

ADV Part 2



M&G Investment Management Limited (“MAGIM”)

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This brochure has not been approved by the SEC or any state securities authority.

MAGIM is a “registered investment adviser”, this qualification does not imply a certain level of skill or training.

This brochure provides information about the investment adviser (M&G Investment Management Limited) and its business.



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Material Changes

This brochure dated 31 March, 2013, is a document prepared according to the SEC's disclosure requirements and rules.

There were no material changes in this document since the date of our last annual update of this brochure (on 31 March 2012).

We will further provide you with a new brochure as necessary based on changes or new information, at any time, without charge.

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4. Advisory Business

M&G Investment Management Limited (“MAGIM”) is an indirect wholly-owned subsidiary of Prudential plc (“Prudential UK”), a publicly traded holding company and owner of one of the largest life assurance companies in the United Kingdom. Prudential UK is not affiliated in any manner with Prudential Financial Inc., a company whose principal place of business is in the United States of America.

MAGIM provides investment management for a broad range of clients, with a product range that includes segregated pension funds for institutions as well as retail mutual funds for individuals. Client funds are invested by MAGIM on the basis of the individual aims and needs of each client at such time as deemed necessary, having regard to the assessment of prevailing investment opportunities. MAGIM provides investment management services regarding securities which include equities.

M&G’s assets under management are \$361,059,331,029 as at 31st December 2012. This is calculated using the methodology as per the Part 5F of the Form ADV.

5. Fees and Compensation

Fee scales are determined by the nature, size and potential asset growth of the mandate and are subject to minimums being applied. There is no specific fee schedule, the fees are agreed with the client at inception.

Client fees are generally computed based on the ‘market value’ or principal amount as applicable, of assets under management in a client’s account. Other costs include brokerage and custody fees; see Items 12 and 15.

Fees are normally billed on a semi-annual, quarterly or monthly basis in arrears and are due from clients on receipt of a billing statement.

Our sole business is asset management from which all of our revenue is generated. MAGIM does not receive compensation from anyone other than the client (i.e. no brokerage commission).

6. Performance-Based Fees and Side-By-Side Management

We may, when agreed with the client, charge performance-related fees.

MAGIM could face a conflict of interest when it carries on investment business for clients that are charged performance fees and those that are not. For example, MAGIM may favor clients that pay performance fees over those that do not, in the allocation of investment opportunities.

MAGIM has a general policy of treating all clients fairly and achieves this by having policies in place to ensure:

- a. the fair allocation of investments;
- b. that customer order priority is respected;
- c. that employee remuneration structures do not give undue weight to one client over another; and
- d. that where an employee manages more than one client account the oversight processes consider the performance of each client’s portfolio to identify any indication that one client account is being treated more favorably than another.

7. Types of Clients

MAGIM typically offers a fully discretionary investment management service and has the following types of clients:

- Investment companies
- Trusts or charitable organizations
- Corporations
- Unit trusts/Mutual Funds/OEICs
- SICAVs
- Segregated pension and sovereign wealth funds
- Investment trust companies
- Limited partnerships
- Insurance companies

The Markets in Financial Instruments Directive (MiFID) liberalised Europe's capital markets and established common investor protection standards across Europe. It requires that all clients are categorised according to the criteria set out in MiFID. MAGIM has adopted the MiFID requirements and manages assets on behalf of professional clients only.

8. Methods of Analysis, Investment Strategies and Risk of Loss

Companies and their related securities are researched by specialist teams of analysts and fund managers, involving both face-to-face meetings with company management and the reviews of financial statements and other research material. Using the company meeting as the focal point, these investment professionals make a thorough assessment of both quality and valuation for each potential investment. The output of research activity is coordinated and communicated at morning meetings and regular investment group reviews, as well as being available electronically to all investment professionals.

The equity fund manager is responsible for constructing a portfolio that meets the client's objectives in terms of both risk and reward. It is also the fund manager's responsibility to understand the cash impact of any transaction undertaken. The Equities Portfolio Construction & Risk team works closely with the fund managers on a and inputs into a formal review of the investment risk within all of the equity funds on a quarterly basis in the fund oversight meetings, which seeks to identify and challenge portfolio risk and performance.

MAGIM is an investment adviser for equities. Equity strategies invest in domestic and non-UK equities, using a variety of investment approaches including growth, income, or value styles.

General risks that the client may indirectly face are:

Investment Risk - The risk that the value of assets may decline both in absolute terms and/or relative to a designated benchmark, driven by factors including but not limited to market levels, biases within the portfolio (e.g. style, size, geographical, industry) and stock concentration.

Liquidity Risk - The risk the fund cannot meet its obligations due to a lack of adequate liquidity in the market

Counterparty Risk - The risk of default by market counterparties.

Settlement Risk - The risk of direct or indirect loss resulting from failed trades.

Operational Risk - The risk of direct or indirect loss resulting from operational errors.

9. Disciplinary Information

There are no legal or disciplinary events within the past ten years that are material to a client's or prospective client's evaluation of or the integrity of MAGIM or its management persons.

10. Other Financial Industry Activities and Affiliations

This Brochure discusses only those functions performed by MAGIM on behalf of its clients and does not discuss the activities of other affiliated entities or related persons on behalf of their respective clients except to the extent such activities are conducted in connection with the investment advisory activities of MAGIM. Additional information relating to these related persons of MAGIM may be found on Schedule D to Part 1 of the Adviser's Form ADV and, to the extent applicable, in the Form ADV for such affiliated entities or related persons.

MAGIM serves as investment adviser to numerous affiliates of our parent group (Prudential Plc) worldwide.

MAGIM does not use any affiliated broker dealers.

MAGIM has identified that there could be a firm-client conflict where MAGIM carries on investment business for an affiliated client. For example, MAGIM may treat an affiliate client favourably.

MAGIM has a general policy of treating all clients fairly and achieves this by having policies in place to ensure:

- a. the fair allocation of investments;
- b. that customer order priority is respected;
- c. that employee remuneration structures do not give undue weight to one client over another; and
- d. that where an employee manages more than one client account the oversight processes consider the performance of each clients portfolio to identify an indication that one client account is being treated more favorably than another.

11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Employees of MAGIM are expected to maintain the highest ethical and professional standards. Amongst other things this means that staff should do nothing to gain advantage for themselves to the detriment of MAGIM or its clients. Where a member of staff identifies a situation that puts his/her interests in conflict with those of a client or MAGIM the member of staff should:

- put the client's or MAGIM's interests first; or
- refer the matter to senior management for guidance.

MAGIM recognises that it is perfectly acceptable for members of staff to receive business hospitality or conduct personal investment transactions as long as this is done in accordance with the requirements set out in its Code of Ethics. Failure to act in accordance with the Code will be regarded as a serious matter and could, in certain circumstances, result in disciplinary action including dismissal.

The code sets out:

- Personal account dealing requirements
- Investment reporting requirements
- Personal association requirements
- Gifts and benefits requirements.

A full copy of the Code of Ethics is available upon request.

MAGIM has identified that there could be a firm-client conflict where the investment manager or related person may undertake personal account dealing for a security that the investment manager buys or sell for a client.

An investment manager or a related person (over whose security's dealings the investment manager has control) cannot undertake a personal account transaction on a security that the investment manager has bought or sold (or proposes to buy or sell) for their portfolio for 2 days on either side of the transaction. All personal account transaction requests are sent to the central dealing team who are tasked with initial authorisation. The central dealing team undertakes all dealing on behalf of clients being managed by MAGIM.

In a broader sense the central dealing desk undertake controls (that are referenced in the code of ethics) to ensure the Code of Ethics personal account trading rules are adhered to and avoid:

- conflict with investment transactions being undertaken by MAGIM;
- breach any restrictions on dealing which MAGIM may have in place at that time.

Secondary authorisation is performed by the line manager and/or senior investment professionals.

MAGIM has identified that there could be a firm-client conflict where the investment manager or related person has a material interest in a security that the adviser buys or sells for client accounts.

The code of ethics incorporates a strict PA dealing policy and a requirement for individuals to disclose outside directorships/interests. Where such outside interests are material MAGIM may invoke specific dealing exclusions/limitations for the investment management activities of the member of staff concerned. To date there are no such outside interests that warrant the invocation of such controls.

MAGIM has identified that there could be a firm-client conflict where as the result of an inducement, the investment manager places business with the provider of the inducement. Consequently, the price which is obtained is not the best for the client.

MAGIM has controls both in terms of the recording and management of gifts and benefits received and personal associations declared. In addition orders are placed through the central dealing team who have responsibility for the selection of the execution venue with their prime objective being to obtain best execution.

MAGIM maintains policies and procedures regarding inside information and Chinese walls that establish barriers around certain internal groups which might be in possession or aware of material non-public information. The policy is designed to block the flow and potential misuse of that information by placing relevant companies on a restricted dealing list.

12. Brokerage Practices

Broker selection process

In order to minimise operational risk, MAGIM transacts only with approved brokers that have been set up on the order management system by an independent Data Management team. Authorised counterparties and their trading limits are formally documented on a Counterparty Limit List maintained by an independent Risk department within MAGIM. Approved brokers must conform to all relevant legal agreements with MAGIM and they are assessed for credit worthiness on an on going basis.

For a new broker to be taken on, a fund manager or dealer will initially recommend that the new broker be considered for adoption by MAGIM and will provide a valid justification for its use to the Head of Dealing. The Legal and Credit Risk Departments will conduct their due diligence, if the Head of Dealing approves the recommendation (and accepts the broker's execution policy), by agreeing the terms of business, and by setting a broker credit limit.

Broker Compensation is considered at two levels. We review the full service (combined) commission rates and the 'execution' and 'research' components on a regular and formally on an annual basis to ensure that rates are reasonable and broadly in line with the market. Commission rates are formally reviewed at our Dealing Management Committee (DMC). The DMC holds a monthly meeting which considers all matters related to dealing including commission, trading statistics, execution exceptions and conflicts of interests. It comprises the CEO of Equities (Chair), the Head of Dealing, the Broker Relationship Manager, the Equities Operational Risk Director, a Compliance officer and invited guests (as/when needed). The committee reports to the MAGIM Equities Business Board and the Investment Management Committee

Soft Dollar Practices

The commission rates that we pay vary, depending on the type of instruments traded and their origin. The rates are not always the lowest, but we want to ensure that they are competitive and yet adequately reward our contacts for

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services rendered. Commission rates may vary according to the market capitalisation of the stocks concerned, the country of exchange and the execution method, such as execution only, algorithmic or programme trades.

MAGIM generally has authority to cause a client account to pay a broker commission higher than that which another broker might have charged for effecting the same transaction (a practice commonly referred to as “paying up”), in recognition of the value of the brokerage and research products and services provided by the broker. In such cases, MAGIM is paying for the brokerage and research products and services with client commissions – so called “soft dollars”. When MAGIM uses soft dollars to obtain research, or other products, or services, MAGIM receives a benefit because it does not have to produce or pay for the research, products or services.

MAGIM may have an incentive to select or recommend a broker-dealer based on its interest in receiving the research or other products or services, rather than on its clients’ interests in receiving most favourable execution. However, our objective is always to obtain best execution for our clients and thereby mitigate the conflict.

Our commissions are split into execution and research components. We operate a number of pooled Commission Sharing Arrangements (CSAs) where the CSA broker retains the execution part of the commission for execution services and the research commissions are notionally deposited in a research ‘pot’. Each quarter, MAGIM operates a quarterly review process to assess the quality and quantity of research services that have been provided by brokers and independent research providers (IRPs). This quarterly review process culminates in awards being made to the research providers from the brokers with whom full service trading has been undertaken. Each quarter, as a result of our broker review, MAGIM agree with the participating broker how much of this ‘pot’ should be kept by them for research services and how much should be paid away to other permitted third parties, being other brokers and IRPs. Prior to payment out of CSA monies our managers review all goods and services in order to assess the following:

- How the goods and/or services are used in the performance of our duties and how these are beneficial to the services we deliver to you as our client and
- How these goods and/or services fall within the scope of the Inducements and Use of Dealing Commission rules (both in the United Kingdom and United States)
- Whether the award of commission to third parties is reasonable in relation to the value of the brokerage and research services provided and whether they violate any conflicts of interest concerns.

Where we utilise research commissions In such cases, MAGIM is paying for brokerage and research products and services with client commissions – so- called “soft dollars.” All clients participate in the pooled CSAs and benefit from the research services provided.

Our fund managers work in franchise teams of similar mandates and approaches and soft dollar credits are mostly awarded in line with commission generated. We accept that cross subsidy occurs within franchise teams because the teams collaborate on research and share ideas. However, ideas, broker meetings and general research are frequently shared across franchises, but the teams do not always apportion shared research payments in equal measure. Although teams are encouraged to be self sufficient in the generation of research commission versus their awards, we are prepared to accept that small cross subsidies occur provided there is appropriate monitoring, management and justification, as we believe that it is in the best interests of our clients. The DMC reviews the commission figures for each franchise in terms of commission generated and spent to ensure sustainability. All of our goods and services paid out of clients’ commissions are reviewed to ensure that they qualify under section 28(e) of the Securities Exchange Act of 1934.

The research products and services MAGIM receives may include economic and financial market analysis and forecasts, industry and company specific analysis, interest rate forecasts, analytical tools for investment research and related consulting services that all assist in the investment decision-making process. Research products and services are received in the form of written reports, computer-generated services, telephone contacts and personal meetings with securities analysts. Most of the services that we receive are solely used to manage the portfolios and do not pose any conflicts of interest. However, under the SEC safe harbour, an item may qualify as research, but may not provide lawful and appropriate assistance in managing the portfolios. Where this is the case, the item is

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classified as “mixed use” and we make a determination of the costs of the product according to its use and then consider whether the allocation to P&L seems reasonable in the light of the costs that would be necessary if we needed to purchase an alternative to cover our requirements. Equities currently have several risk systems which are partly charged to P&L as we derive a benefit from reporting to the clients as well as using them to manage our portfolios.

We take all reasonable steps to ensure that our Dealing Commission policy is properly applied. Consequently, our investment processes are overseen by the DMC where senior management and our Compliance department evaluate on a periodic basis the range of goods, services and non-monetary benefits used and determine whether they continue to be appropriate and consistently deliver benefits to clients. In addition, the MiFID policy on “inducements and use of dealing commission” is reviewed periodically at the Dealing Management Committee and where material changes are made these will be communicated to clients.

Client referrals

MAGIM does not use client brokerage to compensate brokers for client referrals.

Directed brokerage

MAGIM does not, at the behest of its clients, direct trades to specific broker-dealers for execution in return for some sort of benefit (where such benefits would include services or payments that are realized by the client).

Trade Aggregation

Our dealing policy states that MAGIM “must receive and transmit all customer orders (regardless of client type) and connected party orders in designated investments in a manner which is prompt, fair and expeditious.” To that end we have an order execution policy that aggregates same-day client orders in the same securities and allocates them pro rata. Where that is not the case there must be clear, justifiable reasons for not doing so which are properly recorded.

The Dealing desk team take all reasonable steps to deliver the best result for the client. In deciding how to manage the order, the Dealing team will take into account a range of execution factors, which include (in alphabetical order): cost of execution, distribution of trading volumes, likelihood of execution and settlement, liquidity, nature of an order or market, price, size of order, speed of execution and settlement and volatility.

13. Review of Accounts

All equity fund portfolios that are managed by MAGIM are reviewed by Investment Oversight Committees which convene at least on a 6-monthly basis (although most funds are reviewed on a quarterly basis). The Investment Oversight Committee meetings are chaired by the Equities Director of Investment Oversight and attended by the relevant franchise team Head/fund managers. The Investment Oversight Committee considers several reports on various aspects of the funds including: performance, turnover, liquidity, dealing, attribution, risk and breaches. Minutes and any unresolved issues are then escalated to the relevant board or committee. For example, the Investment Management Committee (which convenes on a monthly basis) considers the output from the Investment Oversight process, by discussing any factors which might impact portfolio performance and regulatory compliance and will then report onwards to clients (if necessary and appropriate).

Furthermore, MAGIM provides client reporting which typically includes copies of the valuation of the clients’ portfolio (including a statement of the method of valuation adopted), a list of security transactions, a cash reconciliation, income and realised gains/losses schedules, performance statistics and a report on the period under review. In general MAGIM would expect to meet clients twice a year, but is available (as a minimum) for annual meetings.

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14. Client Referrals and Other Compensation

"We have entered into arrangements to pay our affiliates, as well as third parties, to solicit new business on behalf of our firm. We require our affiliate to disclose its relationship with us to clients and prospects, and we require third-party solicitors to provide an appropriate disclosure statement to clients and prospects regarding that arrangement."

15. Custody

MAGIM does not have custody of any US client funds or securities.

16. Investment Discretion

MAGIM has discretionary authority over client accounts. This includes buying or selling securities, the amount of securities bought or sold, broker or dealer to be used and the commission rates paid.

Investment activity is not undertaken unless a signed investment management agreement is in place. Client investment restrictions are coded into trading systems used by MAGIM to ensure adherence to client mandates. All fund managers are required to be accredited as Approved Persons under the rules of the FSA before managing client assets to ensure that fund objectives, restrictions and risk tolerances are fully understood before investment activity is carried out.

17. Voting Client Securities

Corporate governance

If clients wish to vote independently of M&G this is reflected in the investment management agreement which is put in place with the client at client-take-on stage. Where MAGIM has been given the responsibility to vote on behalf of its clients, It is not our policy to discuss company voting with clients unless specifically mandated to do so.

MAGIM has an active voting policy which is integral to our investment process. By exercising our votes we seek both to add value and to protect our clients' interests as shareholders. We have a dedicated Corporate Finance department that maintains a continuing dialogue with investee companies.

We look to work with the management of companies we hold and where we have a differing opinion, we will hold management accountable and/or work with them to understand our viewpoint. Investee companies are monitored closely, both in terms of their performance for creating shareholder value and issues arising from how they are directed and controlled.

We seek to act as a responsible shareholder and our approach is consistent with the UK's Financial Reporting Council (FRC) Stewardship Code. We also support the UK Corporate Governance Code which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders which contributes to effective corporate governance. Our policy is to make informed judgments as regards the application of the Code subject to the particular circumstances of the company concerned.

We take our responsibilities as a share owner seriously. It is our policy to vote at all meetings although in certain markets our desire to vote may be assessed on a case-by-case basis, taking into account the size and significance of each resolution, the difficulties of voting in the market in question and the risk of having securities blocked for sale ahead of company meetings. We do not hesitate to protect the interests of shareholders and our clients where necessary, although it should be noted that some of our clients do not permit us to vote on their behalf.

Where MAGIM performs voting for the client the client may request a periodic report of how the voting was conducted.

Clients may obtain a copy of the proxy voting policies upon request.

Where MAGIM does not perform voting for the client the client receives details of up and coming proxies and other solicitations from a third party provider that the client directly employs.

18. Financial Information

MAGIM does not require or solicit prepayment of more than \$1,200 in fees per client six months or more in advance and therefore has not included a balance sheet of its most recent fiscal year. MAGIM is not aware of any financial condition that is reasonably likely to impair its ability to meet its contractual commitments to clients, nor has MAGIM been the subject of a bankruptcy petition at any time during the past ten years.