

Registered number: 00090776

M&G Securities Limited

Annual Report and Financial Statements

For the year ended 31 December 2019

M&G Securities Limited

Company Information

Directors	M M Ammon (resigned 17 October 2019) G N Cotton (resigned 30 September 2019) C Dobson N M Donnelly S A Fitzgerald (appointed 16 March 2020) P R Jelfs G W Macdowall (resigned 4 January 2019) M A McGrade L J Mumford
Company secretary	T C Nelson
Registered number	00090776
Registered office	10 Fenchurch Avenue London EC3M 5AG
Independent auditor	KPMG LLP 15 Canada Square London E14 5GL

M&G Securities Limited

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M&G Securities Limited

Strategic Report For the year ended 31 December 2019

Business review

M&G Securities 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 an indirect subsidiary of M&G plc following the demerger of M&G plc from Prudential plc, the former parent company, on 21 October 2019.

The principal activity of the Company during the year under review was that of acting as the Authorised Fund Manager of a range of UK and EU funds, for which it acts as Authorised Corporate Director ('ACD') or unit trust manager. The Company also acts as the provider of management company services to a range of Irish UCITS, as an Alternative Investment Fund Manager of a range of UK Alternative Investment Funds ('AIFs') and is the ISA Manager for the M&G Wholesale fund range. The Company is authorised and regulated by the Financial Conduct Authority ('FCA').

The Company delegates investment management to M&G Investment Management Limited ('MAGIM'), a firm authorised and regulated in the UK by the FCA. The Board has responsibility for oversight of the investment management services provided by MAGIM, as investment manager for the Company's collective investment schemes.

During the period 1 October 2018 to 8 March 2019, the management of £36 billion of assets under management was transferred to a fellow group undertaking, M&G Luxembourg S.A., as part of the Brexit planning described below. This has resulted in a significant decrease in revenue, rebates and commission through the Profit and Loss Account and decrease in the relevant debtor and creditor balances on the Balance sheet. M&G Luxembourg S.A. has delegated portfolio management of the funds to MAGIM, a UK undertaking, and the resulting increase in revenue for MAGIM is reflected in its financial statements. Further detail on the migration of funds is mentioned in the Brexit section below.

The profit before tax for the Company for the year was £88,020,000, (2018: £230,367,000). Further details of the results for the year are set out in the Profit and Loss Account and Other Comprehensive Income shown on page 14.

Brexit

Reflecting the UK's decision to leave the European Union (EU) on 31 January 2020 and following the referendum result of 2016, M&G had already taken several steps to minimise potential disruption to our clients, protect their interests and provide as much certainty and clarity as possible.

These steps include the implementation of M&G's Brexit plan, designed in 2016, which involved the establishment of a Luxembourg based super management Company and MiFID distribution firm. Both are now fully licensed and operational, distributing traditional and alternative funds, products and services across our network of European offices, and internationally. Today, M&G has more than 35 people based in Luxembourg, including team members from Risk, Legal and Compliance, Operations and Distribution.

The related M&G fund migration programme is also complete. Through this, the Company successfully transferred £36 billion of assets under management to the Company's expanded SICAV platform in Luxembourg.

A business contingency plan has also been developed. This includes the establishment of a portfolio management capability within continental Europe to provide continuation of service to M&G's clients with whom there are segregated account arrangements, leveraging off the recently established EU platform which has the required regulatory permissions to carryout portfolio management activities.

The Company continues to monitor political and regulatory developments on the negotiations during the transition period and is ready to adjust or activate contingency plans, where necessary.

**Strategic Report (continued)
For the year ended 31 December 2019**

COVID-19

The Company continues to monitor the effects of the coronavirus (COVID-19) outbreak which has been declared as a pandemic by the World Health Organization. COVID-19 has caused significant sickness and death globally, along with substantial isolation where people may only leave their homes for critical journeys or if identified as a key worker. The outbreak has not only prompted widespread health concerns, but has caused recent deteriorations in global market conditions. The eventual outcome is highly uncertain and is largely dependent on the success of authorities in containing and managing the outbreak.

In these difficult times, the Company has two clear priorities: the safety and well-being of colleagues and the continuation of service to customers and clients to the best of our abilities. Detailed business continuity plans have been invoked to ensure that the Company can operate as usual in the face of the challenge posed by the spread of COVID-19. The vast majority of colleagues are now working from home with access to the full set of support systems and necessary equipment to perform their roles.

COVID-19 is expected to result in a deterioration in financial performance over 2020, driven by a reduction in asset management fees earned due to, in particular, the adverse impact of market conditions on equity and property investments.

Whilst the full financial implications are not yet known, based on the Company's current strong financial and liquidity position, the Directors believe the Company is in a position to withstand the financial impact of the pandemic.

Principal risks and uncertainties

Principal risks and uncertainties are managed by the M&G Group at a global level.

The M&G Group 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.

The specific risks and uncertainties relevant to the Company may be categorised as follows:

Operational risk

Operational risk is the risk of loss or unintended gain arising from inadequate or failed internal processes and systems, from failure by personnel or from external events. The M&G Group aims to manage all aspects of operational risk in a way that meets or surpasses the reasonable expectations of its clients, shareholders and Regulators. 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. Our Incident Management Structure is working hard to ensure we protect our customers interests, safeguard our employees, protect our financial capability, stabilise our supply partners and engage with our regulators. Operational resilience is regularly reviewed to ensure we are taking all appropriate action to manage the wellbeing and safety of our employees, and that we continue to give our clients 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 our operations.

Strategic Report (continued)
For the year ended 31 December 2019

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.

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its assets and liabilities. 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.

With regard to COVID-19, the Company has modelled financial projections allowing for the immediate market shock of the pandemic and further onerous stress tests have been applied. This modelling has allowed for a further deterioration in investment markets, the potential for investor outflows and the risk of debtor default. 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.

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:

<http://docs.mandg.com/docs/Corporate/Pillar-3-Disclosures.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

**Strategic Report (continued)
For the year ended 31 December 2019**

Section 172 (1) statement

Section 172 of the Companies Act 2006 requires a Director of a Company to act in the way he or she considers, 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 our section 172 duties we have regard to the factors set out above. We also recognise the matters we consider as a Board can have unique characteristics. This can require us to have regard to 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 we consider will vary depending on the decision being taken. Across all the Board's decisions, we are mindful of the Company's purpose, regulatory obligations, strategic priorities and alignment with the M&G Plc overarching culture, vision and values.

As is normal for large companies, we delegate authority for day-to-day management of the Company to executives and then engage management with execution of the business strategy and related policies. We review at each regular Board meeting, financial and operational performance as well as risk and regulatory reporting. We also review other areas over the course of the financial year including the Company's business strategy; financial reporting; key risks; stakeholder-related matters; diversity and inclusivity; environmental matters; corporate responsibility; material outsource partners and, governance, compliance 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 on certain issues, for example, interaction with regulators, the size and spread of both our stakeholders and the M&G Plc Group means that other stakeholder engagement takes place at Group level. We find that as well as being a more efficient and effective approach, this also helps us 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 so as to encourage the Directors to understand the issues to which they must have regard, please see M&G plc 2019 Annual Report.

During the period we received information to help us understand 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 our financial and operational performance, non-financial key performance indicators, risk and environmental, social and governance matters. As a result of this we have had an overview of engagement with stakeholders and other relevant factors which allows us to understand the nature of the stakeholders' concerns and to comply with our section 172 duty to promote the success of the Company.

Strategic Report (continued)
For the year ended 31 December 2019

Section 172 (1) statement (continued)

Principal Decisions

We set out below some examples of how we have had regard to the matters set out in section 172(1)(a)-(f) when discharging our section 172 duty and the effect of that on decisions taken by us. We define principal decisions as both those that are material to the Company, but also those that are significant to any of our key stakeholders. In making the following principal decisions, the Board considered the relevant impact on stakeholders as well as the need to maintain a reputation for high standards of business conduct:

Principal decision 1 – Dividends to Parent

Each year the Board makes an assessment of the strength of the Company's balance sheet and future prospects relative to uncertainties in the external environment and makes decisions about the payment of dividends. In 2019, the Board approved payment of dividends totalling £55m to its parent, M&G FA Limited. In making these decisions 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 our business, as well as and the expectations of our ultimate parent, M&G Plc.

Principal decision 2 - Suspension of dealing in M&G Property Portfolio

As the Company is Authorised Corporate Director ('ACD') of M&G Property Portfolio ('the Fund') and Manager of M&G Feeder of Property Portfolio ('the Feeder Fund') the Board sought regular updates on the liquidity position of the Funds following initiation of an enhanced oversight programme in February 2019 to monitor the impact of high net outflows.

Following a sustained period of high outflows which coincided with a period where Brexit-related uncertainty and ongoing structural shifts in the UK retail property sector had made it difficult to sell commercial property, the Board approved a recommendation to suspend dealing in the Funds on 4th December 2019. The Board's decision, which it believed to be in the best interests of investors, was made with the agreement of the Depositary and Trustee of the Fund and Feeder respectively. The Financial Conduct Authority was informed.

In the period leading up to its decision to suspend dealing, the Board received and considered reports and recommendations from the Product Management Committee at regular intervals throughout 2019. These reports included information on cash levels and actions taken to balance the interests of continuing investors by maintaining the integrity of the portfolio to preserve long term value whilst meeting redemption demands. The Board agreed to apply a 30% discount to the annual management charge in recognition of the inconvenience caused to investors during suspension.

The Board continues to review the suspension status monthly with a view to resumption of dealing as soon as the liquidity position is restored.

Financial key performance indicators

Revenue

Revenue, which consists largely of management fees and unit sales, has decreased by 63% to £322,679,000 in 2019 from £863,494,000 in 2018. This is primarily due to the migration of OEIC funds to SICAV funds that are now managed by M&G Luxembourg S.A., as mentioned in the business review on page 1.

Profit before tax

Profit before tax has decreased by 62% to £88,020,000 in 2019 from £230,367,000 in 2018, driven by the reduction in revenue in the year.

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Strategic Report (continued)
For the year ended 31 December 2019

Financial key performance indicators (continued)

Net assets

Net assets have increased by 15% to £123,310,000 as at 31 December 2019 from £107,011,000 as at 31 December 2018 , due to the dividend payment being less than the retained profit after tax.

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

T Nelson

T C Nelson
Company Secretary

Date: 24 April 2020

M&G Securities Limited

Directors' Report (continued) For the year ended 31 December 2019

The Directors present their report and the financial statements for the year ended 31 December 2019.

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 judgements 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 £88,020,000 (2018:£230,367,000).

Dividends paid in the year amounted to £55,000,000 (2018: £250,000,000).

The Directors do not recommend the payment of a further dividend.

Directors

The Directors who served during the year were:

M M Ammon (resigned 17 October 2019)
G N Cotton (resigned 30 September 2019)
C Dobson
N M Donnelly
P R Jelfs
G W Macdowall (resigned 4 January 2019)
M A McGrade
L J Mumford

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Directors' Report (continued) For the year ended 31 December 2019

Political contributions

The Company made no political contributions during the year (2018: £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 2019 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 2019.

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 and determined that its Matters Reserved would cover new forms of business or geographic regions to ensure the Board maintains oversight of who the Company's customers are.

M&G Securities Limited

Directors' Report (continued) For the year ended 31 December 2019

Engagement with Stakeholders (continued)

Business partners

The M&G plc Board is conscious of the huge importance of third-party suppliers and business partners in the operating model of the M&G plc business. This is an area of focus for the M&G plc Risk and Audit Committees, examples being the Audit Committee's time spent in 2019 on audit tender considerations and the Risk Committee's review of operational risks connected to technology partners. The Chief Operating Officer gives a full report to the M&G plc Board on all functional matters twice a year and ad hoc reports on projects as necessary. The COO leads the merger and transformation work for the wider group and the M&G plc Board has had careful oversight of this, both in terms of cost and suppliers.

Retail Shareholders

Retail shareholders have dedicated services in place via the Group Secretariat team and the Group's registrars, Equiniti. The M&G plc Board also takes time to review materials and prepare for the AGM as a key formal interaction with shareholders. On listing, the M&G plc Board was cognisant of the retail shareholder needing a clear introduction to the wider Group. The Group Secretariat team produced a welcome booklet for all shareholders setting out a message from the Chairman and helpful information on dividend payments, voting and contacting the Company.

Regulators

Maintaining strong regulatory relationships, communicating openly, working collaboratively and providing the FCA and all global regulators with timely notification of issues are of vital importance to M&G plc. The business aims to ensure it approaches its relationship with regulators in an open and constructive manner at all times.

In the year and a half prior to demerger M&G plc worked extensively with the FCA and other regulators to develop and maintain this approach which included significant engagement from the Board and members of the Senior Executive team surrounding the demerged business. This included the Chair and other M&G plc Board members meeting separately with the supervisory teams at the FCA to discuss key areas of focus. This approach is a priority and one that M&G plc will continue to take as an independent business operating globally. M&G plc looks forward to working with the regulators in the months and years to come. The M&G plc Board receives a report on regulatory matters at every Board meeting from the Director of Policy and Regulatory Affairs. All relevant regulatory correspondence is made available to the Board in a timely manner via a dedicated Reading Room.

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.

Post balance sheet events

The Company continues to monitor the effects of the coronavirus (COVID-19) outbreak which has been declared as a pandemic by the World Health Organization. The outbreak has not only prompted widespread health concerns, but has caused recent deteriorations in global market conditions. The eventual outcome is highly uncertain and is largely dependent on how successful authorities are at containing and managing the outbreak.

COVID-19 is expected to result in a deterioration in financial performance over 2020, driven by a reduction in asset management fees earned. The balance of net assets will be impacted accordingly.

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Directors' Report (continued)
For the year ended 31 December 2019

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.

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

T Nelson

T C Nelson
Company Secretary

Date: 24 April 2020

M&G Securities Limited

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

Opinion

We have audited the financial statements of M&G Securities Limited ("the Company") for the year ended 31 December 2019 which comprise the Profit and Loss Account and Other Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in Note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK 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 the FRC Ethical Standard. 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").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Strategic Report and Directors' 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.

M&G Securities Limited

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

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 audit.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 4, the Directors are responsible for: the preparation of the financial statements and for 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.

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 the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Thomas Brown (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

15 Canada Square
London
E14 5GL
Date:

M&G Securities Limited

**Profit and Loss Account and Other Comprehensive Income
For the year ended 31 December 2019**

	Note	2019 £000	2018 £000
Revenue	2	322,679	863,494
Gross profit		322,679	863,494
Administrative expenses		(234,306)	(634,314)
Operating profit	3	88,373	229,180
Interest receivable and similar income	6	829	1,564
Interest payable and expenses	7	(1,182)	(377)
Profit before tax		88,020	230,367
Tax on profit	8	(16,721)	(43,779)
Profit for the financial year		71,299	186,588
Total comprehensive income for the year		71,299	186,588

The notes on pages 17 to 29 form part of these financial statements.

M&G Securities Limited
Registered number:00090776

Balance Sheet
As at 31 December 2019

	Note	2019 £000	2018 £000
Current assets			
Other financial assets	10	30,102	29,715
Debtors: amounts falling due within one year	11	93,332	316,315
Cash at bank and in hand	12	96,544	137,170
		<u>219,978</u>	<u>483,200</u>
Creditors: amounts falling due within one year	13	(96,668)	(376,189)
Net current assets		<u>123,310</u>	<u>107,011</u>
Total assets less current liabilities		<u>123,310</u>	<u>107,011</u>
Net assets		<u><u>123,310</u></u>	<u><u>107,011</u></u>
Capital and reserves			
Called up share capital	14	100	100
Profit and loss account		123,210	106,911
		<u>123,310</u>	<u>107,011</u>

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

L J Mumford
Director

L J Mumford
24 April 2020

Date:

The notes on pages 17 to 29 form part of these financial statements.

M&G Securities Limited

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

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 January 2019	100	106,911	107,011
Profit for the year	-	71,299	71,299
Dividends	-	(55,000)	(55,000)
At 31 December 2019	100	123,210	123,310

Statement of Changes in Equity
For the year ended 31 December 2018

	Share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 January 2018	100	170,323	170,423
Profit for the year	-	186,588	186,588
Dividends	-	(250,000)	(250,000)
At 31 December 2018	100	106,911	107,011

The notes on pages 17 to 29 form part of these financial statements.

**Notes to the Financial Statements
For the year ended 31 December 2019**

1. Accounting policies

1.1 Basis of preparation of financial statements

M&G Securities 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 Financial Reporting Standards as adopted by the EU ("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 in 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. Prior to demerger, the ultimate Parent company was Prudential plc, copies of Consolidated financial statements for Prudential plc are available to the public at the registered office 1 Angel Court London EC2R 7AG.

Notes to the Financial Statements
For the year ended 31 December 2019

1.1 Accounting policies (continued)

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

As the consolidated financial statements of Prudential 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 2019.

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.

**Notes to the Financial Statements
For the year ended 31 December 2019**

1.1 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 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.

Other interest includes distributions on unit trusts/OEICs which are recognised on a receipts basis.

1.7 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.

1.8 Taxation

Tax on the profit or loss for the year comprises current 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.

1.9 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

**Notes to the Financial Statements
For the year ended 31 December 2019**

1.1 Accounting policies (continued)

1.10 Dividends

Equity dividends are recognised when they become legally payable.

1.11 Financial instruments

(i) Recognition and initial measurement

Trade receivables issued 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 or 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.

(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.

**Notes to the Financial Statements
For the year ended 31 December 2019**

1.1 Accounting policies (continued)

1.11 Financial Instruments (continued)

- 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 group 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 group; and
- where the instrument will or may be settled in the group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the group's own equity instruments or is a derivative that will be settled by the group's 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.

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.

**Notes to the Financial Statements
For the year ended 31 December 2019**

1.1 Accounting policies (continued)

1.11 Financial Instruments (continued)

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.

1.12 EU IFRS not applied yet

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

- Definition of a business (Amendments to IFRS 3), issued in October 2018 and effective from 1 January 2020;
- Interest rate benchmark reform (Amendments to IFRS 9, IAS 39 and IFRS 7), issued in September 2019 and effective from 1 January 2020;
- Definition of material (Amendments to IAS 1 and IAS 8), issued in October 2018 and effective from 1 January 2020; and
- Revised Conceptual Framework for Financial Reporting issued in March 2018 and effective from 1 January 2020.

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

M&G Securities Limited

**Notes to the Financial Statements
For the year ended 31 December 2019**

1.1 Accounting policies (continued)

2. Analysis of Revenue

An analysis of revenue by class of business as follows:

	2019	2018
	£000	£000
Net unit sales	2,160	(2,582)
Management fees net of rebates	320,519	865,108
Other revenue	-	968
	322,679	863,494

All revenue arose within Europe.

Revenue includes management fee income from intergroup companies of £7,634,000 (2018: £10,631,000).

3. Notes to the Profit and Loss Account

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

The company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company:

	2019	2018
	£000	£000
Audit of these financial statements	100	81

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.

M&G Securities Limited

**Notes to the Financial Statements
For the year ended 31 December 2019**

5. Directors' remuneration

	2019	2018
	£000	£000
Directors' emoluments	654	674
Company contributions to defined contribution pension schemes	18	6
Amounts receivable under long term incentive schemes	152	144
Compensation for loss of office	140	-
	964	824

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid Director was £448,000 (2018: £491,000). They are a member of the defined contribution scheme, under which their accrued pension at the year end was £11,000.

	2019	2018
	No.	No.
Retirement benefits are accruing to the following numbers of Directors under:		
Defined contribution schemes	3	2
Defined benefit schemes	2	3
	5	5

	2019	2018
	No.	No.
The number of Directors who exercised share options was	1	2
The number of Directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was	4	3

6. Interest receivable and similar income

	2019	2018
	£000	£000
Net foreign exchange gain	-	446
Bank interest receivable	371	421
Managers box income	458	697
	829	1,564

M&G Securities Limited

**Notes to the Financial Statements
For the year ended 31 December 2019**

7. Interest payable and similar expenses

	2019	2018
	£000	£000
Bank interest payable	43	377
Net foreign exchange loss	1,139	-
	1,182	377

8. Taxation

	2019	2018
	£000	£000
Corporation tax		
Current tax on profits for the year	16,724	43,770
Adjustments in respect of previous periods	(3)	9
	16,721	43,779

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2018 - higher than) the standard rate of corporation tax in the UK of 19% (2018 - 19%). The differences are explained below:

	2019	2018
	£000	£000
Profit on ordinary activities before tax	88,020	230,367
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2018 - 19%)	16,724	43,770
Effects of:		
Adjustments in respect of prior years	(3)	9
Total tax charge for the year	16,721	43,779

Factors that may affect future tax charges

The standard rate of Corporation Tax in the UK was due to change from 19% to 17% with effect from 1 April 2020. Following the budget announcement on 11 March 2020, the repeal of the legislation to reduce the tax rate was substantively enacted on 17 March 2020. Accordingly, the reduction in tax rate will no longer take place.

M&G Securities Limited

**Notes to the Financial Statements
For the year ended 31 December 2019**

9. Dividends

	2019 £000	2018 £000
On 100,000 ordinary shares of £1 each	<u>55,000</u>	<u>250,000</u>

10. Other financial assets

	2019 £000	2018 £000
Current		
Financial assets fair value through profit or loss	<u>30,102</u>	<u>29,715</u>

Financial assets are carried at fair value through profit or loss and consist of equity securities (fund retail book).

11. Debtors

	2019 £000	2018 £000
Trade debtors	71,996	268,723
Amounts owed by group undertakings	9,338	5,259
Other debtors	11,970	42,333
Prepayments and accrued income	28	-
	<u>93,332</u>	<u>316,315</u>

12. Cash and cash equivalents

	2019 £000	2018 £000
Cash at bank and in hand	<u>96,544</u>	<u>137,170</u>

M&G Securities Limited

**Notes to the Financial Statements
For the year ended 31 December 2019**

13. Creditors: amounts falling due within one year

	2019	2018
	£000	£000
Trade creditors	66,504	242,247
Amounts owed to group undertakings	4,428	47,238
Corporation tax	10,853	20,766
Other taxation and social security	39	24
Other creditors	5,239	9,141
Accruals and deferred income	9,605	56,773
	96,668	376,189

14. Share capital

	2019	2018
	£000	£000
Allotted, called up and fully paid		
100,000 (2018 - 100,000) ordinary shares of £1.00 each	100	100

15. Financial instruments

The carrying value of trade and other debtors, trade and other creditors, and cash is a reasonable approximation of their fair value. The table below analyses financial instruments held at fair value:

	2019	2018
	£000	£000
Other financial assets	30,102	29,715

The carrying value of equity securities is determined from published trading prices for fund units and shares.

**Notes to the Financial Statements
For the year ended 31 December 2019**

16. Related party transactions

The Company earned £314,105,000 (2018: £856,202,000) from investment management fees received from unit trust/OEICs which the Company manages, of which an amount of £8,594,000 was owed by the Company as at 31 December 2019 (2018: £24,061,000 owed to the Company).

Prudential Portfolio Managers (South Africa) Pty Limited is a related party by virtue of them being an associate of an entity in the M&G Group.

The Company incurred annual management charge (AMC) rebates of £200,478 (2018: £203,874) in relation to funds managed on behalf of Prudential Portfolio Managers (South Africa) Pty Limited, of which an amount of £18,000 was owed to Prudential Portfolio Managers (South Africa) Pty Limited as at 31 December 2019 (2018: £16,000).

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.

17. Post balance sheet events

The Company continues to monitor the effects of the coronavirus (COVID-19) outbreak which has been declared as a pandemic by the World Health Organization. The outbreak has not only prompted widespread health concerns, but has caused recent deteriorations in global market conditions. The eventual outcome is highly uncertain and is largely dependent on how successful authorities are at containing and managing the outbreak.

COVID-19 is expected to result in a deterioration in financial performance over 2020, driven by a reduction in asset management fees earned. The balance of net assets will be impacted accordingly.

18. Immediate & 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. Prior to demerger, the ultimate Parent company was Prudential plc, copies of Consolidated financial statements for Prudential plc are available to the public at the registered office 1 Angel Court London EC2R 7AG.