse impact on the net asset value of the other Share Classes in issue.

The Investment Manager will undertake transactions specifically to reduce the exposure of holders of hedged Share Classes to movements in the material currencies within a Company's portfolio (look through) or to movements in the reference currency or base currency of the company (replication) of the Company. The hedging strategy employed will not completely eliminate the exposure of the hedged Share Classes and no assurance can be given that the hedging objective will be achieved. Investors should be aware that the hedging strategy may substantially limit Shareholders of the relevant hedged Share Class from benefiting if the hedged Share Class currency falls against the reference currency. Notwithstanding the hedging of the Share Classes described above, Shareholders in those Share Classes may still be exposed to an element of currency exchange rate risk.

## 28.7 Liquidity Risk

The Company's investments may be subject to liquidity constraints which means that Securities may trade infrequently and in small volumes. Normally liquid securities may also be subject to periods of significantly lower liquidity in difficult market conditions. As a result, changes in the value of investments may be more unpredictable and in certain cases, it may be difficult to deal a security at the last market price quoted or at a value considered to be fair.

## 28.8 Counterparty risk

Whilst the Manager will place transactions, hold positions (including OTC derivatives) and deposit cash with a range of counterparties, there is a risk that a counterparty may default on its obligations or become insolvent. In certain market conditions, the ability to

mitigate risk by trading with multiple counterparties may be restricted.

## 28.9 Suspension of dealing in Shares

Investors are reminded that in exceptional circumstances their right to sell or redeem Shares may be temporarily suspended.

## 28.10 Cancellation risks

When cancellation rights are applicable and are exercised, the full amount invested may not be returned if the price falls before we are informed of your intention to cancel.

## 28.11 Inflation

A change in the rate of inflation will affect the real value of your investment.

## 28.12 Taxation

The current tax regime applicable to UK investors in collective investment schemes and the UK schemes themselves is not guaranteed and may be subject to change.

A risk exists that the tax authorities in countries with which the United Kingdom has double tax treaties may, where relevant, not be prepared to permit issuers in their jurisdictions to pay income to the Company without the imposition of withholding tax in that foreign jurisdiction. Any such withholding tax will impinge upon the return payable to investors.

The tax treatment of the Company may be affected by the tax profiles of investors and relevant tax treaties in place.

## 28.13 Eurozone

There is a risk that one or more countries will exit the Euro and re-establish their own currencies. In light of this uncertainty or in the event that this does occur, there is an increased risk of volatility in asset values, liquidity and default risk. In addition, there is a risk that disruption in Eurozone markets could give rise to difficulties in valuing the assets of the Company. In the event that it is not possible to carry out an accurate valuation of the Company, dealing may be temporarily suspended.

28.14 Shareholders are not liable for the debts of the Company. A Shareholder is not liable to make any further payment to the Company after he has paid in full for the purchase of Shares.

## 29 Fees and expenses

### 29.1 General

29.1.1 The fees, costs and expenses relating to the authorisation and incorporation and establishment of the Company, the offer of Shares, the preparation and printing of this prospectus and the fees of the professional advisers to the Company in connection with the offer will be borne by the ACD.

29.1.2 The Company may pay out of the property of the Company charges and expenses incurred by the Company, which will include the following expenses:

29.1.2.1 the fees and expenses payable to the Depositary and to the ACD, and, where not met by the ACD, the fees of the investment manager;

29.1.2.2 broker's commission, fiscal charges (including stamp duty and / or SDRT) and other disbursements which are necessarily incurred in effecting transactions for the Company and are normally shown in contract notes, confirmation notes and difference accounts as appropriate;

- 29.1.2.3 any fees, expenses or disbursements of any legal or other professional adviser of the Company;
- 29.1.2.4 any costs incurred in respect of meetings of Shareholders convened on a requisition by Shareholders but not those convened by the ACD or an Associate of the ACD;
- 29.1.2.5 liabilities on unitisation, amalgamation or reconstruction including certain liabilities arising after transfer of property to the Company in consideration for the issue of Shares as more fully detailed in the COLL Sourcebook;
- 29.1.2.6 interest on borrowings and charges incurred in effecting or terminating such borrowings or in negotiating or varying the terms of such borrowings;
- 29.1.2.7 taxation and duties payable in respect of the property of the Company or of the issue or redemption of the Shares, including SDRT;
- 29.1.2.8 the audit fees of the Auditor (including value added tax) and any expenses of the Auditor;
- 29.1.2.9 the fees of the FCA in accordance with the FCA's Fee Manual, together with any corresponding periodic fees of any regulatory authority in a country or territory outside the United Kingdom in which Shares in the Company are or may be marketed;
- 29.1.2.10 the Depositary will also be reimbursed out of the property of the Company for expenses detailed in paragraph 32.2;
- 29.1.2.11 any payments otherwise due by virtue of the Regulations; and
- 29.1.2.12 any value added or similar tax relating to any charge or expense set out herein.
- 29.1.4 Expenses are allocated between capital and income in accordance with the Regulations. The ACD and the Depositary have agreed that the ACD's remuneration as Administrator, the Depositary's fees, custody charges, audit fees and the fees of the FCA or other regulatory authority (plus any value added tax thereon where applicable) are charged against the income of the Company.
- 29.1.5 In certain circumstances, the Investment Manager may participate in a commission sharing arrangement. This is a term given to the system of commission payments awarded to participating brokers from the Investment Manager which may be used to pay other third party research providers. The participating brokers agree to "give up" commission payments in relation to equity trades to the research provider. This arrangement is founded on the basis that the participating broker keeps part of the commission for the execution service and the research provider receives commission for the research services provided to the Investment Manager.

### 30 Charges payable to the ACD

- 30.1 In payment for carrying out its duties and responsibilities the ACD is entitled to deduct an annual fee from each Share Class in the Company. The charge is based on a percentage per annum of the Net Asset Value of the Company attributable to each Share Class, calculated on a mid-market basis, at the rates set out in Appendices 1 & 4.
- 30.2 The annual fee accrues daily and is calculated on the daily Net Asset Value and payable fortnightly in arrears. The current annual fees for the Share Class of the Company are set out in Appendices 1 & 4.

- 30.3 Where the Company invests in the units or shares of another collective investment scheme managed by the ACD, directly or by delegation, or an Associate (including an Associate which is linked with the ACD by a substantial direct or indirect holding - i.e. more than 10% of the capital or voting rights), the ACD will reduce its annual remuneration to the extent that an equivalent charge has been borne by the underlying funds. Such underlying funds will waive any initial or redemption charges which may otherwise apply.
- 30.4 The ACD is also entitled to reimbursement of all reasonable, properly vouched, out of pocket expenses incurred in the performance of its duties, including stamp duty and stamp duty reserve tax on transactions in Shares.
- 30.5 The ACD's fee is charged against income property.
- 30.6 If a Share Class's expenses in any period exceed the income the ACD may take that excess from the capital property attributable to that Share Class.
- 30.7 The ACD may introduce a new category of remuneration for its services or increase the current rate or amount of its remuneration payable out of the Scheme Property of the Company or the initial charge in accordance with the COLL Sourcebook and once the ACD has made available a revised prospectus reflecting the introduction or new rate and the date of its commencement.
- 30.8 The ACD is entitled to charge fees for administrative and registration services to the Company at the rates set out in Appendix 1 (plus any value added tax thereon where applicable).
- 30.9 The ACD has appointed State Street Bank Europe Limited to undertake currency share class hedging functions for the Euro A-H, Euro C-H, US Dollar A-H and US Dollar C-H Share Classes. In order to cover the costs associated with this service, the ACD will charge a fee at the rate set out in Appendix 4 (plus any value added tax thereon where applicable). The fee will accrue daily in the price of each Share Class and will be paid fortnightly in arrears.

### 31 Investment Manager's fees

The investment manager's fees and expenses (plus value added tax thereon where applicable) will be paid by the ACD out of its remuneration under the ACD Agreement.

### 32 Depositary's fee, charges and expenses

- 32.1 The Depositary receives for its own account a periodic fee payable out of the property of the Company, with the property being valued and such remuneration accruing and being paid on the same basis as the ACD's periodic charge. The rate of the periodic fee is agreed between the ACD and the Depositary. The charge is calculated on a sliding scale for the Company on the following basis:

0.0075 % per annum of the first £150 million of the Scheme Property;

0.005% per annum of the next £500 million; and

0.0025% per annum on the balance thereafter.

The charge is not inclusive of VAT. These rates can be varied from time to time in accordance with the COLL Sourcebook.

The first accrual will take place in respect of the period beginning on the day on which the first valuation of a Company is made and ending on the last business day prior to the commencement of the next fortnightly accrual period.

- 32.2 In addition to the periodic fee referred to above, the Depositary shall also be entitled to be paid transaction and custody charges in relation to transaction handling and safekeeping of the Scheme Property as follows:

Item	Range
Transaction Charges	£4 to £75.
Custody Charges	0.00005% to 0.40% per annum.



These charges vary from country to country depending on the markets and the type of transaction involved. Transaction charges accrue at the time the transactions are effected and are payable as soon as is reasonably practicable, and in any event not later than the last business day of the month when such charges arose or as otherwise agreed between the Depositary and the ACD. Custody charges accrue and are payable as agreed from time to time by the ACD and the Depositary.

- 32.3 Where relevant, the Depositary may make a charge for its services in relation to: distributions, the provision of banking services, holding money on deposit, lending money, or engaging in stock lending, derivative or unsecured loan transactions, in relation to a Company and may purchase or sell or deal in the purchase or sale of Scheme Property, provided always that the services concerned and any such dealing are in accordance with the provisions of the COLL Sourcebook.
- 32.4 The Depositary will also be entitled to payment and reimbursement of all costs, liabilities and expenses properly incurred in the performance of, or arranging the performance of, functions conferred on it by the Instrument of Incorporation, the COLL Sourcebook or by the general law.
- 32.5 On a winding up of the Company or the redemption of a Class of Shares, the Depositary will be entitled to its pro rata fees, charges and expenses to the date of winding up or the redemption (as appropriate) and any additional expenses necessarily realised in settling or receiving any outstanding obligations.

Any value added tax on any fees, charges or expenses payable to the Depositary will be added to such fees, charges or expenses.

- 32.6 In each such case such payments, expenses and disbursements may be payable to any person (including the ACD or any associate or nominee of the Depositary or of the ACD) who has had the relevant duty delegated to it pursuant to the COLL Sourcebook by the Depositary.

### 33 Stocklending

The Company may enter into stocklending arrangements and a fee may be paid to an agent who may be an Associate of the ACD in accordance with the Regulations. Shareholders will be given at least 60 days' notice of the introduction of such a fee for stocklending.

### 34 Shareholder meetings and voting rights

#### 34.1 Annual general meeting

In accordance with the provisions of the Open-Ended Investment Companies (Amendment) Regulations 2005, the Company has elected not to hold annual general meetings.

#### 34.2 Requisitions of meetings

- 34.2.1 The ACD or the Depositary may requisition a general meeting at any time.
- 34.2.2 Shareholders may also requisition a general meeting of the Company. A requisition by Shareholders must state the objects of the meeting, be dated, be signed by Shareholders who, at the date of the requisition, are registered as holding not less than one-tenth in value of all Shares then in issue and the requisition must be deposited at the head office of the Company. The ACD must convene a general meeting no later than eight weeks after receipt of such requisition.

#### 34.3 Notice and quorum

Shareholders will receive at least 14 days notice of a Shareholders' meeting (other than an adjourned meeting where a shorter period of notice can apply) and are entitled to be counted in the quorum and vote at such meeting either in person or by proxy. If after a reasonable time from the time set for an adjourned meeting there are not two Shareholders present in person or by proxy, the quorum for the adjourned meeting shall be one person entitled to be

counted in a quorum present at the meeting. Notices of meetings and adjourned meetings will normally be given in writing to the Shareholder's registered address (or, at the discretion of the ACD, such other address which we may hold for the purposes of correspondence).

#### 34.4 Voting rights

- 34.4.1 At a meeting of Shareholders, on a show of hands every Shareholder who (being an individual) is present in person or (being a corporation) is present by its representative properly authorised in that regard, has one vote.
- 34.4.2 On a poll vote, a Shareholder may vote either in person or by proxy. The voting rights attaching to each Share are such proportion of the voting rights attaching to all the Shares in issue that the price of the Share bears to the aggregate price(s) of all the Shares in issue as at a cut-off date selected by the ACD which is a reasonable time before the notice of meeting is deemed to have been served.
- 34.4.3 A Shareholder entitled to more than one vote need not, if they vote, use all their votes or cast all the votes they use in the same way.
- 34.4.4 Except where the Regulations or the Instrument of Incorporation of the Company require an extraordinary resolution (which needs 75% of the votes cast at the meeting to be in favour for the resolution to be passed) any resolution required will be passed by a simple majority of the votes validly cast for and against the resolution.
- 34.4.5 The ACD may not be counted in the quorum for a meeting and neither the ACD nor any Associate of the ACD is entitled to vote at any meeting of the Company except in respect of Shares which the ACD or Associate holds on behalf of or jointly with a person who, if the registered Shareholder, would be entitled to vote and from whom the ACD or Associate has received voting instructions.
- 34.4.6 'Shareholders' in this context means Shareholders on a cut-off date selected by the ACD which is a reasonable time before the notice of the relevant meeting was deemed to have been served but excludes holders of shares who are known to the ACD not to be Shareholders at the time of the meeting.
- 34.4.7 Where an extraordinary resolution is required to conduct business at a meeting of Shareholders and every Shareholder is prohibited under COLL 4.4.8R(4) from voting, with the written agreement of the Depositary to the process, the resolution may instead be passed with the written consent of Shareholders representing 75% of the Shares in issue.
- 34.4.8 Investors in Euro and U.S. Dollar Share Classes whose holdings are registered through M&G International Investments Nominees Limited will be offered a vote at general meetings when M&G International Investments Limited considers, at its sole discretion, that the investors' interests may be materially affected.

#### 34.5 Class meetings

The above provisions, unless the context otherwise requires, apply to Class meetings as they apply to general meetings of Shareholders.

#### 34.6 Variation of Class rights

The rights attached to a Class may not be varied unless done so pursuant to the notification requirements of COLL 4.3R.

### 35 Taxation

#### 35.1 General

The information given under this heading does not constitute legal or tax advice and prospective investors should consult their own

professional advisers about the implications of subscribing for, buying, holding, exchanging, selling or otherwise disposing of Shares under the laws of the jurisdiction in which they may be subject to tax.

### 35.2 Taxation of the Company

#### 35.2.1 Income

The Company will be liable to corporation tax on its taxable income less expenses at the lower rate of income tax (currently 20%).

#### 35.2.2 Capital gains

Capital gains accruing to the Company will be exempt from UK tax.

### 35.3 Distributions

Should the Company be over 60% invested in qualifying assets (broadly interest paying) throughout the relevant distribution period it can elect to make interest distributions. In all other cases it will pay dividend distributions. It is the ACD's current intention that the Company will be managed in such a way that it will be able to make interest distributions.

### 35.4 Taxation of the investor

The following notes are primarily for the information of UK Shareholders. Information relating generally to non-resident Shareholders is also given.

#### 35.4.1 Interest distributions

These are paid after deduction of income tax at the rate of 20%. The tax deducted will be creditable against an investor's liability to UK tax on interest distributions. Individuals paying UK tax at 20% will not be subject to further UK taxation; however, UK higher rate taxpayers will be liable to pay further UK tax at their marginal tax rate.

Certain non-taxpayers and UK resident corporate Shareholders should be able to reclaim from HM Revenue & Customs the 20% tax deducted. Certain categories of Shareholder may receive interest distributions gross, if they can demonstrate to the satisfaction of the ACD that they are eligible with reference to section 930 of the Income Tax Act 2007 or Regulation 26 of the Authorised Investment Funds (Tax) Regulations 2006. The ACD will accept a completed Declaration of Eligibility for Gross Interest Distributions Form, or if appropriate, another HMRC form (Form 105 typically in the case of individuals), signed by persons authorised to sign on behalf of the Shareholder declaring to the ACD that they meet the necessary criteria as described above to be entitled to gross distributions.

Where a gross payment is made and the investor holds Accumulation Shares, we intend to use any element of reclaimable tax to purchase further Accumulation Shares in the Company. If we do so we will waive any initial charge due to us on such re-investment. These re-investments will be made fourteen days before the relevant published income allocation date.

UK resident corporate Shareholders should note that where they hold a fund which makes interest distributions, gains will be subject to loan relationship rules.

#### 35.4.2 Dividend distributions - UK resident individual Shareholders

Where dividends are paid out or accumulated they carry a tax credit at the rate of 10% of the gross income. Individual Shareholders whose income is within the basic rate band will have no further tax to pay. Higher rate taxpayers can set the tax credit against their tax liability, which will be charged at a rate of 37.5% on dividend income (42.5% will apply to the new 50% tax rate). The distribution and associated tax credit

should be entered separately on income tax returns. For non taxpayers, none of the tax credit is refundable.

#### 35.4.3 Dividend distributions – UK resident corporate Shareholders

Distributions will be divided into that part which relates to UK dividend income of the Company, and that part which relates to other income. The part relating to UK dividend income is not taxable. The tax credit received in respect of it cannot be reclaimed. The other part is taxable as if it were annual payments and is subject to corporation tax. The taxable part of the distribution is received net of an income tax deduction of 20% which can be offset against a Shareholder's liability to corporation tax and may be recoverable. The tax voucher will show the ratio between the part relating to UK dividend income (franked investment income) and the part relating to taxable annual payments and also shows, in terms of a pence per Share rate, the tax which can be recovered.

#### 35.4.4 Capital gains

Profits arising on disposal of Shares are subject to capital gains tax. However, if the total gains from all sources realised by an individual Shareholder in a tax year, after deducting allowable losses, are less than the annual exemption, there is no capital gains tax to apply. Where income equalisation applies (see below), the buying price of Shares includes accrued income which is repaid to the investor with the first allocation of income following the purchase. This repayment is deemed to be a repayment of capital and is therefore made without deduction of tax but must be deducted from the investor's base cost of the relevant Shares for purposes of calculating any liability to capital gains tax.

35.4.5 The above statements are only intended as a general summary of UK tax law and practice as at the date of this prospectus and may change in the future. Any investor who is in any doubt as to his or her UK tax position in relation to the Company should consult a UK professional adviser.

## 36 Income equalisation

36.1 Income equalisation will be applied to Shares issued by the Company.

36.2 Part of the purchase price of a Share reflects the relevant share of accrued income received or to be received by the Company. This capital sum is returned to a Shareholder with the first allocation of income in respect of a Share issued during the relevant accounting period.

36.3 The amount of income equalisation is calculated by dividing the aggregate of the amounts of income included in the price of Shares issued to or bought by Shareholders in an annual or interim accounting period (see paragraph 37.2) by the number of those Shares and applying the resultant average to each of the Shares in question.

## 37 Winding up of the Company

37.1 The Company shall not be wound up except as an unregistered company under Part V of the Insolvency Act 1986 or under the Regulations.

37.2 Where the Company is to be wound up under the Regulations, such winding up may only be commenced following approval by the FCA. The FCA may only give such approval if the ACD provides a statement (following an investigation into the affairs of the Company) either that the Company will be able to meet its liabilities within 12 months of the date of the statement or that the Company will be unable to do so.

37.3 The Company may be wound up under the Regulations if:

37.3.1 an extraordinary resolution to that effect is passed by Shareholders; or

37.3.2 the period (if any) fixed for the duration of the Company by the Instrument of Incorporation expires, or the event (if any) occurs on the occurrence of which the Instrument of Incorporation provides that the Company is to be wound up (for example, if the Share capital of the Company is below its prescribed minimum or the Net Asset Value of the Company is less than £10,000, or if a change in the laws or regulations of any country means that, in the ACD's opinion, it is desirable to terminate the Company); or

37.3.3 on the date of effect stated in any agreement by the FCA to a request by the ACD for the revocation of the authorisation order in respect of the Company.

37.4 On the occurrence of any of the above:

37.4.1 Regulations 6.2, 6.3 and 5 relating to Dealing, Valuation and Pricing and Investment and Borrowing will cease to apply to the Company;

37.4.2 the Company will cease to issue and cancel Shares and the ACD shall cease to sell or redeem Shares or arrange for the Company to issue or cancel them for the Company;

37.4.3 no transfer of a Share shall be registered and no other change to the register shall be made without the sanction of the ACD;

37.4.4 where the Company is being wound up, the Company shall cease to carry on its business except in so far as it is beneficial for the winding up of the Company;

37.4.5 the corporate status and powers of the Company and, subject to the provisions of paragraphs 37.4.1 and 37.4.2 above, the powers of the ACD shall remain until the Company is dissolved.

37.5 The ACD shall, as soon as practicable after the Company falls to be wound up, realise the assets and meet the liabilities of the Company and, after paying out or retaining adequate provision for all liabilities properly payable and retaining provision for the costs of winding up, arrange for the Depositary to make one or more interim distributions out of the proceeds to Shareholders proportionately to their rights to participate in the Scheme Property of the Company. When the ACD has caused all of the Scheme Property to be realised and all of the liabilities of the Company to be realised, the ACD shall arrange for the Depositary also to make a final distribution to Shareholders as at (or prior to) the date on which the final account is sent to Shareholders of any balance remaining, if applicable, in proportion to their holdings in the Company.

37.6 On completion of a winding up of the Company, the Company will be dissolved and any money which is legitimately the property of the Company (including unclaimed distributions) and standing to the account of the Company, will be paid into court within one month of dissolution.

37.7 Following the completion of the winding up of the Company, the ACD shall provide written confirmation to the Registrar of Companies and shall notify the FCA that it has done so.

37.8 Following the completion of a winding up of the Company, the ACD must prepare a final account showing how the winding up took place and how the Scheme Property was distributed. The auditor of the Company shall make a report in respect of the final account stating their opinion as to whether the final account has been properly prepared. This final account and the auditor's report must be sent to the FCA, to each Shareholder and, in the case of the winding up of the Company, to the Registrar of Companies within two months of the termination of the winding up.

## 38 General information

### 38.1 Accounting periods

The annual accounting period of the Company ends each year on 30 September (the accounting reference date). The half-yearly accounting period ends each year on 31 March.

### 38.2 Income allocations

38.2.1 Allocations of income are made in respect of the income available for allocation in each annual accounting period and, each interim accounting period (see Appendix 1).

38.2.2 Distributions of income are paid on or before the annual income allocation date of 31 January and where applicable on or before the interim allocation date of 31 July in each year.

38.2.3 If a distribution remains unclaimed for a period of six years after it has become due, it will be forfeited and will revert to the Company.

38.2.4 The amount available for allocation in any accounting period is calculated by taking the aggregate of the income received or receivable for the account of the Company in respect of that period, and deducting the charges and expenses of the Company paid or payable out of income in respect of that accounting period. The ACD then makes such other adjustments as it considers appropriate (and after consulting the auditor as appropriate) in relation to taxation, income equalisation, income unlikely to be received within 12 months following the relevant income allocation date, income which should not be accounted for on an accrual basis because of lack of information as to how it accrues, transfers between the income and capital account and any other adjustments which the ACD considers appropriate after consulting the auditor.

The amount initially deemed available in respect of any one Class of Share may be reduced if the income attributed to another Class of Share in the Company is less than the charges applicable to that Class of Share.

### 38.2.5 Income from debt securities

Income from debt securities is recognised on an effective yield basis. Effective yield is an income calculation that takes account of amortisation of any discount or premium on the purchase price of the debt security over the remaining life of the security.

38.2.6 Distributions made to the first named joint Shareholder are as effective a discharge to the Company and the ACD as if the first named Shareholder had been a sole Shareholder.

38.2.7 Income produced by the Company's investment decisions accumulates during each accounting period. If, at the end of the accounting year, income exceeds expenses, the net income of the Company is available to be distributed to Shareholders. In order to conduct a controlled dividend flow to Shareholders, interim distributions will be, at the Investment Manager's discretion, up to a maximum of the distributable income available for the period. All remaining income is distributed in accordance with the Regulations.

38.2.8 Where the company does not issue Accumulation Shares, a Shareholder may choose to have their income reinvested to purchase additional shares of the Company. Where the reinvestment of income has been permitted, the ACD will waive any initial charge due to us on such re-investment. Re-investment of allocations of income is made fourteen days before the relevant income allocation date.

### 38.3 Annual Reports

38.3.1 Annual reports of the Company are published within four months of each annual accounting period and half-yearly reports are published within two months of each half-yearly accounting period and are available to Shareholders on request. Shareholders will receive copies of the annual and half-yearly short reports on publication.

# Prospectus

## M&G Optimal Income Fund

38.3.2 Investors who hold Euro or U.S. Dollar Share Classes through M&G International Investments Nominees Limited will receive copies of the annual and half-yearly short reports for the Company on publication.

### 38.4 Documents of the Company

(Non-UK investors should refer to Appendix 4)

38.4.1 The following documents may be inspected free of charge between 9.00 am and 5.00 pm UK time every Dealing Day at the offices of the ACD at Laurence Pountney Hill, London EC4R 0HH:

- 38.4.1.1 the most recent annual and half-yearly reports of the Company;
- 38.4.1.2 the Instrument of Incorporation (and any amending instrument of incorporation);
- 38.4.1.3 Shareholders may obtain copies of the above documents as well as the Prospectus from the above addresses. The ACD may make a charge at its discretion for copies of certain documents, however the most recent annual and half-yearly reports of the Company and the Prospectus are available to any person free of charge.

### 38.5 Risk Management and other information

The following information is available from the ACD on request;

#### 38.5.1 Risk Management

Information on the risk management methods used in relation to the Company, the quantitative limits which apply to that risk management and any developments in the risk and yields of the main categories of investment.

#### 38.5.2 Execution Policy

The Investment Manager's execution policy sets out the basis upon which the Investment Manager will effect transactions and place orders in relation to the Company whilst complying with its obligations under the FCA Handbook to obtain the best possible result for the ACD on behalf of the Company.

#### 38.5.3 Exercise of voting rights

A description of the Investment Manager's strategy for determining how voting rights attached to ownership of Scheme Property are to be exercised for the benefit of the Company. Details of action taken in respect of voting rights are also available.

### 38.6 Notices

Notices to Shareholders will normally be given in writing to the Shareholder's registered address (or, at the discretion of the ACD, such other address which we may hold for the purposes of correspondence).

## 39 European Savings Directive

In order to fulfil our obligations under the European Savings Directive we are required to obtain evidence of the tax identification number, or country and date of birth of investors who are resident outside the United Kingdom for tax purposes. If certain conditions apply, information about your M&G holding may be passed to HM Revenue & Customs in order to be passed on to other tax authorities. Such information will be passed to HM Revenue & Customs where you sell Shares in the Company where it has invested more than 25% of its assets directly or indirectly in money debts, or where distributions are paid out by the Company which has invested more than 15% of its assets in money debts.

## 40 Complaints

If you wish to complain about any aspect of the service you have received or to request a copy of M&G's complaints handling procedures, please contact M&G Customer Relations, PO Box 9039, Chelmsford CM99 2XG. If your complaint is not dealt with to your satisfaction, you can then complain to: The Financial Ombudsman Service (FOS), South Quay Plaza, 183 Marsh Wall, London E14 9SR.

## 41 Marketing outside the UK

- 41.1 The Company's Shares are marketed in overseas jurisdictions. Paying agents in non UK countries where Shares are registered for retail sale may charge investors for their services.
- 41.2 The Shares in the Company have not been and will not be registered under the United States Securities Act of 1933, as amended, or registered or qualified under the securities laws of any state of the United States and may not be offered, sold, transferred or delivered, directly or indirectly, to any investors within the United States or to, or for the account of, US Persons except in certain limited circumstances pursuant to a transaction exempt from such registration or qualification requirements. None of the Shares have been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Shares or the accuracy or adequacy of the prospectus. The Company will not be registered under the United States Investment Company Act of 1940, as amended.

## 42 Markets for the Company

The Company is marketable to all retail investors.

## 43 Genuine diversity of ownership

- 43.1 Shares in the Company are and will continue to be widely available. The intended categories of investors are retail and institutional investors.
- 43.2 Shares in the Company are and will continue to be marketed and made available widely to reach the intended categories of investors and in a manner appropriate to attract those categories of investors.

# APPENDIX 1 –

## Details of the M&G Optimal Income Fund

### Investment Objective

The fund aims to provide a total return (the combination of income and growth of capital) to investors based on exposure to optimal income streams in investment markets.

### Investment Policy

The Fund aims to provide a total return (the combination of income and growth of capital) to investors through strategic asset allocation and specific stock selection. The Fund will be at least 50% invested in debt instruments, but may also invest in other assets including collective investment schemes, money market instruments, cash, near cash, deposits, equities and derivatives. Derivative instruments may be used for both investment purposes and efficient portfolio management.

Accounting reference date:	30 September
Income allocation date:	On or before 31 January (Final); 31 July (Interim)
Available Share Classes/types:	Net Income and net Accumulation shares in Sterling Class A, R I and X.

### Investment minima

Lump sum initial investment	Sterling Class A: £500 Sterling Class X: £500 Sterling Class R: £500 Sterling Class I: £500,000
Lump sum subsequent investment	Sterling Class A: £100 Sterling Class X: £100 Sterling Class R: £100 Sterling Class I: £10,000
Lump sum holding	Sterling Class A: £500 Sterling Class X: £500 Sterling Class R: £500 Sterling Class I: £500,000
Regular saving (per month)	Sterling Class A: £10 Sterling Class X: n/a Sterling Class R: £10 Sterling Class I: n/a
Redemption	Sterling Class A: £100 Sterling Class X: £100 Sterling Class R: £100 Sterling Class I: £1,000

### Charges and Expenses

Initial charge	Sterling Class A: 3% Sterling Class X: Nil Sterling Class R: 1% Sterling Class I: 1.0%
Redemption charge	Sterling Class A: n/a Sterling Class X: 4.5%# Sterling Class R: n/a Sterling Class I: n/a
ACD's annual remuneration	Sterling Class A: 1.25% Sterling Class X: 1.50% Sterling Class R: 1.00% Sterling Class I: 0.75%
ACD's remuneration for Administrative and Registration Services:	0.15% of "NAV" per annum

# Please see paragraph 16.2 for details

### Other information

Investment Manager:	M&G Investment Management Limited
First valuation point:	8 December 2006
Valuation point:	12.00 noon UK time
Initial offer period:	08.00 am - 12.00 noon on 8 December 2006



# APPENDIX 2 -

## INVESTMENT MANAGEMENT AND BORROWING POWERS OF THE COMPANY

### 1 The ACD's investment policy may mean that at times, where it is considered appropriate, the property of the Company will not be fully invested and that prudent levels of liquidity will be maintained.

#### 1.1 Treatment of obligations

Where the COLL Sourcebook allows a transaction to be entered into or an investment to be retained only (for example, investment in warrants and nil and partly paid securities and the general power to accept or underwrite) if possible obligations arising out of the investment transactions or out of the retention would not cause any breach of any limits in COLL 5, it must be assumed that the maximum possible liability of the Company under any other of those rules has also to be provided for.

Where a rule in the COLL Sourcebook permits an investment transaction to be entered into or an investment to be retained only if that investment transaction, or the retention, or other similar transactions, are covered:

- 1.1.1 it must be assumed that in applying any of those rules, the Company must also simultaneously satisfy any other obligation relating to cover; and
- 1.1.2 no element of cover must be used more than once.

#### 1.2 UCITS schemes: permitted types of scheme property

The scheme property of the Company must, except where otherwise provided by COLL 5, consist solely of any or all of:

- 1.2.1 transferable securities;
- 1.2.2 approved money-market instruments;
- 1.2.3 units in collective investment schemes;
- 1.2.4 derivatives and forward transactions;
- 1.2.5 deposits; and
- 1.2.6 movable and immovable property that is necessary for the direct pursuit of the Company's business; in accordance with the rules in COLL 5.2.

#### 1.3 Transferable Securities

- 1.3.1 A transferable security is an investment falling within article 76 (Shares etc), article 77 (Instruments creating or acknowledging indebtedness), article 78 (Government and public securities), article 79 (Instruments giving entitlement to investments) and article 80 (Certificates representing certain securities) of the Regulated Activities Order.
- 1.3.2 An investment is not a transferable security if the title to it cannot be transferred, or can be transferred only with the consent of a third party.
- 1.3.3 In applying paragraph 1.3.2 to an investment which is issued by a body corporate, and which is an investment falling within articles 76 (Shares, etc) or 77 (Instruments creating or acknowledging indebtedness) of the Regulated Activities Order, the need for any consent on the part of the body corporate or any members or debenture holders of it may be ignored.
- 1.3.4 An investment is not a transferable security unless the liability of the holder of it to contribute to the debts of the issuer is limited to any amount for the time being unpaid by the holder of it in respect of the investment.

### 2 Investment in transferable securities

- 2.1 The Company may invest in a transferable security only to the extent that the transferable security fulfils the following criteria:

- 2.1.1 the potential loss which the Company may incur with respect to holding the transferable security is limited to the amount paid for it;
- 2.1.2 its liquidity does not compromise the ability of the ACD to comply with its obligation to redeem units at the request of any qualifying Shareholder (see COLL 6.2.16R(3));
- 2.1.3 reliable valuation is available for it as follows:
  - 2.1.3.1 in the case of a transferable security admitted to or dealt in on an eligible market, where there are accurate, reliable and regular prices which are either market prices or prices made available by valuation systems independent from issuers;
  - 2.1.3.2 in the case of a transferable security not admitted to or dealt in on an eligible market, where there is a valuation on a periodic basis which is derived from information from the issuer of the transferable security or from competent investment research;
- 2.1.4 appropriate information is available for it as follows:
  - 2.1.4.1 in the case of a transferable security admitted to or dealt in on an eligible market, where there is regular, accurate and comprehensive information available to the market on the transferable security or, where relevant, on the portfolio of the transferable security;
  - 2.1.4.2 in the case of a transferable security not admitted to or dealt in on an eligible market, where there is regular and accurate information available to the ACD on the transferable security or, where relevant, on the portfolio of the transferable security;
- 2.1.5 it is negotiable; and
- 2.1.6 its risks are adequately captured by the risk management process of the ACD.

- 2.2 Unless there is information available to the ACD that would lead to a different determination, a transferable security which is admitted to or dealt in on an eligible market shall be presumed:

- 2.2.1 not to compromise the ability of the ACD to comply with its obligation to redeem units at the request of any qualifying Shareholder; and
- 2.2.2 to be negotiable.

- 2.3 Not more than 5% in value of the Company is to consist of warrants.

### 3 Closed end funds constituting transferable securities

- 3.1 A unit in a closed end fund shall be taken to be a transferable security for the purposes of investment by the Company, provided it fulfils the criteria for transferable securities set out in paragraph 2, and either:
  - 3.1.1 where the closed end fund is constituted as an investment company or a unit trust:
    - 3.1.1.1 it is subject to corporate governance mechanisms applied to companies; and
    - 3.1.1.2 where another person carries out asset management activity on its behalf, that person is subject to national regulation for the purpose of investor protection; or
  - 3.1.2 where the closed end fund is constituted under the law of contract:



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- 3.1.2.1 it is subject to corporate governance mechanisms equivalent to those applied to companies; and
- 3.1.2.2 it is managed by a person who is subject to national regulation for the purpose of investor protection.

### 4 Transferable securities linked to other assets

- 4.1 The Company may invest in any other investment which shall be taken to be a transferable security for the purposes of investment by the Company provided the investment:
  - 4.1.1 fulfils the criteria for transferable securities set out in paragraph 2 above; and
  - 4.1.2 is backed by or linked to the performance of other assets, which may differ from those in which the Company can invest.
- 4.2 Where an investment in 4.1 contains an embedded derivative component (see COLL 5.2.19R(3A)), the requirements of this section with respect to derivatives and forwards will apply to that component.

### 5 Approved Money Market Instruments

- 5.1 An approved money-market instrument is a money-market instrument which is normally dealt in on the money market, is liquid and has a value which can be accurately determined at any time.
- 5.2 A money-market instrument shall be regarded as normally dealt in on the money market if it:
  - 5.2.1 has a maturity at issuance of up to and including 397 days;
  - 5.2.2 has a residual maturity of up to and including 397 days;
  - 5.2.3 undergoes regular yield adjustments in line with money market conditions at least every 397 days; or
  - 5.2.4 has a risk profile, including credit and interest rate risks, corresponding to that of an instrument which has a maturity as set out in 5.2.1 or 5.2.2 or is subject to yield adjustments as set out in 5.2.3.
- 5.3 A money-market instrument shall be regarded as liquid if it can be sold at limited cost in an adequately short time frame, taking into account the obligation of the ACD to redeem units at the request of any qualifying Shareholder (see COLL 6.2.16R(3)).
- 5.4 A money-market instrument shall be regarded as having a value which can be accurately determined at any time if accurate and reliable valuations systems, which fulfil the following criteria, are available:
  - 5.4.1 enabling the ACD to calculate a net asset value in accordance with the value at which the instrument held in the portfolio could be exchanged between knowledgeable willing parties in an arm's length transaction; and
  - 5.4.2 based either on market data or on valuation models including systems based on amortised costs.
- 5.5 A money-market instrument that is normally dealt in on the money market and is admitted to or dealt in on an eligible market shall be presumed to be liquid and have a value which can be accurately determined at any time unless there is information available to the ACD that would lead to a different determination.

### 6 Transferable securities and money market instruments generally to be admitted or dealt in on an Eligible Market

- 6.1 Transferable securities and approved money market instruments held within the Company must be:

- 6.1.1 admitted to or dealt on an eligible market (as described in paragraphs 7.3 or 7.4); or
- 6.1.2 dealt on an eligible market as described (in paragraph 7.3.2).
- 6.1.3 for an approved money market instrument not admitted to or dealt in on an eligible market within 8.1; or
- 6.1.4 recently issued transferable securities provided that:
  - 6.1.4.1 the terms of issue include an undertaking that application will be made to be admitted to an eligible market; and
  - 6.1.4.2 such admission is secured within a year of issue.

- 6.2 However, the Company may invest no more than 10% of the scheme property in transferable securities and approved money-market instruments other than those referred to in 6.1

### 7 Eligible markets regime: purpose

- 7.1 To protect investors the markets on which investments of the Company are dealt in or traded on should be of an adequate quality ("eligible") at the time of acquisition of the investment and until it is sold.
  - 7.2 Where a market ceases to be eligible, investments on that market cease to be approved securities. The 10% restriction on investing in non approved securities applies and exceeding this limit because a market ceases to be eligible will generally be regarded as an inadvertent breach.
  - 7.3 A market is eligible for the purposes of the rules if it is:
    - 7.3.1 a regulated market; or
    - 7.3.2 a market in an EEA State which is regulated, operates regularly and is open to the public; or
    - 7.3.3 any market within 7.4
  - 7.4 A market not falling within paragraph 7.3 is eligible for the purposes of COLL 5 if:
    - 7.4.1 the ACD, after consultation with and notification to the Depositary, decides that market is appropriate for investment of, or dealing in, the Scheme Property;
    - 7.4.2 the market is included in a list in the Prospectus; and
    - 7.4.3 the Depositary has taken reasonable care to determine that:
      - adequate custody arrangements can be provided for the investment dealt in on that market; and
      - all reasonable steps have been taken by the ACD in deciding whether that market is eligible.
  - 7.5 In paragraph 7.4.1, a market must not be considered appropriate unless it is regulated, operates regularly, is recognised as a market or exchange or as a self regulatory organisation by an overseas regulator, is open to the public, is adequately liquid and has adequate arrangements for unimpeded transmission of income and capital to or for the order of investors.
  - 7.6 The eligible markets in which the Company may invest are set out in Appendix
- ### 8 Money-market instruments with a regulated issuer
- 8.1 In addition to instruments admitted to or dealt in on an eligible market, the Company may invest in an approved money-market instrument provided it fulfils the following requirements:
    - 8.1.1 the issue or the issuer is regulated for the purpose of protecting investors and savings; and
    - 8.1.2 the instrument is issued or guaranteed in accordance with paragraph 9 below.

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8.2 The issue or the issuer of a money-market instrument, other than one dealt in on an eligible market, shall be regarded as regulated for the purpose of protecting investors and savings if:

- 8.2.1 the instrument is an approved money-market instrument;
- 8.2.2 appropriate information is available for the instrument (including information which allows an appropriate assessment of the credit risks related to investment in it), in accordance with paragraph 10 below; and
- 8.2.3 the instrument is freely transferable.

### 9 Issuers and guarantors of money-market instruments

9.1 The Company may invest in an approved money-market instrument if it is:

- 9.1.1 issued or guaranteed by any one of the following:
  - 9.1.1.1 a central authority of an EEA State or, if the EEA State is a federal state, one of the members making up the federation;
  - 9.1.1.2 a regional or local authority of an EEA State;
  - 9.1.1.3 the European Central Bank or a central bank of an EEA State;
  - 9.1.1.4 the European Union or the European Investment Bank;
  - 9.1.1.5 a non-EEA State or, in the case of a federal state, one of the members making up the federation;
  - 9.1.1.6 a public international body to which one or more EEA States belong; or
- 9.1.2 issued by a body, any securities of which are dealt in on an eligible market; or
- 9.1.3 issued or guaranteed by an establishment which is:
  - 9.1.3.1 subject to prudential supervision in accordance with criteria defined by Community law; or
  - 9.1.3.2 subject to and complies with prudential rules considered by the FCA to be at least as stringent as those laid down by Community law.

9.2 An establishment shall be considered to satisfy the requirement in 9.1.3.2 if it is subject to and complies with prudential rules, and fulfils one or more of the following criteria:

- 9.2.1 it is located in the European Economic Area;
- 9.2.2 it is located in an OECD country belonging to the Group of Ten;
- 9.2.3 it has at least investment grade rating;
- 9.2.4 on the basis of an in-depth analysis of the issuer, it can be demonstrated that the prudential rules applicable to that issuer are at least as stringent as those laid down by Community law.

### 10 Appropriate information for money-market instruments

10.1 In the case of an approved money-market instrument within 9.1.2 or issued by a body of the type referred to in 11 below; or which is issued by an authority within 9.1.2.2 or a public international body within 9.1.2.6 but is not guaranteed by a central authority within 9.1.2.1, the following information must be available:

- 10.1.1 information on both the issue or the issuance programme, and the legal and financial situation of the issuer prior to the issue of the instrument, verified by appropriately qualified third parties not subject to instructions from the issuer;

10.1.2 updates of that information on a regular basis and whenever a significant event occurs; and

10.1.3 available and reliable statistics on the issue or the issuance programme.

10.2 In the case of an approved money-market instrument issued or guaranteed by an establishment within 9.1.3, the following information must be available:

10.2.1 information on the issue or the issuance programme or on the legal and financial situation of the issuer prior to the issue of the instrument;

10.2.2 updates of that information on a regular basis and whenever a significant event occurs; and

10.2.3 available and reliable statistics on the issue or the issuance programme, or other data enabling an appropriate assessment of the credit risks related to investment in those instruments.

10.3 In the case of an approved money-market instrument:

10.3.1 within 9.1.2.1, 9.1.2.4 or 9.1.2.5; or

10.3.2 which is issued by an authority within 9.1.2.2 or a public international body within 9.1.2.6 and is guaranteed by a central authority within 9.1.2.1;

information must be available on the issue or the issuance programme, or on the legal and financial situation of the issuer prior to the issue of the instrument.

### 11 Spread: general

11.1 This paragraph 11 on spread does not apply to government and public securities.

11.2 For the purposes of this requirement companies included in the same group for the purposes of consolidated accounts as defined in accordance with Directive 83/349/EEC or in the same group in accordance with international accounting standards are regarded as a single body.

11.3 Not more than 20% in value of the Scheme Property is to consist of deposits with a single body.

11.4 Not more than 5% in value of the Scheme Property is to consist of transferable securities or approved money-market instruments issued by any single body.

11.5 The limit of 5% in paragraph 11.4 is raised to 10% in respect of up to 40% in value of the Scheme Property. Covered bonds need not be taken into account for the purpose of applying the limit of 40%. The limit of 5% in 11.4 is raised to 25% in value of the Scheme Property in respect of covered bonds, provided that when the Company invests more than 5% in covered bonds issued by a single body, the total value of covered bonds held must not exceed 80% in value of the Scheme Property.

11.6 In applying paragraphs 11.4 and 11.5 certificates representing certain securities are treated as equivalent to the underlying security.

11.7 The exposure to any one counterparty in an OTC derivative transaction must not exceed 5% in value of the Scheme Property. This limit is raised to 10% where the counterparty is an Approved Bank.

11.8 Not more than 20% in value of the Company is to consist of transferable securities and approved money market instruments issued by the same group (as referred to in paragraph 11.2).

11.9 Not more than 10% in value of the Company is to consist of the units of any one collective investment scheme.

11.10 In applying the limits in paragraphs 11.3, 11.4, 11.5, 11.6 and 11.7 not more than 20% in value of the Scheme Property is to consist of any combination of two or more of the following:

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- 11.10.1 transferable securities (including covered bonds) or approved money market instruments issued by; or
- 11.10.2 deposits made with; or
- 11.10.3 exposures from OTC derivatives transactions made with; a single body.
- 11.11 For the purpose of calculating the limits in 11.7 and 11.10, the exposure in respect of an OTC derivative may be reduced to the extent that collateral is held in respect of it if the collateral meets each of the conditions specified in 11.12.
- 11.12 The conditions referred to in 11.11 are that the collateral:
- 11.12.1 is marked-to-market on a daily basis and exceeds the value of the amount at risk;
- 11.12.2 is exposed only to negligible risks (e.g. government bonds of first credit rating or cash) and is liquid;
- 11.12.3 is held by a third party custodian not related to the provider or is legally secured from the consequences of a failure of a related party; and
- 11.12.4 can be fully enforced by the Company at any time.
- 11.13 For the purpose of calculating the limits in 11.7 and 11.10, OTC derivative positions with the same counterparty may be netted provided that the netting procedures:
- 11.13.1 comply with the conditions set out in Section 3 (Contractual netting (Contracts for novation and other netting agreements)) of Annex III to Directive 2000/12/EC; and
- 11.13.2 are based on legally binding agreements.
- 11.14 In applying this rule, all derivatives transactions are deemed to be free of counterparty risk if they are performed on an exchange where the clearing house meets each of the following conditions:
- 11.14.1 it is backed by an appropriate performance guarantee; and
- 11.14.2 it is characterised by a daily mark-to-market valuation of the derivative positions and an at least daily margining.
- ### 12 Spread: Government and public securities
- 12.1 The above restrictions do not apply to government and public securities ("such securities"). The restrictions in relation to such securities are set out below.
- 12.2 Where no more than 35% in value of the Scheme Property is invested in such securities issued by any one body, there is no limit on the amount which may be invested in such securities or in any one issue.
- 12.3 Subject to its investment objective and policy, the Company may invest more than 35% in value of the Scheme Property in such securities issued by any one body provided that:
- 12.3.1 the ACD has before any such investment is made consulted with the Depositary and as a result considers that the issuer of such securities is one which is appropriate in accordance with the investment objectives of the Company;
- 12.3.2 no more than 30% in value of the Scheme Property consists of such securities of any one issue;
- 12.3.3 the Scheme Property includes such securities issued by that or another issuer, of at least six different issues.
- 12.4 In relation to such securities:
- 12.4.1 issue, issuer and guarantor include guarantee, guaranteed and guarantor; and
- 12.4.2 an issue differs from another if there is a difference as to repayment date, rate of interest, guarantor or other material terms of the issue.
- 12.5 Notwithstanding paragraph 11.1 above, and subject to paragraphs 12.2 and 12.3, in applying the 20% limit in 11.11 with respect to a single body, government and public securities issued by that body shall be taken into account.
- 12.6 In relation to paragraph 12.3 above, over 35% of the Scheme Property may be invested in Government and other public securities issued by any of:
- 12.6.1 the Government of the United Kingdom or of a member State other than the United Kingdom;
- 12.6.2 the Government of Australia, Canada, Japan, New Zealand, Switzerland, USA;
- 12.6.3 the African Development Bank, Asian Development Bank, Eurofima, European Economic Community, European Bank for Reconstruction and Development, European Investment Bank, International Bank for Reconstruction and Development, International Financial Corporation.
- ### 13 Investment in collective investment schemes
- 13.1 The Company may invest in units in a collective investment scheme provided that the second scheme complies with the following requirements:
- 13.1.1 it is a scheme which complies with the conditions necessary for it to enjoy the rights conferred by the UCITS Directive; or
- 13.1.2 is recognised under the provisions of section 270 of the Act (Schemes authorised in designated countries or territories); or
- 13.1.3 is authorised as a non-UCITS retail scheme (provided the requirements of article 19(1)(e) of the UCITS Directive are met); or
- 13.1.4 is authorised in another EEA State (provided the requirements of article 19(1)(e) of the UCITS Directive are met);
- 13.1.5 it is a scheme which complies where relevant with paragraph 13.4 below; and
- 13.1.6 it is a scheme which has terms which prohibit more than 10% in value of the Scheme Property consisting of units in collective investment schemes.
- 13.2 Not more than 10% of the Scheme Property of the Company is to consist of units in collective investment schemes.
- 13.3 In accordance with COLL 5.2.15R the Company may include units in collective investment schemes managed or operated by (or, if it is an open-ended investment company has as its authorised corporate director), the ACD or an Associate of the ACD.
- 13.4 The Company must not invest in or dispose of units in another collective investment scheme (the second scheme), which is managed or operated by (or in the case of an open-ended investment company has as its authorised corporate director), the ACD, or an Associate of the ACD, unless:
- 13.4.1 there is no charge in respect of the investment in or the disposal of units in the second scheme; or
- 13.4.2 the ACD is under a duty to pay to the Company by the close of business on the fourth business day next after the agreement to buy or to sell the amount referred to in paragraphs 13.5.3 and 13.5.4;
- 13.4.3 on investment, either:
- any amount by which the consideration paid by the Company for the units in the second scheme exceeds the price that would have been paid for the benefit of the second scheme had the units been newly issued or sold by it; or

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if such price cannot be ascertained by the ACD, the maximum amount of any charge permitted to be made by the seller of units in the second scheme;

13.4.4 on disposal, the amount of any charge made for the account of the ACD or operator of the second scheme or an Associate of any of them in respect of the disposal; and

13.5 In paragraphs 13.4.1 to 13.4.4 above:

13.5.1 any addition to or deduction from the consideration paid on the acquisition or disposal of units in the second scheme, which is applied for the benefit of the second scheme and is, or is like, a dilution levy or SDRT provision, is to be treated as part of the price of the units and not as part of any charge.

### 14 Investment in nil and partly paid securities

14.1 A transferable security or an approved money market instrument on which any sum is unpaid falls within a power of investment only if it is reasonably foreseeable that the amount of any existing and potential call for any sum unpaid could be paid by the Company, at the time when payment is required, without contravening the rules in COLL 5.

### 15 Derivatives – General

15.1 The Company may, in accordance with the COLL Sourcebook, use derivatives for the purposes of Efficient Portfolio Management (including hedging) as well as for investment purposes.

15.2 Under the COLL Sourcebook derivatives are permitted for the Company for investment purposes and derivative transactions may be used for the purposes of hedging or meeting the investment objectives or both.

15.3 A transaction in derivatives or a forward transaction must not be effected for the Company unless the transaction is of a kind specified in paragraph 16 below (Permitted transactions (derivatives and forwards)); and the transaction is covered, as required by paragraph 27 (Cover for transactions in derivatives and forward transactions).

15.4 Where the Company invests in derivatives, the exposure to the underlying assets must not exceed the limits set out in COLL in relation to spread (COLL 5.2.13 R Spread : general and COLL 5.2.14 R Spread : government and public securities) except for index based derivatives where the rules below apply.

15.5 Where a transferable security or approved money market instrument embeds a derivative, this must be taken into account for the purposes of complying with this section.

15.6 A transferable security or an approved money-market instrument will embed a derivative if it contains a component which fulfils the following criteria:

15.6.1 by virtue of that component some or all of the cash flows that otherwise would be required by the transferable security or approved money-market instrument which functions as host contract can be modified according to a specified interest rate, financial instrument price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, and therefore vary in a way similar to a stand-alone derivative;

15.6.2 its economic characteristics and risks are not closely related to the economic characteristics and risks of the host contract; and

15.6.3 it has a significant impact on the risk profile and pricing of the transferable security or approved money-market instrument.

15.6.4 A transferable security or an approved money -market instrument does not embed a derivative where it contains a component which is contractually transferable independently of the transferable security or the approved money-market

instrument is:. That component shall be deemed to be a separate instrument.

15.7 Where the Company invests in an index based derivative, provided the relevant index falls within paragraph 17 (Financial indices underlying derivatives) the underlying constituents of the index do not have to be taken into account for the purposes of the rules on spread in COLL. The relaxation is subject to the ACD continuing to ensure that the Scheme Property provides a prudent spread of risk.

**Please refer to paragraph 28.5 above for a description of the risk factors associated with investments in derivatives.**

### 16 Permitted transactions (derivatives and forwards)

16.1 A transaction in a derivative must be in an approved derivative; or be one which complies with paragraph 20 (OTC transactions in derivatives).

16.2 A transaction in a derivative must have the underlying consisting of any or all of the following to which the scheme is dedicated:

16.2.1 transferable securities permitted under paragraph 6 (Transferable securities and approved money market instruments generally to be admitted or dealt in on an Eligible Market);

16.2.2 approved money market instruments permitted under paragraph 5 (approved money market instruments) above;

16.2.3 deposits permitted under paragraph 23 (investment in deposits) below;

16.2.4 derivatives permitted under this rule;

16.2.5 collective investment scheme units permitted under paragraph 13 (investment collective investment schemes) above;

16.2.6 financial indices which satisfy the criteria set out at paragraph 17 (financial indices underlying derivatives) below;

16.2.7 interest rates;

16.2.8 foreign exchange rates; and

16.2.9 currencies.

16.3 A transaction in an approved derivative must be effected on or under the rules of an eligible derivatives market.

16.4 A transaction in a derivative must not cause the Company to diverge from its investment objectives as stated in the Instrument constituting the scheme and the most recently published version of this Prospectus.

16.5 A transaction in a derivative must not be entered into if the intended effect is to create the potential for an uncovered sale of one or more, transferable securities, approved money market instruments, units in collective investment schemes, or derivatives provided that a sale is not to be considered as uncovered if the conditions in paragraph 19 (Requirement to cover sales) are satisfied.

16.6 Any forward transaction must be with an Eligible Institution or an Approved Bank.

16.7 A derivative includes an instrument which fulfils the following criteria:

16.7.1 it allows the transfer of the credit risk of the underlying independently from the other risks associated with that underlying;

16.7.2 it does not result in the delivery or the transfer of assets other than those referred to in paragraph 1.2 above (UCITS schemes: permitted types of scheme property) including cash;



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16.7.3 in the case of an OTC derivative, it complies with the requirements in paragraph 20 below (OTC transactions in derivatives);

16.7.4 its risks are adequately captured by the risk management process of the ACD, and by its internal control mechanisms in the case of risks of asymmetry of information between the ACD and the counterparty to the derivative, resulting from potential access of the counterparty to non-public information on persons whose assets are used as the underlying by that derivative.

16.8 The Company may not undertake transactions in derivatives on commodities.

### 17 Financial indices underlying derivatives

17.1 The financial indices referred to in 16.2.6 are those which satisfy the following criteria:

17.1.1 the index is sufficiently diversified;

17.1.2 the index represents an adequate benchmark for the market to which it refers; and

17.1.3 the index is published in an appropriate manner.

17.2 A financial index is sufficiently diversified if:

17.2.1 it is composed in such a way that price movements or trading activities regarding one component do not unduly influence the performance of the whole index;

17.2.2 where it is composed of assets in which the Company is permitted to invest, its composition is at least diversified in accordance with the requirements with respect to spread and concentration set out in this section; and

17.2.3 where it is composed of assets in which the Company cannot invest, it is diversified in a way which is equivalent to the diversification achieved by the requirements with respect to spread and concentration set out in this section.

17.3 A financial index represents an adequate benchmark for the market to which it refers if:

17.3.1 it measures the performance of a representative group of underlyings in a relevant and appropriate way;

17.3.2 it is revised or rebalanced periodically to ensure that it continues to reflect the markets to which it refers, following criteria which are publicly available; and

17.3.3 the underlyings are sufficiently liquid, allowing users to replicate it if necessary.

17.4 A financial index is published in an appropriate manner if:

17.4.1 its publication process relies on sound procedures to collect prices, and calculate and subsequently publish the index value, including pricing procedures for components where a market price is not available; and

17.4.2 material information on matters such as index calculation, rebalancing methodologies, index changes or any operational difficulties in providing timely or accurate information is provided on a wide and timely basis.

17.5 Where the composition of underlyings of a transaction in a derivative does not satisfy the requirements for a financial index, the underlyings for that transaction shall where they satisfy the requirements with respect to other underlyings pursuant to 16.2, be regarded as a combination of those underlyings.

### 18 Transactions for the purchase of property

18.1 A derivative or forward transaction which will or could lead to the delivery of property for the account of the Company may be entered into only if that property can be held for the account of the Company, and the ACD having taken reasonable care determines

that delivery of the property under the transaction will not occur or will not lead to a breach of the rules in the COLL Sourcebook.

### 19 Requirement to cover sales

19.1 No agreement by or on behalf of the Company to dispose of property or rights may be made unless the obligation to make the disposal and any other similar obligation could immediately be honoured by the Company by delivery of property or the assignment (or, in Scotland, assignation) of rights, and the property and rights above are owned by the Company at the time of the agreement. This requirement does not apply to a deposit.

19.2 Paragraph 19.1 does not apply where:

19.2.1 the risks of the underlying financial instrument of a derivative can be appropriately represented by another financial instrument and the underlying financial instrument is highly liquid; or

19.2.2 the ACD or the Depositary has the right to settle the derivative in cash and cover exists within the Scheme Property which falls within one of the following asset Classes:

cash;

liquid debt instruments (e.g. government bonds of first credit rating) with appropriate safeguards (in particular, haircuts); or

other highly liquid assets having regard to their correlation with the underlying of the financial derivative instruments, subject to appropriate safeguards (e.g. haircuts where relevant).

19.2.3 In the asset classes referred to in 20.2.2, an asset may be considered as liquid where the instrument can be converted into cash in no more than seven business days at a price closely corresponding to the current valuation of the financial instrument on its own market.

### 20 OTC transactions in derivatives

20.1 Any transaction in an OTC derivative under paragraph 16.1 must be:

20.1.1 in a future or an option or a contract for differences;

20.1.2 with an approved counterparty; a counterparty to a transaction in derivatives is approved only if the counterparty is an Eligible Institution or an Approved Bank; or a person whose permission (including any requirements or limitations), as published in the FCA Register or whose Home State authorisation, permits it to enter into the transaction as principal off-exchange;

20.1.3 on approved terms; the terms of the transaction in derivatives are approved only if, before the transaction is entered into, the Depositary is satisfied that the counterparty has agreed with the Company: to provide at least daily and at any other time at the request of the Company reliable and verifiable valuation in respect of that transaction corresponding to its fair value (being the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction) and which does not rely only on market quotations by the counterparty and that it will, at the request of the Company, enter into a further transaction to close out that transaction at any time, at a fair value arrived at under the reliable market value basis or pricing model agreed under 20.1.4; and

20.1.4 capable of reliable valuation; a transaction in derivatives is capable of reliable valuation only if the ACD having taken reasonable care determines that, throughout the life of the derivative (if the transaction is entered into), it will be able to value the investment concerned with reasonable accuracy: on the basis of an up-to-date market value which the ACD and the Depositary have agreed is reliable; or if that value is

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## INVESTMENT MANAGEMENT AND BORROWING POWERS OF THE COMPANY

not available, on the basis of a pricing model which the ACD and the Depositary have agreed uses an adequate recognised methodology; and.

20.1.5 subject to verifiable valuation; a transaction in derivatives is subject to verifiable valuation only if, throughout the life of the derivative (if the transaction is entered into) verification of the valuation is carried out by:

20.1.5.1 an appropriate third party which is independent from the counterparty of the derivative, at an adequate frequency and in such a way that the ACD is able to check it; or

20.1.5.2 a department within the ACD which is independent from the department in charge of managing the scheme property and which is adequately equipped for such a purpose.

### 21 Valuation of OTC derivatives

21.1 For the purposes of paragraph 20.1.2, the ACD must:

21.1.1 establish, implement and maintain arrangements and procedures which ensure appropriate, transparent and fair valuation of the exposures of a Fund to OTC derivatives; and

21.1.2 ensure that the fair value of OTC derivatives is subject to adequate, accurate and independent assessment.

21.2 Where the arrangements and procedures referred to in paragraph 21.1.1 involve the performance of certain activities by third parties, the ACD must comply with the requirements in SYSC 8.1.13 R (Additional requirements for a management company) and COLL 6.6A.4 R (4) to (6) (Due diligence requirements of AFMs of UCITS schemes).

21.3 The arrangements and procedures referred to in this rule must be:

21.3.1 adequate and proportionate to the nature and complexity of the OTC derivative concerned; and

21.3.2 adequately documented

### 22 Risk management

22.1 The ACD must use a risk management process, as reviewed by the Depositary, enabling it to monitor and measure as frequently as appropriate the risk of the Company's positions and their contribution to the overall risk profile of the Company.

22.2 The following details of the risk management process must be regularly notified by the ACD to the FCA and at least on an annual basis:

22.2.1 a true and fair view of the types of derivatives and forward transactions to be used within a Company together with their underlying risks and any relevant quantitative limits; and

22.2.2 the methods for estimating risks in derivative and forward transactions.

### 23 Investment in deposits

23.1 The Company may invest in deposits only with an Approved Bank and which are repayable on demand or have the right to be withdrawn, and maturing in no more than 12 months.

### 24 Significant influence

24.1 The Company must not acquire transferable securities issued by a body corporate and carrying rights to vote (whether or not on substantially all matters) at a general meeting of that body corporate if:

24.1.1 immediately before the acquisition, the aggregate of any such securities held by the Company gives the Company power significantly to influence the conduct of business of that body corporate; or

24.1.2 the acquisition gives the Company that power.

24.2 The Company is to be taken to have power significantly to influence the conduct of business of a body corporate if it can, because of the transferable securities held by it, exercise or control the exercise of 20% or more of the voting rights in that body corporate (disregarding for this purpose any temporary suspension of voting rights in respect of the transferable securities of that body corporate).

### 25 Concentration

**The Company:**

25.1 must not acquire transferable securities (other than debt securities) which:

25.1.1 do not carry a right to vote on any matter at a general meeting of the body corporate that issued them; and

25.1.2 represent more than 10% of those securities issued by that body corporate;

25.2 must not acquire more than 10% of the debt securities issued by any single body;

25.3 must not acquire more than 25% of the units in a collective investment scheme;

25.4 must not acquire more than 10% of the approved money market instruments issued by any single body; and

25.5 need not comply with the limits in paragraphs 25.2 to 25.4 if, at the time of acquisition, the net amount in issue of the relevant investment cannot be calculated.

### 26 Derivatives exposure

26.1 The Company may invest in derivatives and forward transactions as long as the exposure to which the Company is committed by that transaction itself is suitably covered from within its Scheme Property. Exposure will include any initial outlay in respect of that transaction.

26.2 Cover ensures that the Company is not exposed to the risk of loss of property, including money, to an extent greater than the net value of the Scheme Property. Therefore, the Company must hold Scheme Property sufficient in value or amount to match the exposure arising from a derivative obligation to which the Company is committed. Paragraph 27 (Cover for transactions in derivatives and forward transactions) sets out detailed requirements for cover of the Company.

26.3 Cover used in respect of one transaction in derivatives or forward transaction must not be used for cover in respect of another transaction in derivatives or a forward transaction.

### 27 Cover for transactions in derivatives and forward transactions

27.1 A transaction in derivatives or forward transaction is to be entered into only if the maximum exposure, in terms of the principal or notional principal created by the transaction to which the scheme is or may be committed by another person is covered globally.

27.2 Exposure is covered globally if adequate cover from within the Scheme Property is available to meet the scheme's total exposure, taking into account the value of the underlying assets, any reasonably foreseeable market movement, counterparty risk, and the time available to liquidate any positions.

27.3 Cash not yet received into the Scheme Property but due to be received within one month is available as cover.

27.4 Property the subject of a stock lending transaction is only available for cover if the ACD has taken reasonable care to determine that it is obtainable (by return or re-acquisition) in time to meet the obligation for which cover is required.



# APPENDIX 2 -

## INVESTMENT MANAGEMENT AND BORROWING POWERS OF THE COMPANY

27.5 The total exposure relating to derivatives held in the Company may not exceed the net value of the Scheme Property.

### 28 Daily calculation of global exposure

28.1 The ACD must calculate the global exposure of the Company on at least a daily basis.

28.2 For the purposes of this section, exposure must be calculated taking into account the current value of the underlying assets, the counterparty risk, future market movements and the time available to liquidate the positions.

### 29 Calculation of global exposure

29.1 The ACD must calculate the global exposure of the Company it manages either as:

29.1.1 the incremental exposure and leverage generated through the use of derivatives and forward transactions (including embedded derivatives as referred to in paragraph 15 (Derivatives: general), which may not exceed 100% of the Net Asset Value of the scheme property of the Company, by way of the commitment approach; or

29.1.2 the market risk of the scheme property of the Company, by way of the value at risk approach.

29.2 The ACD must ensure that the method selected above is appropriate, taking into account:

29.2.1 the investment strategy pursued by the Company;

29.2.2 the types and complexities of the derivatives and forward transactions used; and

29.2.3 the proportion of the scheme property comprising derivatives and forward transactions.

29.3 Where a Company employs techniques and instruments including repo contracts or stock lending transactions in accordance with paragraph 33 (Stock lending) in order to generate additional leverage or exposure to market risk, the ACD must take those transactions into consideration when calculating global exposure.

29.4 For the purposes of paragraph 29.1, value at risk means a measure of the maximum expected loss at a given confidence level over the specific time period.

29.5 The ACD calculates the global exposure of M&G Optimal income Fund using the value at risk (VaR) based techniques.

### 30 Commitment approach

30.1 Where the ACD uses the commitment approach for the calculation of global exposure, it must:

30.1.1 ensure that it applies this approach to all derivative and forward transactions (including embedded derivatives as referred to in paragraph 15 (Derivatives: general)), whether used as part of the Company's general investment policy, for the purposes of risk reduction or for the purposes of Efficient Portfolio Management in accordance with paragraph 33 (Stock lending); and

30.1.2 convert each derivative or forward transaction into the market value of an equivalent position in the underlying asset of that derivative or forward (standard commitment approach).

30.2 The ACD may apply other calculation methods which are equivalent to the standard commitment approach.

30.3 For the commitment approach, the ACD may take account of netting and hedging arrangements when calculating global exposure of the Company, where these arrangements do not disregard obvious and material risks and result in a clear reduction in risk exposure.

30.4 Where the use of derivatives or forward transactions does not generate incremental exposure for the Company, the underlying exposure need not be included in the commitment calculation.

30.5 Where the commitment approach is used, temporary borrowing arrangements entered into on behalf of the Company in accordance with paragraph 34 need not form part of the global exposure calculation.

### 31 Cover and borrowing

31.1 Cash obtained from borrowing, and borrowing which the ACD reasonably regards an Eligible Institution or an Approved Bank to be committed to provide, is available for cover under the previous paragraph 27 (Cover for transactions in derivatives and forward transactions) as long as the normal limits on borrowing (see below) are observed.

31.2 Where, for the purposes of this paragraph the Company borrows an amount of currency from an Eligible Institution or an Approved Bank; and keeps an amount in another currency, at least equal to such borrowing for the time on deposit with the lender (or his agent or nominee), then this applies as if the borrowed currency, and not the deposited currency, were part of the Scheme Property, and the normal limits on borrowing under paragraph 33 (General power to borrow) do not apply to that borrowing.

### 32 Cash and near cash

32.1 Cash and near cash must not be retained in the Scheme Property except to the extent that, this may reasonably be regarded as necessary in order to enable:

32.1.1 the pursuit of the Company's investment objectives; or

32.1.2 redemption of Shares; or

32.1.3 efficient management of the Company in accordance with its investment objectives; or

32.1.4 other purposes which may reasonably be regarded as ancillary to the investment objectives of the Company.

32.2 During the period of the initial offer the Scheme Property may consist of cash and near cash without limitation.

### 33 General power to borrow

33.1 The Company may, in accordance with this paragraph and paragraph 30, borrow money for the use of the Company on terms that the borrowing is to be repayable out of the Scheme Property. This power to borrow is subject to the obligation of the Company to comply with any restriction in the instrument constituting the Company.

33.2 The Company may borrow under paragraph 33.1 only from an Eligible Institution or an Approved Bank.

33.3 The ACD must ensure that any borrowing is on a temporary basis and that borrowings are not persistent, and for this purpose the ACD must have regard in particular to:

33.3.1 the duration of any period of borrowing; and

33.3.2 the number of occasions on which resort is had to borrowing in any period.

33.4 The ACD must ensure that no period of borrowing exceeds three months, without the consent of the Depositary.

33.5 These borrowing restrictions do not apply to "back to back" borrowing for currency hedging purposes.

33.6 The Company must not issue any debenture unless it acknowledges or creates a borrowing that complies with paragraph 33.1 to 33.5.

# APPENDIX 2 -

## INVESTMENT MANAGEMENT AND BORROWING POWERS OF THE COMPANY

### 34 Borrowing limits

- 34.1 The ACD must ensure that the Company's borrowing does not, on any business day, exceed 10% of the value of the Scheme Property of the Company.
- 34.2 In this paragraph 34, "borrowing" includes, as well as borrowing in a conventional manner, any other arrangement (including a combination of derivatives) designed to achieve a temporary injection of money into the Scheme Property in the expectation that the sum will be repaid.
- 34.3 Borrowing does not include any arrangement for the Company to pay to a third party (including the ACD) any set up costs which the Company is entitled to amortise and which were paid on behalf of the Company by the third party.

### 35 Restrictions on lending of money

- 35.1 None of the money in the Scheme Property of the Company may be lent and, for the purposes of this prohibition, money is lent by the Company if it is paid to a person ("the payee") on the basis that it should be repaid, whether or not by the payee.
- 35.2 Acquiring a debenture is not lending for the purposes of paragraph 31.1; nor is the placing of money on deposit or in a current account.
- 35.3 Paragraph 35.1 does not prevent the Company from providing an officer of the Company with funds to meet expenditure to be incurred by him for the purposes of the Company (or for the purposes of enabling him properly to perform his duties as an officer of the Company) or from doing anything to enable an officer to avoid incurring such expenditure.

### 36 Restrictions on lending of property other than money

- 36.1 The Scheme Property of the Company other than money must not be lent by way of deposit or otherwise.
- 36.2 The Scheme Property of the Company must not be mortgaged.

### 37 General power to accept or underwrite placings

- 37.1 Any power in Chapter 5 of the COLL Sourcebook to invest in transferable securities may be used for the purpose of entering into transactions to which this section applies, subject to compliance with any restriction in the Instrument of Incorporation.
- 37.2 This section applies, subject to paragraph 33.3, to any agreement or understanding:
- 37.2.1 which is an underwriting or Sub-underwriting agreement; or
- 37.2.2 which contemplates that securities will or may be issued or subscribed for or acquired for the account of the Company.
- 37.3 Paragraph 37.2 does not apply to:
- 37.3.1 an option; or
- 37.3.2 a purchase of a transferable security which confers a right: to subscribe for or acquire a transferable security; or to convert one transferable security into another.
- 37.3.3 The exposure of the Company to agreements and understandings within paragraph 37.2 must, on any business day:
- be covered in accordance with the requirements of rule 5.3.3R of the COLL Sourcebook; and
- be such that, if all possible obligations arising under them had immediately to be met in full, there would be no breach of any limit in Chapter 5 of the COLL Sourcebook.

### 38 Guarantees and indemnities

- 38.1 The Company or the Depositary for the account of the Company must not provide any guarantee or indemnity in respect of the obligation of any person.
- 38.2 None of the Scheme Property of the Company may be used to discharge any obligation arising under a guarantee or indemnity with respect to the obligation of any person.
- 38.3 Paragraphs 38.1 and 38.2 do not apply in respect of the Company to:
- 38.3.1 any indemnity or guarantee given for margin requirements where the derivatives or forward transactions are being used in accordance with the FCA rules;
- 38.3.2 an indemnity falling within the provisions of regulation 62(3) (Exemptions from liability to be void) of the Treasury Regulations;
- 38.3.3 an indemnity (other than any provision in it which is void under regulation 62 of the Treasury Regulations) given to the Depositary against any liability incurred by it as a consequence of the safekeeping of any of the Scheme Property by it or by anyone retained by it to assist it to perform its function of the safekeeping of the Scheme Property; and
- 38.3.4 an indemnity given to a person winding up a scheme if the indemnity is given for the purposes of arrangements by which the whole or part of the property of that scheme becomes the first property of the Company and the holders of units in that scheme become the first Shareholders in the Company.

### 39 Efficient Portfolio Management

- 39.1 The Company may use its property to enter into transactions for the purposes of efficient portfolio management ('EPM') and may enter into any transaction to hedge (i.e. with the purpose of preserving the value of an asset or assets of the Company).
- 39.2 Permitted EPM transactions (excluding stock lending arrangements) are transactions in derivatives (i.e. options, futures or contracts for differences) dealt in or traded on an approved derivatives market; off exchange futures, options or contracts for differences resembling options; or synthetic futures in certain circumstances. The Company may enter into approved derivatives transactions on derivatives markets which are eligible. Eligible derivatives markets are those which the ACD after consultation with the Depositary has decided are appropriate for the purpose of investment of or dealing in the scheme property with regard to the relevant criteria set out in the Regulations and the Guidance on eligible markets issued by the FCA as amended from time to time.
- 39.3 The eligible derivatives markets for the Company are set out in Appendix 3.
- 39.4 New eligible derivatives markets may be added to the Company in accordance with the Regulations and only after the ACD has revised the prospectus accordingly.
- 39.5 Any forward transactions must be with an approved counterparty (eligible institutions, money market institutions etc). A derivatives or forward transaction which would or could lead to delivery of scheme property to the Depositary in respect of the Company may be entered into only if such scheme property can be held by the Company, and the ACD reasonably believes that delivery of the property pursuant to the transactions will not lead to a breach of the Regulations.
- 39.6 There is no limit on the amount of the scheme property which may be used for EPM but the transactions must satisfy three broadly-based requirements:
- 39.6.1 A transaction must reasonably be believed by the ACD to be economically appropriate to the efficient portfolio

# APPENDIX 2 -

## INVESTMENT MANAGEMENT AND BORROWING POWERS OF THE COMPANY

management of the Company. This means that transactions undertaken to reduce risk or cost (or both) must alone or in combination with other EPM transactions diminish a risk or cost of a kind or level which it is sensible to reduce and transactions undertaken to generate additional capital or income must confer a benefit on the Company.

39.6.2 EPM may not include speculative transactions.

39.6.3 The purpose of an EPM transaction for the Company must be to achieve one of the following aims in respect of the Company:

- reduction of risk
- reduction of cost
- the generation of additional capital or income

39.6.3.1 Reduction of risk allows for the use of the technique of cross-currency hedging in order to switch all or part of the Company's exposure away from a currency the ACD considers unduly prone to risk, to another currency. This aim also permits the use of stock index contracts to change the exposure from one market to another, a technique known as 'tactical asset allocation'.

39.6.3.2 Reduction of cost allows for the use of futures or options contracts, either on specific stocks or on an index, in order to minimise or eliminate the effect of changing prices of stocks to be bought or sold.

39.6.3.3 The aims of reduction of risk or cost, together or separately, allow the ACD on a temporary basis to use the technique of tactical asset allocation. Tactical asset allocation permits the ACD to undertake a switch in exposure by use of derivatives, rather than through sale and purchase of the scheme property. If an EPM transaction for the Company relates to the acquisition or potential acquisition of transferable securities, the ACD must intend that the Company should invest in transferable securities within a reasonable time and the ACD shall thereafter ensure that, unless the position has itself been closed out, that intention is realised within that reasonable time.

39.6.3.4 The generation of additional capital or income for the Company with no or an acceptably low level of risk means the ACD reasonably believes that the Company is certain (or certain barring events which are not reasonably foreseeable) to derive a benefit.

The generation of additional capital or income may arise out of taking advantage of price imperfections or from the receipt of a premium for writing of covered call or covered put options (even if the benefit is obtained at the expense of the foregoing of yet greater benefit) or pursuant to stocklending as permitted by the Regulations. The relevant purpose must relate to scheme property; scheme property (whether precisely identified or not) which is to be or is proposed to be acquired for the Company; and anticipated cash receipts of the Company, if due to be received at some time and likely to be received within one month.

39.7 Each EPM transaction must be fully covered 'individually' by scheme property of the right kind (i.e. in the case of exposure in terms of property, appropriate transferable securities or other property; and, in the case of exposure in terms of money, cash,

near-cash instruments, borrowed cash or transferable securities which can be sold to realise the appropriate cash). It must also be covered 'globally' (i.e. after providing cover for existing EPM transactions there is adequate cover for another EPM transaction within the scheme property - there can be no gearing). Scheme property and cash can be used only once for cover and, generally, scheme property is not available for cover if it is the subject of a stocklending transaction. The EPM lending transaction in a back to back currency borrowing (i.e. borrowing permitted in order to reduce or eliminate risk arising by reason of fluctuations in exchange rates) does not require cover.

# APPENDIX 3 –

## ELIGIBLE MARKETS

Where permitted by its objective and policy, the Company may deal in any securities, derivatives or money market instruments on any market that is:

- a regulated market; or
- a market in an EEA State which is regulated, operates regularly and is open to the public; or
- a market which the ACD, after consultation with the Depositary, decides is appropriate for investment of or dealing in the Scheme Property (see Appendix 2, 7.4 for more detail).

For the purposes of “b” above, the Manager may trade in bonds and other securities issued by non-UK institutions, on the UK OTC Market. Additionally, for “c” above, the markets listed below have been deemed appropriate. In addition, up to 10% in value of the company may be invested in transferable securities and/or money market instruments which are not listed on these markets.

### Europe (non-EEA States)

Croatia	Zagreb Exchange
Switzerland	SIX Swiss Exchange
Turkey	Istanbul Stock Exchange

### Americas

Brazil	BM&F Bovespa
Canada	TSX (forms part of the TMX Group)
Colombia	Bolsa de Valores de Colombia (BVC) Exchange
Mexico	Bolsa Mexicana de Valores (Mexican Stock Exchange)
United States	New York Stock Exchange NYSE Amex Equities NYSE Arca Boston Stock Exchange (BSE) Chicago Stock Exchange (CHX) The NASDAQ Stock Market US OTC Market regulated by FINRA National Stock Exchange NASDAQ OMX PHLX The market in transferable securities issued by or on behalf of the Government of the United States of America conducted through those persons for the time being recognised and supervised by the Federal Reserve Bank of New York and known as primary dealers.

### Africa

South Africa	The JSE Securities Exchange
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### Far East

Australia	Australian Securities Exchange (ASX)
China	Shanghai Stock Exchange (B shares) Shenzen Stock Exchange (B shares)
Hong Kong	Hong Kong Exchanges Growth Global Enterprise Market (GEM)
India	Bombay Stock Exchange Ltd The National Stock Exchange of India
Indonesia	Indonesia Stock Exchange (IDX)
Japan	Tokyo Stock Exchange Nagoya Stock Exchange Osaka Securities Exchange Sapporo Stock Exchange JASDAQ
Korea	Korea Exchange Incorporated (KRX)
Malaysia	Bursa Malaysia Berhad
New Zealand	New Zealand Stock Exchange
Philippines	Philippine Stock Exchange (PSE)
Singapore	Singapore Exchange (SGX)
Sri Lanka	Colombo Stock Exchange
Taiwan	Taiwan Stock Exchange Gre Tai (Taiwan OTC)
Thailand	The Stock Exchange of Thailand (SET)

### Middle East

Israel	Tel Aviv Stock Exchange (TASE)
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For the purposes of “c” above, the derivatives markets listed below have been deemed appropriate.

### Europe (non-EEA States)

Switzerland	EUREX
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### Americas

Canada	The Montreal Exchange
United States	CME Group Inc Chicago Board Options Exchange (CBOE)

### Africa

South Africa	The South African Futures Exchange (SAFEX)
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### Far East

Australia	Australian Securities Exchange (ASX)
Hong Kong	Hong Kong Exchanges
Japan	Tokyo Stock Exchange Osaka Securities Futures and Options Market
Korea	Korea Exchange Incorporated (KRX)
New Zealand	New Zealand Futures Exchange
Singapore	Singapore Exchange (SGX)
Thailand	Thailand Futures Exchange (TFEX)

# APPENDIX 4 –

## INFORMATION FOR NON-UK INVESTORS

### 4.1 M&G Optimal Income Fund

#### Investment Objective

The fund aims to provide a total return (the combination of income and growth of capital) to investors based on exposure to optimal income streams in investment markets.

#### Investment Policy

The Fund aims to provide a total return (the combination of income and growth of capital) to investors through strategic asset allocation and specific stock selection. The Fund will be at least 50% invested in debt instruments, but may also invest in other assets including collective investment schemes, money market instruments, cash, near cash, deposits, equities and derivatives. Derivative instruments may be used for both investment purposes and efficient portfolio management.

Accounting reference date:	30 September
Income allocation date:	On or before 31 January (Final); 31 July (Interim)
Available Share Classes/types:	Gross Accumulation and Gross Income shares in Euro Class A-H (hedged); Gross Accumulation Shares in Euro Class C-H (hedged); Gross Accumulation Shares in US Dollar A-H (hedged) and C-H (hedged)** (Euro Share Class B not currently available). Gross Accumulation shares in Swiss Franc A-H and C-H.

#### Investment minima

Lump sum initial investment	Euro Class A-H: €1,000 Euro Class B: €1,000* Euro Class C-H: €500,000 US Dollar Class A-H: \$1,000 US Dollar Class C-H: \$500,000 Swiss Franc Class A-H: CHF1,000 Swiss Franc Class C-H: CHF500,000
Lump sum subsequent investment	Euro Class A-H: €75 Euro Class B: €75* Euro Class C-H: €50,000 US Dollar Class A-H: \$75 US Dollar Class C-H: \$50,000 Swiss Franc Class A-H: CHF75 Swiss Franc Class C-H: CHF50,000
Lump sum holding	Euro Class A-H: €1,000 Euro Class B: €1,000* Euro Class C-H: €500,000 US Dollar Class A-H: \$1,000 US Dollar Class C-H: \$500,000 Swiss Franc Class A-H: CHF1,000 Swiss Franc Class C-H: CHF500,000
Redemption	Euro Class A-H: €75 Euro Class B: €75* Euro Class C-H: €50,000 US Dollar Class A-H: \$75 US Dollar Class C-H: \$50,000 Swiss Franc Class A-H: CHF75 Swiss Franc Class C-H: CHF50,000

#### Charges and Expenses

Initial charge	Euro Class A-H: 4% Euro Class B: 4%* Euro Class C-H: 1.25% US Dollar Class A-H: 4% US Dollar Class C-H: 1.25% Swiss Franc Class A-H: 4% Swiss Franc Class C-H: 1.25%
Redemption charge	Euro Class A-H: n/a Euro Class B: n/a* Euro Class C-H: n/a US Dollar Class A-H: n/a US Dollar Class C-H: n/a Swiss Franc Class A-H: n/a Swiss Franc Class C-H: n/a
ACD's annual remuneration	Euro Class A-H: 1.25% Euro Class B: 1.25%* Euro Class C-H: 0.75% US Dollar Class A-H: 1.25% US Dollar Class C-H: 0.75% Swiss Franc Class A-H: 1.25% Swiss Franc Class C-H: 0.75%
Share class hedging fee	Euro Class A-H: up to 0.06% Euro Class C-H: up to 0.06% US Dollar Class A-H: up to 0.06% US Dollar Class C-H: up to 0.06% Swiss Franc Class A-H: up to 0.06% Swiss Franc Class C-H: up to 0.06%

ACD's remuneration for Administrative and Registration Services: 0.15% of "NAV" per annum

\* Not currently available

\*\* Please note that US Dollar share classes for the M&G Optimal Income Fund are not available for public distribution in Italy

#### Other information

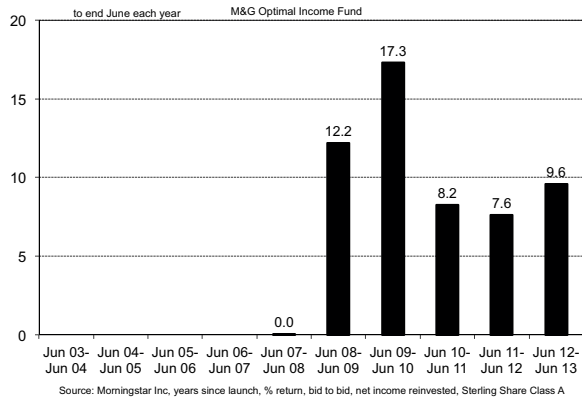
Investment Manager:	M&G Investment Management Limited
Launch date:	8 December 2006
Valuation point:	12.00 noon UK time

# APPENDIX 5 –

## Performance bar charts and graphs

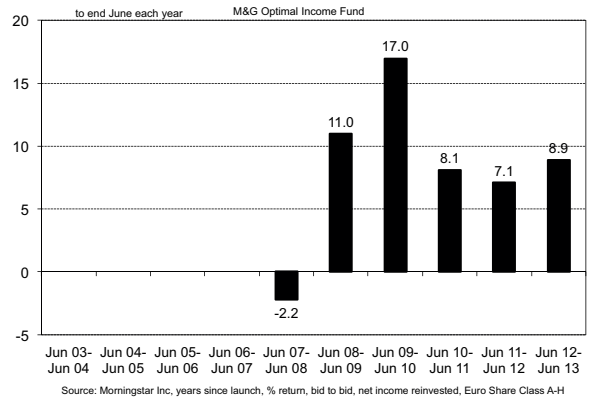
Past performance is not a guide to future performance.

**M&G Optimal Income Fund Bar Chart (Sterling class A)**



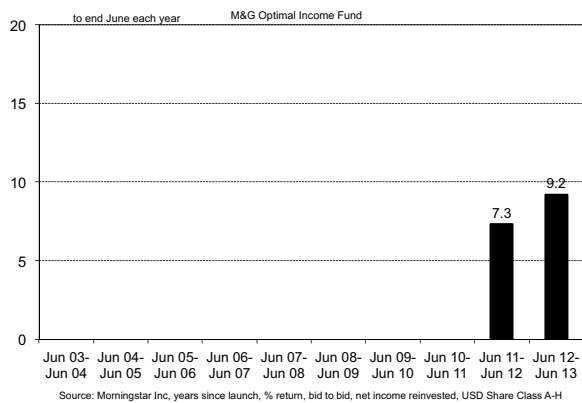
The cumulative performance since launch is 71.2%

**M&G Optimal Income Fund Bar Chart (Euro class A-H)**



The cumulative performance since launch is 59.6%

**M&G Optimal Income Fund Bar Chart (US Dollar class A-H)**



The cumulative performance since launch is 22.0%

Performance data is not available for the Swiss Franc share class which exists for the Company. Regulations from the Financial Conduct Authority mean we are unable to include fund performance data on any fund that has a performance track record of less than 12 months.



# APPENDIX 6 –

## OTHER COLLECTIVE INVESTMENT SCHEMES OF THE ACD

M&G Investment Funds (1)  
M&G Investment Funds (2)  
M&G Investment Funds (3)  
M&G Investment Funds (4)  
M&G Investment Funds (5)  
M&G Investment Funds (7)  
M&G Investment Funds (8)  
M&G Investment Funds (9)  
M&G Investment Funds (10)  
M&G Investment Funds (11)  
M&G Investment Funds (12)  
M&G Dynamic Allocation Fund  
M&G Global Dividend Fund  
M&G Global Macro Bond Fund  
M&G Strategic Corporate Bond Fund  
M&G Property Portfolio  
M&G Feeder of Property Portfolio

# Directory

## M&G Optimal Income Fund

### The Company and Head Office:

M&G Optimal Income Fund  
Laurence Pountney Hill  
London EC4R 0HH

### Authorised Corporate Director:

M&G Securities Limited  
Laurence Pountney Hill  
London EC4R 0HH

### Investment Managers:

M&G Investment Management Limited  
Laurence Pountney Hill  
London EC4R 0HH

### Custodian:

State Street Bank and Trust Company  
20 Churchill Place  
Canary Wharf  
London  
E14 5HJ

### Depository:

The Younger Building  
3 Redheughs Avenue  
Edinburgh  
EH12 9RH  
Registrar:  
International Financial Data Services (UK) Limited  
PO Box 9039  
Chelmsford  
CM99 2XG

### Auditor:

PricewaterhouseCoopers LLP  
7 More London Riverside  
London  
SE1 2RT



