Registered number: 00936683

M&G Investment Management Limited

Annual Report and Financial Statements

For the Year Ended 31 December 2020

M&G Investment Management Limited

Company Information

Directors	M L Burnett (appointed 18 February 2020) J M B Daniels S A Fitzgerald J W Foley G D Mason J C L Willcocks (appointed 20 February 2020)
Company secretary	M&G Management Services Limited
Registered number	00936683
Registered office	10 Fenchurch Avenue London EC3M 5AG
Independent auditor	KPMG LLP 15 Canada Square London E14 5GL

M&G Investment Management Limited

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Strategic Report
For the year ended 31 December 2020

Business review

M&G Investment Management Limited (the 'Company') is a member of the M&G plc group, the UK and international savings and investments business. The Company is a member of the sub-group headed by M&G Group Limited ("M&G" or the "M&G Group") and is an indirect subsidiary of M&G plc.

The principal activity of the Company is to provide investment management services in equities, fixed income and other asset classes for wholesale and institutional clients. The Company is authorised and regulated by the Financial Conduct Authority (FCA).

The profit before tax for the Company for the year was £125,895,000 (2019: £156,402,000). Further details of the results for the year are set out in the Profit and Loss Account and Other Comprehensive Income statement shown on page 17.

Brexit

The impact of Brexit is managed at the M&G Group level. The fund migration programme was completed in March 2019. Since then, M&G has been servicing EU and international investors through the Luxembourg platform and continues to service investors in the UK in London.

An international hub has been developed in Luxembourg, which is a fully licensed and operational business distributing traditional and alternative funds and servicing investors in Europe, Asia and America. Today, there are more than 40 people based in Luxembourg, including team members from Risk, Compliance, Finance, Operations and Distribution.

Ahead of the finalisation of the Brexit negotiations, M&G exercised further contingency plans. These included the establishment of a portfolio management capability within continental Europe to provide continuation of service to clients with whom M&G has segregated accounts and advisory arrangements, leveraging off the recently established EU platform which has the required regulatory permissions to carryout portfolio management activities.

The Financial Conduct Authority (FCA), European Securities and Markets Authority (ESMA) and the National Competent Authorities (NCAs) have confirmed that the Memorandums of Understanding enabling continued delegation of portfolio management activities will be valid from 1 January 2021.

The M&G Group continues to monitor political and regulatory developments in relation to the post-Brexit environment.

Principal risks and uncertainties

Overview

The Company is subject to M&G plc Group's internal control and risk management processes as detailed in the Group Governance Framework (GGF) and associated Group Risk Management Framework (RMF). The control procedures and systems established within the M&G plc Group are designed to manage, rather than eliminate, the risk of failure to meet business objectives. The Company takes on exposure to risks where there is adequate reward, and risks can be appropriately quantified and managed to safeguard the Company's ability to meet commitments to customers, comply with regulations, and protect its reputation.

The RMF requires all entities within the M&G plc Group, including the Company, to establish processes for identifying, measuring, managing, monitoring and reporting key risks. The RMF sets out the processes required to manage risk within agreed appetite levels which are aligned to delivering the Company and M&G plc Group strategy. The RMF is approved by the M&G plc Group Risk Committee and operates based on the concept of three lines of defence: (1) risk identification and management; (2) risk oversight, advice and challenge; and (3) independent assurance.

The Company is exposed to a number of risks. Some are inherent in running an investment management business and are not unique; others are unique and result from business strategy and structure. These risks may be categorised as follows:

Strategic risk

A significant portion of the Company's cost base is fixed and the Board accepts that the Company's revenues and profits are exposed to short-term market fluctuations. These risks are inherent in the Company's business model and it aims to ensure that they are monitored and managed appropriately.

Business environment risk

The Company acknowledges and risk accepts its exposure to business environment risk. Senior management continually assess the business environment and will take appropriate measures when necessary.

Operational risk

Operational risk is the risk of financial or non-financial impact resulting from inadequate or failed internal or outsourced processes and controls, colleague errors, technology issues or external events. The Company does not actively seek to take operational risk to generate returns. Instead, it accepts a level of risk that means the controls in place should prevent material impacts but should also not excessively restrict business activities. The Company has a robust risk management framework, established risk governance arrangements and effective risk management processes to ensure appropriate challenge and oversight of operational risk exposures and continued effectiveness of controls in the context of risk appetite.

M&G plc has rigorous plans in place to ensure business continuity in the event of disruptive circumstances and in response to COVID 19, these have been activated. As the impact of the pandemic continues to be felt, the focus remains on protecting customers' interests, safeguarding employees, protecting financial capability, working with supply partners and engaging with regulators. Operational resilience is regularly reviewed to ensure all appropriate action is taken to manage the wellbeing and safety of all employees, and clients are provided with the service they need. Specific COVID 19 reporting has been created and is monitored on a regular basis to manage the risks emanating from the pandemic on the Company's operations.

Financial risk

Financial risk is the risk that the Company is unable to maintain adequate capital and liquidity to meet its clients' and stakeholders' requirements under normal and stressed conditions. Financial risk encompasses credit and liquidity.

Credit risk is the exposure to loss arising from counterparty's failure to meet its contractual obligations, either as a result of business failure or intentional withholding of amounts due. In order to help ensure the profitability and solvency of the Company, the Company provides ongoing monitoring of key credit risk exposures on its balance sheet and actively manages these exposures via established governance forums.

Liquidity risk is the risk that the Company, although solvent, does not have available financial resources to enable it to meet its obligations as they fall due, or that the Company can secure such resources only at excessive cost. The Company expects to hold sufficient liquidity to ensure the continuity of its business under normal and stressed conditions.

With regard to COVID 19, the Company has modelled financial projections allowing for the impact of the pandemic. The projections currently show that the Company is expected to maintain sufficient net assets and liquid resources to remain financially viable for at least the period of the going concern assessment as outlined in the Directors' Report. Regarding liquidity management, the Company is also party to the M&G Group's contingency funding plan should a particularly adverse liquidity event arise.

Capital requirements and conflict management

In accordance with the Capital Requirements Directive, the Pillar 3 disclosures for the M&G Group, along with the M&G Group's compliance with the provisions of the FCA's Remuneration Code, are published on the internet at:

https://www.mandgplc.com/~/media/Files/M/MandG-Plc/documents/mandg-investments-policies/pillar-3-disclosures-31st-dec-2019.pdf

The M&G Group operates administrative and organisational arrangements to identify and manage conflicts of interest that might adversely affect its clients including:

- effective procedures to restrict the exchange of information where such exchange might harm clients;
- effective segregation of duties with appropriate supervision; and
- charging and remuneration policies that are reasonably designed to align the long-term interests of the Company, employees and clients.

Section 172(1) Statement

Section 172 of the Companies Act 2006 requires a Director of a company to act in the way they consider, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, section 172 requires a Director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the Company's employees;
- need to foster the Company's business relationships with suppliers, customers and others;
- impact of the Company's operations on the community and environment;
- desirability of the Company maintaining a reputation for high standards of business conduct, and
- need to act fairly as between members of the Company.

In discharging the section 172 duties the Directors have regard to the factors set out above. It is also recognised that the matters considered as a Board can often have unique characteristics. It can be required to consider additional factors, which are relevant to the specific matter under consideration. There is an acknowledgement from the Board that the relative importance of each factor considered will vary depending on the decision being taken. Across all decisions, the Board are mindful of the Company's purpose, regulatory obligations, strategic priorities and alignment with M&G plc overarching culture, vision and values.

As is normal for large companies, authority is delegated for day-to-day management of the Company to executives and then engage management in setting, approving and overseeing execution of the business strategy and related policies. Financial and operational performance and legal and regulatory compliance are reviewed at every Board meeting. Other areas are also reviewed over the course of the financial year including the Company's business strategy, key risks, stakeholder-related matters, and governance and legal matters. This is done through the consideration and discussion of reports which are sent in advance of each Board meeting and through presentations to the Board.

The Company's key stakeholders are its ultimate beneficial owner, M&G plc, and the stakeholder groups set out in M&G plc's Annual Report. The views and impact of the Company's activities on those stakeholders are an important consideration for the Directors when making relevant decisions. While there are cases where the Board itself judges that it should engage directly with certain stakeholder groups or on certain issues, for example, interaction with regulators, the size and spread of both stakeholders and the M&G plc Group means that generally other stakeholder engagement best takes place at Group level. It has been found that, as well as being a more efficient and effective approach, this also helps to achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company. For details on the some of the engagement that takes place with the Company's stakeholders please refer to the M&G plc 2020 Annual Report.

During the period, information has been provided to enhance the understanding of the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on financial and operational performance, non-financial key performance indicators, risk and environmental, social and governance matters. As a result of this, there has been an overview of engagement with stakeholders and other relevant factors which allows the Directors to understand the nature of the stakeholders' concerns and to comply with the section 172 duty to promote the success of the Company.

Principal Decisions

Set out below is an example of how the matters set out in section 172(1)(a)-(f) have been regarded when discharging the section 172 duty and the effect of that on decisions taken. Principal decisions are defined as both those that are material to the Company and also those that are significant to any key stakeholders. In making the following principal decisions the Board considered the impact on relevant stakeholders as well as the need to maintain a reputation for high standards of business conduct:

Section 172(1) Statement (continued)

Principal decision - Dividend to Parent

The Board approved the payment of dividends totalling £135m to its shareholder, M&G FA Limited. In making this decision the Board received detailed financial planning materials and considered a range of factors. These factors included any impact on the Company in the short- to medium-term as well as the long-term viability of the Company; its expected cash flow and financing requirements (including the regulatory capital position); and, the ongoing need for strategic investment in the business.

Financial key performance indicators

Funds under management

Funds under management have increased by 3% to £263.3bn at 31 December 2020 (2019: £254.4bn). This is mainly due to recovery in global investment markets and strong net inflows in the Institutional funds, partly offset by net outflows in the wholesale range.

Revenue

Revenue, which largely consists of management fee and performance fee income, has decreased by 1% to £605,325,000 in 2020 from £609,075,000 in 2019. This is driven by a decrease in performance fee income, partially offset by an increase in investment management fees. The increase in investment management fees primarily reflects the higher level of Institutional funds under management, partly offset by lower delegated portfolio management fees received from other group companies in respect of OEICs and SICAVs.

Profit before taxation

Profit before taxation has decreased by 20% to £125,895,000 in 2020 from £156,402,000 in 2019. The lower figure is mainly driven by an increase in allocated administrative expenses in addition to the reduction in revenue outlined above.

Net assets

Net assets have decreased by 18% to £152,036,000 as at 31 December 2020 from £185,091,000 as at 31 December 2019, due to the dividend payment being more than the retained profit after tax for the year.

This report was approved by the Board and signed on its behalf.

M&G Management Services Limited
Company Secretary

Date: 01 April 2021

Directors' Report
For the year ended 31 December 2020

The Directors present their report and the financial statements for the year ended 31 December 2020.

Directors' responsibilities statement

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Results and dividends

The profit for the year, before taxation, amounted to £125,895,000 (2019: £156,402,000).

Dividends paid in the year amounted to £135,000,000 (2019: £60,000,000).

The payment of a potential further dividend will be considered at a future Board meeting.

Directors

The Directors who served during the year were:

M L Burnett (appointed 18 February 2020)
J M B Daniels
S A Fitzgerald
J W Foley
G D Mason
J C L Willcocks (appointed 20 February 2020)

Political contributions

The Company made no political contributions during the year (2019: £nil).

Employee involvement

All staff were employed during the year by the immediate parent company. Employment policies are described in the annual report and financial statements of that company.

Qualifying third party indemnity provisions

Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were accordingly in force during the course of the financial year ended 31 December 2020 for the benefit of the then Directors and, at the date of this report, are in force for the benefit of the Directors in relation to certain losses and liabilities which may occur (or have occurred) in connection with their duties, power or office.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue its operations for a period of at least 12 months from the date that the financial statements are approved. In making this assessment the Directors have considered the profitability, liquidity and solvency of the Company, taking into account current performance and financial position, factors likely to affect the Company’s future development, and key risks in the current economic climate. This assessment has taken into consideration the current information available in respect of the COVID 19 outbreak, acknowledging that information in respect of the outbreak and its outcome are highly uncertain. Due to the uncertainty regarding COVID 19, additional stress tests have been carried out to test the Company’s resilience to an increased severity than is currently being experienced and actions available to the Company to mitigate or reduce the impact.

On the basis of the assessment described, the Directors have adopted the going concern basis of accounting in preparing the Company’s financial statements for the year ended 31 December 2020.

Engagement with stakeholders

Engagement with M&G’s key stakeholder groups helps foster and maintain relationships and forms an important part the wider Company’s operation and is therefore considered at an M&G plc level.

Not all stakeholder engagement is reported directly to the Board or takes place directly with the Board. However, the output of engagement across the wider Company informs business level decisions and proposals, with an overview of developments and relevant feedback being reported to the M&G plc Board and/or its Committees. The purpose of this is to ensure that the M&G plc Board can understand and consider the views of relevant stakeholders when making decisions.

Customers

The customer is at the heart of everything M&G plc does. The M&G plc Board has included in its scheduled meetings regular reports from the Chief Customer and Distribution Officer. As well as qualitative data, the M&G plc Board also receives data on customer satisfaction complaints and outcomes. Throughout 2020, the M&G plc Board has focused specific attention on our COVID-19 pandemic response, customer vulnerability, ESG and Sustainability and Value Assessment.

Institutional Shareholders

The M&G plc Board is kept aware of major shareholder issues and concerns through reports from a variety of sources including the Chief Executive and Chief Financial Officer reports, a regular report at M&G plc Board meetings by the Director of Investor Relations and feedback from the M&G plc Chair on governance meetings with major investors. The Investor Relations Report covers share price performance, investor meetings and analyst reports, views and forecasts.

Regulators

It is vitally important that M&G plc continues to maintain strong regulatory relationships, communicating openly, working collaboratively and providing the FCA and all global regulators with timely notification of issues. During the year M&G plc worked hard to ensure it met the regulatory obligations as a global independent business. This approach included significant engagement from the Board and members of the Senior Executive team with our regulators on a range of key risks. The M&G plc Chair and other M&G plc Board members met separately with the supervisory teams at the FCA. The M&G plc Board receives a report on regulatory matters from the Director of Public Policy and Regulation at every Board meeting and all relevant regulatory correspondence is made available to the M&G plc Board in a timely manner via a dedicated Reading Room. The M&G plc Board has held additional meetings over 2020 to discuss responses to specific regulator requests and recommendations.

Disclosure of information to auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and

- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Under section 487(2) of the Companies Act 2006, KPMG LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

On 28 October 2020, the ultimate parent of the Company (M&G plc) approved the appointment of PricewaterhouseCoopers LLP as its auditor for the year ending 31 December 2022, subject to shareholder approval at the M&G plc 2022 Annual General meeting.

This report was approved by the Board and signed on its behalf.

M&G Management Services Limited
Secretary

Date: 01 April 2021

Independent Auditor's Report to the Members of M&G Investment Management Limited

Opinion

We have audited the financial statements of M&G Investment Management Limited (the "Company"), which comprise the balance sheet as at 31 December 2020, the statements of profit or loss account and other comprehensive income and the statement of changes in equity for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of the Company's profit for the year then ended;
- are properly prepared in accordance with United Kingdom accounting standards, including FRS 101 Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including FRC Ethical Standards. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements (the "going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- enquiring of management as to the Company’s policies and procedures to prevent and detect fraud as well as enquiring whether management have knowledge of any actual, suspected or alleged fraud;
- reading minutes of meetings of those charged with governance; and
- using analytical procedures to identify any unusual or unexpected relationships.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries. On this audit we do not believe there is a fraud risk related to revenue recognition because the Company’s revenue streams are non-judgmental and simple in nature with respect to accounting policy choice, and are easily verifiable to external data sources or agreements with little or no requirement for estimation from management. We did not identify any additional fraud risks.

We performed procedures including

- Identifying journal entries and other adjustments to test based on risk criteria and comparing any identified entries to supporting documentation; and
- incorporating an element of unpredictability in our audit procedures.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with management (as required by auditing standards), and discussed with management the policies and procedures regarding compliance with laws and regulations.

The Company is a regulated entity, our assessment of risks involved gaining an understanding of the control environment including the Company’s procedures for complying with regulatory requirements. We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

The Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

The Company is subject to other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of litigation or impacts on the Company’s ability to operate. We identified Company law as being the area most likely to have such an effect. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remains a higher risk of non-detection of fraud, as this may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

The Directors' report and Strategic report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 9, the directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report to the Members of M&G Investment Management Limited

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and its members, as a body, for our audit work, for this report, or for the opinions we have formed.

Bano Sheikh

Bano Sheikh (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

Date: 01 April 2021

Profit and Loss Account and Other Comprehensive Income
For the year ended 31 December 2020

	Note	2020 £000	2019 £000
Revenue	2	**605,325**	609,075
Administrative expenses		**(481,388)**	(451,157)
Operating profit	3	**123,937**	157,918
Interest receivable and similar income	6	**1,970**	152
Interest payable and similar charges	7	**(13)**	(1,668)
Profit on ordinary activities before taxation		**125,894**	156,402
Tax on profit	8	**(23,949)**	(29,663)
Profit for the year		**101,945**	126,739
Items that may be reclassified to profit or loss:			
Currency translation differences		**-**	(65)
		-	(65)
Total comprehensive income for the year		**101,945**	126,674

The notes on pages 20 to 32 form part of these financial statements.

M&G Investment Management Limited
Registered number: 00936683

Balance Sheet
As at 31 December 2020

	Note		2020 £000		2019 £000
Current Assets					
Fixed Assets					
Fixed asset investments			**-**		1
			-		1
Debtors: amounts falling due within one year	10	**186,270**		164,831	
Cash at bank and in hand	11	**91,196**		85,365	
		277,466		250,196	
Creditors: amounts falling due within one year	12	**(125,430)**		(65,106)	
Net current assets			**152,036**		185,090
Net assets			**152,036**		185,091
Capital and reserves					
Called up share capital	13		**9,350**		9,350
Foreign exchange reserve			**(50)**		(50)
Profit and loss account			**142,736**		175,791
			152,036		185,091

The financial statements were approved and authorised for issue by the Board and were signed on its behalf by:

S A Fitzgerald
Director

Date: 31/03/2021

The notes on pages 20 to 32 form part of these financial statements.

Statement of Changes in Equity
For the year ended 31 December 2020

	Called up share capital	Foreign exchange reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2020	**9,350**	**(50)**	**175,791**	**185,091**
Profit for the year	**-**	**-**	**101,945**	**101,945**
Currency translation differences	**-**	**-**	**-**	**-**
Total comprehensive income for the year	**9,350**	**(50)**	**277,736**	**287,036**
Dividends	**-**	**-**	**(135,000)**	**(135,000)**
At 31 December 2020	**9,350**	**(50)**	**142,736**	**152,036**

Statement of Changes in Equity
For the year ended 31 December 2019

	Called up share capital	Foreign exchange reserve	Profit and loss account	Total equity
	£000	£000	£000	£000
At 1 January 2019	**9,350**	**15**	**109,052**	**118,417**
Profit for the year	**-**	**-**	**126,739**	**126,739**
Currency translation differences	**-**	**(65)**	**-**	**(65)**
Total comprehensive income for the year	**9,350**	**(50)**	**235,791**	**245,091**
Dividends	**-**	**-**	**(60,000)**	**(60,000)**
At 31 December 2019	**9,350**	**(50)**	**175,791**	**185,091**

The notes on pages 20 to 32 form part of these financial statements.

1. Accounting Policies

1.1 Basis of preparation of financial statements

M&G Investment Management Limited (the "Company") is a company incorporated and domiciled in the UK.

The financial statements have been prepared under the historical cost convention, except that the following assets and liabilities are stated at their fair value: financial instruments classified as fair value through the profit or loss, and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of international accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The preparation of financial statements in compliance with FRS 101 can require the use of certain critical accounting estimates, however, the Directors do not consider there to be any critical accounting estimates or judgements in the preparation of the Company's financial statements.

1.2 Financial reporting standard 101 - reduced disclosure exemptions

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member;
- the requirements in IAS 24 to disclose compensation of Key Management Personnel; and
- the requirements of IAS 24 to disclose transactions with a management entity that provides key management personnel services to the Company.

The Company is a subsidiary undertaking of M&G plc which is the ultimate parent company incorporated in England and Wales. Consolidated financial statements are prepared by M&G plc and copies of these are available to the public and may be obtained from the registered office at 10 Fenchurch Avenue, London, EC3M 5AG.

1. Accounting Policies (continued)

1.2 Financial reporting standard 101 - reduced disclosure exemptions (continued)

As the consolidated financial statements of M&G plc include the equivalent disclosures the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

1.3 Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue its operations for a period of at least 12 months from the date that the financial statements are approved. In making this assessment the Directors have considered the profitability, liquidity and solvency of the Company, taking into account current performance and financial position, factors likely to affect the Company’s future development, and key risks in the current economic climate. This assessment has taken into consideration the current information available in respect of the COVID 19 outbreak, acknowledging that information in respect of the outbreak and its outcome are highly uncertain. Due to the uncertainty regarding COVID 19, additional stress tests have been carried out to test the Company’s resilience to an increased severity than is currently being experienced and actions available to the Company to mitigate or reduce the impact.

On the basis of the assessment described, the Directors have adopted the going concern basis of accounting in preparing the Company’s financial statements for the year ended 31 December 2020.

1.4 Foreign currency

Functional and presentational currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Transactions in foreign currencies are translated to the Company's functional currency at the foreign exchange rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated back to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the foreign exchange reserve or non-controlling interest, as the case may be.

1. Accounting Policies (continued)

1.5 Revenue

Management fee revenue is based on investment assets under management and is only recognised when the Company satisfies its performance obligation to provide the asset management services. It is recognised in the accounting period in which the services are rendered and is recognised net of rebates.

Since the asset management service the Company provides is a continuous service, it satisfies its performance obligation over time. Therefore, the Company meets the criteria for its revenue to be recognised over time as the client benefits from the asset management services received from the Company.

Performance fee revenue is based on the achievement of prescribed performance hurdles. It is only recognised when the performance obligations are satisfied or upon the crystallisation event occurring and when it is highly probable that a significant reversal will not occur.

1.6 Expenses

Administrative expenses include a recharge from the immediate parent company of costs borne on behalf of the Company.

Commissions are paid to third parties for ongoing services under distribution agreements and are charged to the profit and loss account over the period in which the service is expected to be provided. Commission payments are compliant with local regulation.

1.7 Interest receivable and similar income

Interest receivable is recognised in profit or loss as it accrues.

Foreign currency gains are reported on a net basis, if applicable.

1.8 Interest payable and similar charges

Interest payable is recognised in profit or loss as it accrues.

Foreign currency losses are reported on a net basis, if applicable.

1. Accounting Policies (continued)

1.9 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

The calculation of the total tax charge inherently involves a degree of estimation and judgement. The positions taken in tax returns, where applicable tax regulation is subject to interpretation, are recognised in full in the determination of the tax charge in the financial statements if the Company considers that it is probable that the taxation authority will accept those positions. Otherwise, the Company considers an uncertain tax position to exist and a provision is recognised to reflect that a taxation authority, upon review of the positions, could alter the tax returns. From recognition, the provision is measured based on management's judgement and estimate of the likely amount of the liability or recovery. This is achieved by providing for the single best estimate of the most likely outcome or the weighted average expected value where there are multiple possible outcomes, taking into account external advice where appropriate. Each uncertain tax treatment is considered separately or together as a group, depending on management's judgement as to which approach better predicts the resolution of the uncertainty. It is assumed that tax authorities will examine the uncertain tax treatments and they have full knowledge of all related information. The judgments and estimates made to recognise and measure the effect of uncertain tax positions are reassessed whenever circumstances change or when there is new information that affects those judgments.

1.10 Dividends

Equity dividends are recognised when they become legally payable.

1. Accounting Policies (continued)

1.11 Financial instruments

(i) Recognition and initial measurement

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit and loss, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost of fair value through other comprehensive income as described above are measured at fair value through profit and loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management.

1. Accounting Policies (continued)

1.11 Financial instruments (continued)

(b) Subsequent measurement and gains and losses

- Financial assets at fair value through profit and loss – these assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

- Financial assets at amortised cost - these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities and equity

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the group's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost and are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit and loss. Any gain or loss on derecognition is also recognised in profit and loss.

1. Accounting Policies (continued)

1.11 Financial instruments (continued)

Impairment

The Company recognises loss allowances for expected credit losses on financial assets measured at amortised cost. Loss allowances are measured at an amount equal to lifetime expected credit losses, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month expected credit loss. Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime expected credit loss.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit loss, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Lifetime expected credit losses are the expected credit losses that result from all possible default events over the expected life of a financial instrument. 12-month expected credit losses are the portion of expected credit losses that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months) The maximum period considered when estimating expected credit losses is the maximum contractual period over which the group is exposed to credit risk.

Measurement of expected credit losses

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the group expects to receive). Expected credit losses are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

1. Accounting Policies (continued)

1.12 Adopted IFRS not yet applied

The following new accounting pronouncements have also been issued and are not yet effective:

- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current (effective date 1 January 2023).
- Amendments to IAS 37: Onerous Contracts—Cost of Fulfilling a Contract (effective date 1 January 2022).
- Amendments to References to the Conceptual Framework in IFRS 3 (effective date 1 January 2022).
- Annual Improvements to IFRS Standards 2018-2020 (effective date 1 January 2022).
- Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16: Interest Rate Benchmark Reform – Phase 2 (effective date 1 January 2021).

The Company is not expecting these pronouncements to have a significant impact on the Company's financial statements.

2. Analysis of revenue

An analysis of revenue by class of business is as follows:

	2020	2019
	£000	£000
Management fees *	**576,552**	564,481
Performance fees *	**15,158**	28,492
Stock lending fees	**9,225**	9,426
Other	**4,390**	6,676
	605,325	609,075

All revenue arose within the United Kingdom.

* Revenue includes management fee income from intergroup companies of £464,550,392 (2019: £461,578,107) and performance fees from intergroup companies of £11,659,697 (2019: 19,850,151).

3. Staff costs

All staff were employed during the year by the immediate parent company. Analysis of staff costs, pension commitments and share-based payments are shown in the annual report and financial statements of that company.

4. Auditor's remuneration

	2020	2019
	£000	£000
Audit of these financial statements	**100**	80

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's ultimate parent, M&G plc.

5. Directors' remuneration

	2020	2019
	£000	£000
Directors' emoluments	**2,526**	2,930
Amounts receivable under long term incentive schemes	**1,657**	1,517
Company contributions to defined contribution pension schemes	**4**	22
Compensation for loss of office	**-**	349
	4,187	4,818

For the highest paid director the aggregate of emoluments was £1,327,006 (2019: £1,553,259), the amount receivable under long-term incentive schemes was £569,785 (2019: £599,411) and company pension contributions amounted to £nil (2019: £551). During the year, the highest paid director did not exercise share options.

5. Directors' remuneration (continued)

Retirement benefits are accruing to the following numbers of directors under:	2020	2019
Defined contribution schemes	**3**	5
Defined benefit schemes	**1**	3
	4	8

	2020	2019
The number of directors who exercised share options was	-	2
The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was	-	7

6. Interest receivable and similar income

	2020 £000	2019 £000
Net foreign exchange gain	**1,898**	-
Bank interest receivable	**72**	152
	1,970	152

7. Interest payable and similar expenses

	2020 £000	2019 £000
Net foreign exchange loss	**-**	1,661
Bank interest payable	**13**	7
	13	1,668

8. Taxation

	2020	2019
	£000	£000
Corporation tax		
Current tax on profits for the year	**23,920**	29,682
Adjustments in respect of previous periods	**29**	(23)
Total current tax	**23,949**	29,659
Foreign tax		
Foreign Tax on income for the year	**-**	3
Total current tax	**23,949**	29,662
Deferred tax		
Origination and reversal of timing differences	**-**	1
Total deferred tax	**-**	1
Taxation on profit on ordinary activities	**23,949**	29,663

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2019 – lower than) the standard rate of corporation tax in the UK of 19.00% (2019 - 19.00%).

	2020	2019
	£000	£000
Profit on ordinary activities before tax	**125,895**	156,402
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2019 - 19.00%)	**23,920**	29,716
Effects of:		
Expenses not deductible	**-**	14
Effects of overseas tax rates	**-**	(45)
Adjustments to tax charge in respect of prior periods	**29**	(23)
Total tax charge for the year	**23,949**	29,663

8. Taxation (continued)

Factors that may affect future tax charges

Deferred tax assets are recognised to the extent that they are regarded as recoverable. On the assessment of all available evidence, the asset is recognised if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying temporary differences can be deducted.

On 3 March 2021, the UK Government announced a proposal to increase the rate of UK corporation tax from 19% to 25% with effect from 1 April 2023. Changes in tax laws and rates may affect recorded deferred tax assets and liabilities and our effective tax rate in the future. We expect that, in line with the rate increase proposed, there will be an increase to our effective tax rate for periods from 2023 onwards. The impact of this proposal on the Company's deferred tax assets and liabilities is not expected to be significant.

9. Dividends

	2020	2019
	£000	£000
On 9,350,000 ordinary shares of £1 each	**135,000**	60,000

10. Debtors

	2020	2019
	£000	£000
Trade debtors	**14,944**	17,483
Amounts owed by group undertakings	**100,500**	68,821
Other debtors	**2,889**	2,490
Prepayments and accrued income	**62,454**	75,794
Corporation tax receivable	**5,479**	239
Deferred taxation	**4**	4
	186,270	164,831

11. Cash at bank and in hand

	2020	2019
	£000	£000
Cash at bank and in hand	**91,196**	85,365

12. Creditors: amounts falling due within one year

	2020	2019
	£000	£000
Amounts owed to group undertakings	**123,388**	42,871
Corporation tax payable	**-**	16,961
Taxation and social security	**1,312**	4,071
Accruals and deferred income	**729**	1,203
	125,429	65,106

13. Share capital

	2020	2019
	£000	£000
Allotted, called up and fully paid		
9,350,000 (2019 - 9,350,000) ordinary shares of £1.00 each	**9,350**	9,350

14. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with fellow wholly owned group companies and the exemption under paragraph 8(j) of FRS101 not to disclose key management personnel compensation and amounts incurred for the provision of key management personnel services by a separate management entity.

15. Immediate and ultimate parent company

The Company's immediate parent company is M&G FA Limited.

The Company is a subsidiary undertaking of M&G plc which is the ultimate parent company incorporated in England and Wales. Consolidated financial statements are prepared by M&G plc and copies of these are available to the public and may be obtained from the registered office at 10 Fenchurch Avenue, London, EC3M 5AG.