



## **M&G Investment Funds (2)**

Annual Long Report and audited Financial Statements  
for the year ended 31 May 2020

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## M&G Investment Funds (2)

# Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Investment Funds (2) presents its Annual Long Report and audited Financial Statements for the year ended 31 May 2020.

The audited financial statements of M&G Investment Funds (2) and the investment report and audited financial statements and notes of each sub-fund are presented in their individual sections of this report as set out in the contents page.

Please note that we have included an explanation of key investment terminology in the 'Glossary' (at the back of this report).

### Company information

M&G Investment Funds (2) is an umbrella Open-Ended Investment Company (OEIC) and contains seven sub-funds, hereinafter referred to as 'funds' in the rest of this report. Each fund is a UCITS (Undertakings for Collective Investment in Transferable Securities) scheme as defined in the Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Conduct Authority (FCA). This OEIC is an Investment Company with Variable Capital (ICVC) incorporated under the Open-Ended Investment Companies Regulations 2001. It is authorised and regulated by the FCA under the Financial Services and Markets Act 2000.

The Company was authorised on 1 August 2001 and was launched on 24 January 2002, following the conversion of a series of authorised unit trusts.

The Company's principal activity is to carry on business as an OEIC. The Company is structured as an umbrella company, and different funds may be established by the ACD from time to time with the agreement of the Depositary and approval from the FCA. The funds are operated separately and the assets of each fund are managed in accordance with the investment objective and policy applicable to that fund.

As at 31 May 2020 none of the funds held shares of the other funds within this OEIC.

A shareholder is not liable for the debts of the Company and will never be liable to make any further payment to the Company after paying the purchase price of the shares.

### Fund managers

The following fund managers are employed by M&G FA Limited (formerly M&G Limited) which is an associate of M&G Securities Limited.

#### M&G Gilt & Fixed Interest Income Fund

Matthew Russell

#### M&G Global High Yield Bond Fund

Stefan Isaacs & James Tomlins

#### M&G Index-Linked Bond Fund

Ben Lord

#### M&G Index Tracker Fund

Richard O'Connor

#### M&G Short Dated Corporate Bond Fund

Matthew Russell

#### M&G UK Income Distribution Fund

Michael Stiasny

#### M&G UK Select Fund

Rory Alexander

### ACD

M&G Securities Limited,  
10 Fenchurch Avenue, London EC3M 5AG, UK  
Telephone: 0800 390 390 (UK only)

(Authorised and regulated by the Financial Conduct Authority. M&G Securities Limited is a member of the Investment Association and of The Investing and Saving Alliance (formerly Tax Incentivised Savings Association)).

### Directors of the ACD

C Dobson (non executive director), N M Donnelly\*, S A Fitzgerald, P R Jelfs, M McGrade (non executive director), L J Mumford

\* Resigned 30 June 2020.

### Investment manager

M&G Investment Management Limited,  
10 Fenchurch Avenue, London EC3M 5AG, UK  
Telephone: +44 (0)20 7626 4588  
(Authorised and regulated by the Financial Conduct Authority)

### Registrar

SS&C Financial Services Europe Ltd\*,  
SS&C House, St. Nicholas Lane, Basildon, Essex SS15 5FS, UK  
(Authorised and regulated by the Financial Conduct Authority)

\* DST Financial Services Europe Ltd changed its name to SS&C Financial Services Europe Ltd on 31 March 2020.

### Depositary

NatWest Trustee & Depositary Services Limited, Drummond House, 1 Redheughs Avenue, Edinburgh EH12 9RH, UK  
(Authorised and regulated by the Financial Conduct Authority)

### Independent auditor

Ernst & Young LLP  
Atria One, 144 Morrison Street, Edinburgh EH3 8EX, UK

## M&G Investment Funds (2)

# Authorised Corporate Director's Report

### Important information

As per the shareholder letter issued 17 June 2019, we have made changes to the way we charge for M&G funds based in the UK, starting on Thursday 1 August 2019. The annual charge should be simpler to understand and be easier to compare to other fund charges. We have combined all the charges that make up the current Ongoing Charge Figure (OCF) into a single annual charge. Only exceptional items such as unforeseen legal and tax expenses, also known as extraordinary expenses, will be excluded from the annual charge. To find out the new annual charge and the OCF on the KIID for the share class(es) you are invested in, visit our website [www.mandg.co.uk](http://www.mandg.co.uk).

On 5 August 2019, Sterling Class 'PP' (Income) share class launched on both sub-funds of M&G Global High Yield Bond Fund and M&G Short Dated Corporate Bond Fund.

On 6 December 2019, Sterling Class 'I' (Accumulation) share class launched on M&G Index Tracker Fund.

The investment objective, policy and investment approach were changed for M&G Gilt & Fixed Interest Income Fund, M&G Global High Yield Bond Fund, M&G Index-Linked Bond Fund and M&G Short Dated Corporate Bond Fund on 23 March 2020.

On 15 May 2020, Sterling Class 'I' (Accumulation) share class launched on M&G Short Dated Corporate Bond Fund.

The World Health Organisation declared the COVID-19 outbreak a pandemic on 11 March 2020.

Global financial markets have been reacting to the outbreak. All markets have incurred increased volatility and uncertainty since the onset of the pandemic.

The ACD has also noted the operational risks that are posed to the Company and its service providers due to global and local movement restrictions that have been enacted by various governments.

The COVID-19 pandemic is an unprecedented event and the eventual impact on the global economy and markets will largely depend on the scale and duration of the outbreak. The ACD will continue to monitor this situation.

### Investor information

The Prospectus, Instrument of Incorporation, Key Investor Information Documents, costs and charges illustration, the latest Annual or Interim Investment Report and Financial Statements as well as a list of purchases and sales are available free of charge on request from the following addresses. The Instrument of Incorporation can also be inspected at our offices or at the office of the Depositary.

#### Customer services and administration for UK clients:

M&G Securities Limited,  
Box 9039, Chelmsford CM99 2XG, UK

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

Telephone: 0800 390 390 (UK only)

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

#### Customer services and administration for non-UK clients:

M&G Securities Limited,  
c/o RBC I&TS, 14, Porte de France, L-4360 Esch-sur-Alzette,  
Grand Duchy of Luxembourg

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

Telephone: +352 2605 9944

Email: [csmandg@rbc.com](mailto:csmandg@rbc.com)

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

#### Swiss paying agent and representative:

Société Générale, Paris, Zurich Branch,  
Talacker 50, 8021 Zurich, Switzerland

## M&G Investment Funds (2)

# Authorised Corporate Director's Report

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### Authorised Corporate Director's Responsibilities

The Authorised Corporate Director (ACD) is required to prepare annual and interim long reports for the Company. The ACD must ensure that the financial statements, contained in this report, for each of the funds are prepared in accordance with the Investment Association Statement of Recommended Practice for Financial Statements of UK Authorised Funds (SORP) and UK Financial Reporting Standards, and give a true and fair view of the net revenue or expenses and net capital gains or losses for the accounting period, and the financial position at the end of that period.

The ACD is required to keep proper accounting records, and to manage the Company in accordance with the Collective Investment Schemes sourcebook, as issued (and amended) by the FCA, the Instrument of Incorporation and the Prospectus, and to take reasonable steps for the prevention and detection of fraud or other irregularities.

### Directors' statement

This report has been prepared in accordance with the requirements of the Collective Investment Schemes sourcebook, as issued and amended by the Financial Conduct Authority.

M&G Securities Limited  
16 July 2020

## M&G Investment Funds (2)

# Depository's Responsibilities and Report

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### Statement of the Depository's Responsibilities and Report of the Depository to the Shareholders of M&G Investment Funds (2) ('the Company') for the year ended 31 May 2020

The Depository must ensure that the Company is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes sourcebook, the Open-Ended Investment Companies Regulations 2001 (SI2001/1228) (the OEIC Regulations), as amended, the Financial Services and Markets Act 2000, as amended, (together 'the Regulations'), the Company's Instrument of Incorporation and Prospectus (together 'the Scheme documents') as detailed below.

The Depository must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Company and its investors.

The Depository is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Company in accordance with the Regulations.

The Depository must ensure that:

- the Company's cashflows are properly monitored and that cash of the Company is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, redemption and cancellation of shares are carried out in accordance with the Regulations;
- the value of shares in the Company is calculated in accordance with the Regulations;
- any consideration relating to transactions in the Company's assets is remitted to the Company within the usual time limits;
- the Company's income is applied in accordance with the Regulations; and
- the instructions of the Authorised Fund Manager ('the AFM') are carried out (unless they conflict with the Regulations).

The Depository also has a duty to take reasonable care to ensure that the Company is managed in accordance with the Regulations and the Scheme documents in relation to the investment and borrowing powers applicable to the Company.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depository of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the AFM:

- i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with the Regulations and the Scheme documents of the Company, and
- ii) has observed the investment and borrowing powers and restrictions applicable to the Company.

Edinburgh  
16 July 2020

NatWest Trustee and  
Depository Services Limited

## M&G Investment Funds (2)

# Independent Auditor's Report

### Independent Auditor's Report to the shareholders of M&G Investment Funds (2)

#### Opinion

We have audited the financial statements of M&G Investment Funds (2) ("the Company") for the year ended 31 May 2020 which comprise the Statement of Total Return and Statement of Change in Net Assets Attributable to Shareholders together with the Balance Sheet for each of the Company's funds, the accounting policies of the Company, the related notes for each fund and the Distribution Tables, including the summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Company comprising each of its funds as at 31 May 2020 and of the net revenue / (expenses) and the net capital gains / (losses) on the scheme property of the Company comprising each of its funds for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the ACD's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the ACD has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The ACD is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Opinions on other matters prescribed by the rules of the Collective Investment Schemes sourcebook of the Financial Conduct Authority

In our opinion:

- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Funds, the rules of the Collective Investment Schemes sourcebook of the Financial Conduct Authority and the Instrument of Incorporation;
- the information given in the ACD's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- there is nothing to indicate that proper accounting records have not been kept or that the financial statements are not in agreement with those records.

## M&G Investment Funds (2)

# Independent Auditor's Report

### Independent Auditor's Report to the shareholders of M&G Investment Funds (2)

#### Matters on which we are required to report by exception

We have nothing to report in respect of the following matter in relation to which the rules of the Collective Investment Schemes sourcebook of the Financial Conduct Authority require us to report to you if, in our opinion:

- we have not received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

#### Responsibilities of the Authorised Corporate Director (ACD)

As explained more fully in the ACDs' responsibilities statement set out on page 3, the ACD is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the ACD determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the ACD is responsible for 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 the ACD either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### Use of our report

This report is made solely to the Company's shareholders, as a body, pursuant to Paragraph 4.5.12 of the rules of the Collective Investment Schemes sourcebook of the Financial Conduct Authority. Our audit work has been undertaken so that we might state to the Company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Edinburgh  
16 July 2020

Ernst & Young LLP  
Statutory Auditor

- (1) The maintenance and integrity of the M&G website is the responsibility of the ACD; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (2) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



## M&G Investment Funds (2)

# Financial statements and notes

The financial statements for M&G Investment Funds (2) comprise the individual financial statements for each fund and the notes below.

### Notes to the financial statements

#### 1 Statement of compliance

The financial statements of M&G Investment Funds (2) have been prepared in compliance with UK Financial Reporting Standard 102 (FRS 102) and in accordance with the Statement of Recommended Practice (SORP) for Authorised Funds issued by the Investment Association in May 2014 and amended in June 2017.

#### 2 Summary of significant accounting policies

##### a) Basis of preparation

There are no material events that have been identified that may cast significant doubt on the Company's ability to continue as a going concern for at least the next twelve months from the date these financial statements are authorised for issue. The ACD believes that the Company has adequate resources to continue in operational existence for the foreseeable future and, following consideration of the impact of COVID-19 they continue to adopt the going concern basis in preparing the financial statements. The ACD has made an assessment of each fund's ability to continue as a going concern which is made as at the date of issue of these financial statements and considers liquidity, declines in global capital markets, investor intention, known redemption levels, expense projections, key service provider's operational resilience, and the impact of COVID-19.

The financial statements of M&G Investment Funds (2) are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss.

##### b) Functional and presentational currency

The functional and presentational currency of M&G Investment Funds (2) is UK sterling.

##### c) Exchange rates

Transactions in currencies other than each fund's functional currency are translated at the rate of exchange ruling on the date of the transaction and where applicable assets and liabilities are translated into the fund's functional currency at the rate of exchange ruling as at 12 noon on 29 May 2020 being the last business day of the accounting period.

##### d) Investments - recognition and valuation

The provisions of both Section 11 and Section 12 of FRS 102 have been applied in full. All investments have been designated as fair value through profit and loss and recognised initially at fair value, which is normally the transaction price (excluding transaction costs and accrued interest).

At the end of the reporting period all investments have been measured at their fair value using the prices and the portfolio holdings determined at 12 noon on 29 May 2020, being the last valuation point of the accounting period, as this is not materially different from a valuation carried out at close of business on the balance sheet date.

Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the single price or most recent transaction price is used. Interest accrued is not included in the fair value. The methods of determining fair value for the principal classes of investment are:

- Equities and debt securities which are traded on an active market are included at the quoted price, which is normally the bid price, excluding any accrued interest in respect of bonds.
- Equities traded on the Alternative Investment Market (AIM), whose liquidity cannot be guaranteed, are included at their quoted bid price as this represents the most objective and appropriate method of valuation.
- Collective investment schemes operated by the ACD are included at either their cancellation price for dual priced funds or their single price for single priced funds.
- Collective investment schemes operated by another manager are included at either their bid price for dual priced funds or their single price for single priced funds.
- Other equities and debt securities which are unquoted or not actively traded on a quoted market are included at a value estimated by the ACD using an appropriate valuation technique, excluding any accrued interest in respect of bonds.
- Exchange traded futures and options are included at the cost of closing out the contract at the balance sheet date.
- Over the counter equity options, credit default swaps, interest rate swaps, asset swaps and inflation swaps are included at a value provided by Markit Valuations Limited, an independent credit derivative price provider. Their fair value excludes any accrued interest in respect of derivatives where the income is revenue in nature.
- Forward currency contracts, for share class hedging and investment, are included at a value determined by reference to current forward exchange rates for contracts with similar maturity profiles.

##### e) Recognition of income and expenses

- Dividends, including ordinary stock dividends, from equity investments are recognised when the security is quoted ex-dividend.
- Distributions from collective investment schemes are recognised when the scheme is priced ex-distribution.
- Interest income, including coupons from debt securities and bank interest is recognised on an accruals basis.

## M&G Investment Funds (2)

# Financial statements and notes

### Notes to the financial statements

#### 2 Summary of significant accounting policies (continued)

##### e) Recognition of income and expenses (continued)

- Underwriting commission is recognised when the issue takes place.
- Revenue from derivatives is recognised on an accruals basis.
- Fee rebates from investing in other collective investment schemes are recognised on an accruals basis.
- Expenses are recognised on an accruals basis.

##### f) Treatment of income and expenses

- Any increases or decreases in the fair value of investments and gains and losses realised on sales of investments are treated as capital and recognised in net capital gains / (losses).
- The value of any enhancement to a stock dividend is treated as capital.
- Ordinary equity dividends, including ordinary stock dividends are treated as revenue.
- Special dividends, share buy backs or additional share issues may be treated as revenue or capital depending on the facts of each particular case.
- Distributions from collective investment schemes are treated as revenue in nature, except for any element of equalisation, which represents the average amount of income included in the price paid for the collective investment scheme, which is treated as capital.
- Debt security interest comprises the coupon interest and the difference between the purchase price and the expected maturity price spread over its expected remaining life. This is treated as revenue with the difference adjusting the cost of the shares and treated as capital.
- Other interest income, such as bank interest is treated as revenue.
- Underwriting commission is treated as revenue, except where the fund is required to take up all or some of the shares underwritten, in which case a proportion of the commission received is deducted from the cost of the shares and treated as capital.

- The treatment of the income on derivative contracts depends upon the nature of the transaction. Both motive and circumstances are used to determine whether the returns should be treated as capital or revenue. Where positions are undertaken to protect or enhance capital, and the circumstances support this, the returns are recognised in net capital gains; similarly where the motives and circumstances are to generate or protect revenue, and the circumstances support this, the returns are included within net revenue before taxation. Where positions generate total returns it will generally be appropriate to apportion such returns between capital and revenue to properly reflect the nature of the transaction.
- Expenses relating to the purchase and sale of investments are treated as capital; all other expenses are treated as revenue.
- Rebates of charges from holdings in collective investment schemes are treated as revenue or capital in accordance with the underlying scheme's distribution policy.

##### g) Tax

Dividends and similar income receivable are recognised at an amount that includes any withholding tax but excludes irrecoverable tax credits. Any withholding tax suffered is shown as part of the tax charge.

Tax is accounted for at the appropriate rate of corporation tax with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

Deferred tax is recognised in respect of temporary timing differences that have originated but not reversed by the balance sheet date. Deferred tax is measured on a non-discounted basis, at the average rate of tax expected to apply in the period in which it expects the deferred tax to be realised or settled. A deferred tax asset is only recognised to the extent that it is more likely than not that the asset will be recovered.

Marginal tax relief has not been taken into account in respect of expenses offset against capital.

##### h) Allocation of returns to share classes

The annual charge, annual management charge, any share class hedging returns and associated share class hedging charge are directly attributable to individual share classes. All other returns are apportioned to each fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

All available net revenue accounted for in accordance with the above policies and adjusted where relevant by any specific distribution policies set out in the notes to that fund's financial statements, is distributed to holders of Income shares or retained and reinvested for holders of Accumulation shares. Should expenses and taxation together exceed revenue, there will be no distribution and the shortfall will be met from capital.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the fund.

## M&G Investment Funds (2)

# Financial statements and notes

### Notes to the financial statements

#### 3 Risk management policies

The ACD is responsible for establishing, implementing and maintaining an adequate and documented risk management policy for identifying, measuring and managing all risks to which funds are or might be exposed.

The Company's investment activities expose it to various types of risk which are associated with the financial instruments and markets in which it invests; market risk, credit risk and liquidity risk.

These financial statements are designed to enable users to evaluate the nature and extent of those risks and how they are managed.

The following risk management policies are applicable to the funds, with specific risk disclosures set out in the notes to the financial statements of each fund.

#### Market risk

Market risk is the risk of loss resulting from fluctuations in the market value of positions in a fund's portfolio attributable to changes in market variables, such as interest rates, exchange rates, equity and commodity prices or an issuer's creditworthiness.

In relation to market risk, processes are applied that take account of the investment objective and policy of each fund. All funds are subject to an investment oversight process in accordance with the type and nature of the fund. In addition all funds are monitored for compliance within regulatory limits.

In measuring and monitoring market risk, the global exposure of a fund may be calculated using a 'commitment' approach or 'Value at Risk' (VaR) approach.

#### Commitment approach

The commitment approach is applied for funds investing only in traditional asset classes, namely equities, fixed income, money market instruments and collective investment schemes.

In addition, the approach is applied for funds which use or intend to use derivatives or instruments embedding derivatives, but only for efficient portfolio management purposes, or in a simple way not necessarily restricted to efficient portfolio management.

Under the commitment approach the global exposure of funds is measured and monitored using a commitment (adjusted notional) methodology.

Market risk is considered on a daily basis and forms the foundation of investment oversight analysis. This can include for each fund (but is not limited to) the analysis of factors such as fund concentration; style, geographical, industry and market capitalisation biases; active, systematic and specific risk measurements; active money; and beta characteristics.

#### Value at Risk approach

The Value at Risk (VaR) approach is a methodology for estimating the maximum potential loss due to market risk based on historic market volatilities and correlations. More particularly, the VaR approach gives a broad indication of the maximum potential loss at a given confidence level (probability), over a specific time period under normal market conditions.

Instrument and portfolio modelling techniques are based on market accepted practices and are subject to regular audit (back-testing). Market risk factors that are analysed include LIBOR / swap rates, government yield curves, equity prices, exchange rates, market volatility, credit spreads and credit default swap (CDS) spreads.

The VaR model is based on a Monte Carlo process with actual VaR being reported on the basis of a 99% confidence interval over a one month period (20 business days). Risk factor history used in the Monte Carlo process is based on 250 business days. From the variance / covariance matrices, a parametric Monte Carlo scenario set of 5,000 simulations is derived and applied to the fund.

VaR does have limitations in its ability to present valid levels of risk in extreme market conditions. Accordingly, the Risk Analysis team also carries out monthly stress testing and scenario based analysis. Stress testing allows for extreme sets of market circumstances which may not be reflected in historical data sets thereby enabling further assessment of combinations of market movements which may cause serious damage to portfolio values. The key element to the scenario based analysis is challenging the correlation assumptions implicit within statistical based models such as VaR.

The stress test and scenario based analysis is customised for each fund type and the VaR analysis is produced on a daily basis.

The table below shows funds using the 'commitment' approach and those using the 'Value at Risk (VaR)' approach:

Fund	Global exposure approach
M&G Gilt & Fixed Interest Income Fund	VaR
M&G Global High Yield Bond Fund	VaR
M&G Index-Linked Bond Fund	VaR
M&G Index Tracker Fund	Commitment
M&G Short Dated Corporate Bond Fund	VaR
M&G UK Income Distribution Fund	Commitment
M&G UK Select Fund	Commitment

#### Liquidity risk following market events of early 2020

The market events of early 2020 have meant that in some cases, particularly in the fixed income area, available market liquidity has declined. The liquidity monitoring and escalation process at M&G remains the same, but has monitored and reported on a more frequent basis as the liquidity picture has changed faster than in more normal markets.

## M&G Investment Funds (2)

# Financial statements and notes

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### Notes to the financial statements

#### 3 Risk management policies (continued)

##### Liquidity risk

Liquidity risk is the risk that a fund's holdings cannot be sold, liquidated or closed out at limited cost in an adequately short time frame and that the ability of the scheme to comply at any time with its obligation to sell and redeem shares is thereby compromised.

The overall liquidity profile for each fund is reviewed and updated regularly. The liquidity profile takes into account investment, cashflow and market liquidity considerations.

Investment liquidity considerations include an assessment of asset class liquidity conditions, liquidity of underlying holdings, portfolio construction and concentration, the scale of individual stock ownership and the nature of the investment strategy.

Cashflow liquidity is managed in each fund on a daily basis using reports that include subscription and redemption information as well as the impact of trading, derivative lifecycle events and corporate action activity. In addition to the daily reporting, the fund managers are provided with reporting that highlights the impact of reasonably predictable events in the portfolio, including an allowance for the potential future exposures that might result from derivative exposures.

Market (or distribution-related) considerations include an assessment of asset demand, fund growth, client concentration and the persistency of the client base. Supplementary to this, market liquidity stress tests are carried out on a monthly basis for all sophisticated funds.

##### Credit risk

For funds exposed to credit risk, the credit rating, yield and maturity of each interest bearing security is considered to determine if the yield fully reflects the risk. The capital value of interest-bearing securities within the funds will fall in the event of the default or perceived increased credit risk of an issuer.

The capital value of interest-bearing securities within a fund may also be affected by interest rate fluctuations such that when interest rates rise, the capital value of the interest-bearing securities is likely to fall and vice versa.

Funds investing in derivatives are exposed to counterparty risk. This is the risk that the other party to the transaction fails to fulfil their obligations, either by failing to pay or failing to deliver securities. To minimise this risk, carefully selected, financially strong and well-established counterparties are selected following a thorough due diligence review and collateral is posted daily (in the form of cash or high-quality government bonds). Derivative positions are valued on a mark-to-market basis (revalued to reflect prevailing market prices) daily and collateral moves from one counterparty to the other to reflect movements in the unrealised profit or loss. As a result, the maximum loss to the fund would be limited to that day's price movements in affected derivatives contracts.

For funds in which they are used, credit default swaps are bought and sold in response to detailed credit research to take advantage of anticipated movements in credit spreads on individual stocks and baskets of securities. When a fund buys a credit default swap the default risk associated with the underlying security transfers to the counterparty. When a fund sells a credit default swap the fund assumes the credit risk of the underlying security.

## M&G Gilt & Fixed Interest Income Fund

# Authorised Corporate Director's Report

### Investment objective up to 22 March 2020

The fund aims to provide income and capital growth.

### Investment objective from 23 March 2020

The fund aims to provide a higher total return (the combination of capital growth and income), net of the ongoing charge figure, than that of the FTSE Actuaries UK Conventional Gilts All Stocks Index over any five-year period.

### Investment policy up to 22 March 2020

At least 70% of the fund is invested in short, medium or long-dated gilts according to the fund manager's view at any given moment of the likely course of interest rates and trend of the gilt market. The fund's exposure to gilts may be gained through the use of derivatives.

Derivatives may also be used for efficient portfolio management.

The fund may also invest in collective investment schemes, other transferable securities, other debt instruments, cash, near cash, other money market securities, warrants and other derivative instruments.

### Investment policy from 23 March 2020

At least 70% of the fund is invested, directly or through derivatives, in investment grade short, medium and long-dated gilts. These securities are issued or guaranteed by the UK government, and denominated in Sterling.

Other investments may include transferable securities, cash, and near cash, directly or via collective investment schemes (including funds managed by M&G).

Derivatives may be used for investment purposes, efficient portfolio management and hedging.

### Investment approach up to 22 March 2020

The fund manager's investment approach is driven primarily by macroeconomic factors such as views on interest rates, inflation and economic growth and tends not to be influenced by short-term changes in the economic or market environment.

### Investment approach from 23 March 2020

The fund is diversified across a range of UK government debt securities. The fund's investment approach is based on the principle that returns from government bonds are driven by a combination of macroeconomic factors such as expectations on interest rates, inflation and economic growth. As different factors dominate returns at different stages of the economic cycle, the manager applies a flexible investment approach, adjusting fund duration as deemed appropriate.

The fund manager seeks to take advantage of 'relative value' opportunities within the UK government bond market, which involves buying the bonds that offer the best value.

Individual credit selection is carried out with the assistance of an in-house team of credit analysts to complement the fund manager's views.

### Benchmark up to 22 March 2020

Benchmark: FTSE Actuaries UK Conventional Gilts All Stocks Index.

The fund is actively managed. The benchmark is a comparator against which the fund's performance can be measured. The index has been chosen as the fund's comparator benchmark as it best reflects the scope of the Fund's investment policy. The comparator benchmark does not constrain the Fund's portfolio construction.

For unhedged Share Classes, the benchmark is shown in the Share Class currency.

### Benchmark from 23 March 2020

Benchmark: FTSE Actuaries UK Conventional Gilts All Stocks Index

The benchmark is a target which the fund seeks to outperform. The index has been chosen as the fund's benchmark as it best reflects the scope of the fund's investment policy. The benchmark does not constrain the fund's portfolio construction.

The fund is actively managed.

The fund manager has complete freedom in choosing which assets to buy, hold and sell in the fund. The fund's holdings may deviate significantly from the benchmark's constituents.

For unhedged Share Classes, the benchmark is shown in the Share Class currency.

### Risk profile

The fund invests in fixed income securities, or bonds, issued by the UK government. It is, therefore, subject to the price volatility of the UK government bond market. It is also influenced by developments in the broader global government bond market. UK government bonds are highly liquid securities, meaning they are normally traded with relative ease.

The fund's exposure to debt securities may be gained through the use of derivatives. In association with the use of derivatives, including those instruments not traded through an exchange, collateral is deposited in order to mitigate the risk that a counterparty may default on its obligations or become insolvent.

Portfolio diversification is key in managing liquidity and default risks as well as reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

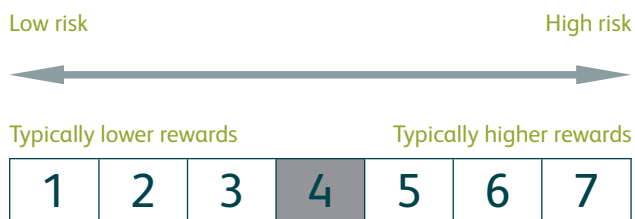


## M&G Gilt & Fixed Interest Income Fund

# Authorised Corporate Director's Report

### Risk profile (continued)

The following table shows the risk number associated with the fund and is based on Sterling Class 'A' shares.



The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has not changed during this period.

### Investment review

As at 1 June 2020, for the year ended 31 May 2020

#### Performance against objective

Between 3 June 2019 (the start of the review period) and 1 June 2020, the M&G Gilt & Fixed Interest Income Fund's Sterling Class 'A' and Class 'I' shares delivered a total return (the combination of income and growth of capital) of 9.7% and 10.0%, respectively. The fund lagged behind its benchmark, the FTSE Actuaries UK Conventional Gilts All Stocks Index, which returned 11.0% over the same period.

Over five years, the fund also delivered a positive return, but did not meet its objective as the fund modestly trailed the benchmark index, which returned 5.7% p.a. over this period.\*

\* For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Financial highlights' section of this report.

#### Investment performance

UK government bonds (also known as gilts) delivered positive returns in the 12-month period under review. Investor sentiment towards government bonds on the whole was supported by monetary policy moves by the US Federal Reserve (Fed) during 2019 as well as heightened trade tensions between the US and China at times. Investors also turned to the perceived safety of government bonds, including gilts, at the beginning of 2020 as the spread of the new coronavirus around the world began to dominate headlines from late February onwards.

Bonds are loans in the form of a security, usually issued by a government (government bonds) or a company (corporate bonds), which normally pay a fixed rate of interest over a given period, at the end of which the initial amount borrowed is repaid. In bond markets, actual or expected declines in interest rates typically support sentiment towards government bonds.

Over the course of 2019, both the European Central Bank (ECB) and the US Federal Reserve implemented a range of stimulus measures to help boost growth, including a series of interest rate cuts and the resumption of their bond-purchase programmes, which helped drive the performance of core government bonds such as US Treasuries and gilts.

Investors also favoured gilts when a 'no deal' Brexit seemed likely, but they were deemed less attractive following the UK Conservative Party's decisive win in December 2019, as some form of deal between the UK and European Union seemed more likely. Signs of progress in the US/China trade negotiations towards the end of 2019 also supported investors' risk appetite, rendering gilts less appealing.

However, sentiment turned abruptly as the COVID-19 outbreak took hold in the new year, devastating financial markets from late February onwards. The virus meant most nations had to adopt strict population lockdowns, causing a sharp slump in consumer demand for many goods and services. Governments and central banks scrambled to provide huge levels of fiscal and monetary support. While such an increase in government borrowing to support the economy would normally be negative for gilts, the huge level of central bank bond purchases has helped to support bond prices. At the same time, a sharp oil price decline as a result of a contraction in demand, coupled with a failure to agree supply cuts, added to levels of distress in the markets. In this environment, investors sought refuge in government bonds for their perceived safe-haven qualities.

The pandemic has already had a significant effect on the domestic economy, which shrank by 2% in the first three months of the year. Given that the lockdown only began towards the end of March, the impact for the second quarter of 2020 is expected to be significant and is very likely to take the country into recession.

Against this backdrop, UK inflation eased materially, with the Consumer Prices Index (CPI) standing at 0.8% in April, compared with 1.5% the previous month. Inflation was pushed lower by falling energy and fuel pump prices, although rising prices for recreational goods partially offset the weakness. Meanwhile, domestic interest rates have been cut to 0.1%.

Over the period under review, gilts with the longest time until repayment (+15 years) delivered the strongest gains (21.3%), while returns from gilts maturing in less than five years were only modest (2.0%).

#### Investment activities

Having positioned the fund with low sensitivity to movements in interest rates (that is, maintaining a short duration) for much of the past few years, we have recently moved to a neutral duration stance.

This move was in response to the huge levels of central bank support that have been announced since the onset of the coronavirus crisis. In April 2020, we saw the Bank of England step in to buy all the newly issued government debt. We think the Bank's commitment to purchasing gilts on such a scale will put a

## M&G Gilt & Fixed Interest Income Fund

# Authorised Corporate Director's Report

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### Investment activities (continued)

cap on how far bond yields will rise in the near term, and we do not want to be short duration in this kind of environment. (Yields refer to the income received from an investment. The yield is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.)

However, we expect to move to a more cautious duration positioning over the medium to long term due to our view that gilts on current low levels of yield offer poor long-term value. This will involve positioning the fund to be less sensitive to the possibility of rising yields. In our opinion, gilt yields could well increase over the next few years as the level of government debt starts to rise and inflation picks up.

Government bonds with a short time till repayment tend to be less sensitive to interest rate movements than bonds with a longer maturity date. At present, we generally favour gilts that mature in five to 10 years, as well as those maturing in 20 to 35 years, on a relative value basis.

Given the very low yields on UK government bonds, we are maintaining small off-benchmark positions in non-gilt holdings where we see better long-term value. We recently established a small allocation to US Treasury Inflation-Protected Securities (TIPS) – we think inflation protection in the US looks attractive, with implied average inflation over the next three years at 0.2% at the time of entering the trade. We sold some sterling-denominated European Investment Bank bonds to fund the purchase.

In our non-government guaranteed bucket, other trades involved the sale of sterling-denominated Transport for London (TFL) bonds in order to buy dollar-denominated Exxon Mobil bonds, as we saw a more attractive risk-reward profile here.

### Outlook

Policymakers globally have responded to the coronavirus pandemic and have shown they are prepared to take unprecedented action to mitigate the global economic growth slowdown, but a recession is now expected. The UK government has pledged vast sums to support individuals, jobs and the economy, but it is too early to understand the ultimate impact of COVID-19 on domestic activity. To complicate matters further, the UK only has until the end of this year to secure a trade deal with the EU, or face the prospect of a 'no-deal' scenario.

Investors tend to turn to gilts during periods of volatility as they are seen as representing lower risk than other asset classes. For this reason, we believe that UK government bonds should appeal to investors in the event of further market volatility going forward.

### Matthew Russell

Fund manager

An employee of M&G FA Limited (formerly M&G Limited) which is an associate of M&G Securities Limited.

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

## M&amp;G Gilt &amp; Fixed Interest Income Fund

## Authorised Corporate Director's Report

## Portfolio statement

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>FIXED INCOME</b>	<b>589,312</b>	<b>98.63</b>	<b>98.51</b>
	<b>Debt securities</b>	<b>589,312</b>	<b>98.63</b>	<b>98.62</b>
	<b>'AAA' credit rated bonds</b>	<b>42,341</b>	<b>7.09</b>	<b>10.33</b>
£3,500,000	FMS Wertmanagement 1.125% 07/09/2023	3,590	0.60	
£28,000,000	KfW 1.125% 07/12/2021	28,377	4.75	
£4,224,000	Nationwide Building Society FRN 0.6171% 10/01/2025	4,216	0.71	
£6,000,000	Nordic Investment Bank 1.125% 15/12/2023	6,158	1.03	
	<b>'AA' credit rated bonds</b>	<b>525,019</b>	<b>87.87</b>	<b>86.32</b>
US\$3,668,000	Apple 2.65% 11/05/2050	3,038	0.51	
£4,768,040	CTRL Section 1 Finance 5.234% 02/05/2035	6,592	1.10	
US\$7,000,000	Exxon Mobil 4.327% 19/03/2050	7,062	1.18	
£3,644,000	New York Life Global Funding 1.25% 17/12/2026	3,611	0.60	
£1,263,765	UK Treasury 0.5% 22/10/2061	1,272	0.21	
£15,000,000	UK Treasury 0.75% 22/07/2023	15,368	2.57	
£54,000,000	UK Treasury 1.5% 22/01/2021	54,506	9.12	
£28,850,000	UK Treasury 1.5% 22/07/2047	35,369	5.92	
£54,600,000	UK Treasury 1.625% 22/10/2054	72,736	12.17	
£4,350,000	UK Treasury 1.75% 22/01/2049	5,668	0.95	
£18,550,000	UK Treasury 2.5% 22/07/2065	33,672	5.64	
£23,000,000	UK Treasury 3.25% 22/01/2044	36,375	6.09	
£4,000,000	UK Treasury 3.75% 07/09/2020	4,040	0.68	
£5,000,000	UK Treasury 4.25% 07/06/2032	7,331	1.23	
£6,000,000	UK Treasury 4.25% 07/03/2036	9,477	1.59	
£23,700,000	UK Treasury 4.25% 07/12/2040	40,658	6.80	
£10,800,000	UK Treasury 4.25% 07/12/2046	20,427	3.42	
£35,000,000	UK Treasury 4.75% 07/12/2030	51,617	8.64	
£12,000,000	UK Treasury 5% 07/03/2025	14,860	2.49	
£62,000,000	UK Treasury 6% 07/12/2028	93,023	15.57	
US\$9,000,000	US Treasury IL 0.375% 15/07/2023	8,317	1.39	
	<b>'A' credit rated bonds</b>	<b>0</b>	<b>0.00</b>	<b>0.89</b>
	<b>Bonds with no credit rating</b>	<b>21,952</b>	<b>3.67</b>	<b>1.08</b>
£4,225,473	PRS Finance 1.75% 24/11/2026	4,502	0.75	
£16,000,000	PRS Finance 2% 23/01/2029	17,450	2.92	
	<b>Debt derivatives</b>	<b>0</b>	<b>0.00</b>	<b>(0.11)</b>
	<b>Interest rate futures</b>	<b>0</b>	<b>0.00</b>	<b>(0.11)</b>
	<b>CURRENCY</b>	<b>(34)</b>	<b>(0.01)</b>	<b>0.00</b>
	<b>Forward currency contracts</b>	<b>(34)</b>	<b>(0.01)</b>	<b>0.00</b>
US\$406,392	Bought for £328,149 (expires 03.06.20)	2	0.00	
US\$(22,959,953)	Sold for £18,594,668 (expires 03.06.20)	(36)	(0.01)	
<b>Portfolio of investments</b>		<b>589,278</b>	<b>98.62</b>	<b>98.51</b>
	<b>CASH EQUIVALENTS</b>	<b>3,393</b>	<b>0.57</b>	<b>0.14</b>
	<b>'AAA' rated money market funds <sup>[a]</sup></b>	<b>3,393</b>	<b>0.57</b>	<b>0.14</b>
3,393,000	Northern Trust Global Fund - Sterling	3,393	0.57	
<b>Total portfolio (notes 2c &amp; 2d on page 7)</b>		<b>592,671</b>	<b>99.19</b>	<b>98.65</b>
<b>Net other assets / (liabilities)</b>		<b>4,848</b>	<b>0.81</b>	<b>1.35</b>
<b>Net assets attributable to shareholders</b>		<b>597,519</b>	<b>100.00</b>	<b>100.00</b>

All securities are on an official stock exchange listing except where referenced.

<sup>[a]</sup> Uncommitted surplus cash is placed into 'AAA' rated money market funds with the aim of reducing counterparty risk.



# M&G Gilt & Fixed Interest Income Fund

## Financial highlights

### Fund performance

Please note past performance is not a guide to future performance and the value of investments, and the income from them, will fluctuate. This will cause the fund price to fall as well as rise and you may not get back the original amount you invested.

The following chart and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be different. For more information on the different share classes in this fund please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period. Calculated on a price to price basis with income reinvested.

### Long-term performance by share class

	One year 03.06.19 % <sup>[a]</sup>	Three years 01.06.17 % p.a.	Five years 01.06.15 % p.a.	Since launch % p.a.
<b>Sterling <sup>[b]</sup></b>				
Class 'A'	+9.7	+4.3	+4.7	+6.8 <sup>[c]</sup>
Class 'I'	+10.0	+4.5	+5.0	+4.0 <sup>[d]</sup>

<sup>[a]</sup> Absolute basis.

<sup>[b]</sup> Price to price with income reinvested.

<sup>[c]</sup> 9 December 1980, the end of the initial offer period of the predecessor unit trust.

<sup>[d]</sup> 3 August 2012, the launch date of the share class.

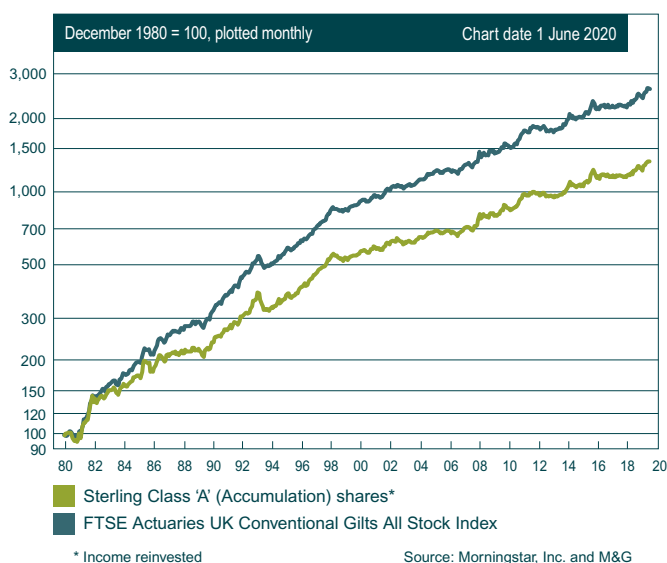
### Fund level performance

#### Fund net asset value

	2020	2019	2018
as at 31 May	£'000	£'000	£'000
Fund net asset value (NAV)	597,519	559,869	596,796

### Performance since launch

To give an indication of how the fund has performed since launch, the chart below shows total return of Sterling Class 'A' (Accumulation) shares.



# M&G Gilt & Fixed Interest Income Fund

## Financial highlights

### Operating charges and portfolio transaction costs

We explain below the payments made to meet the ongoing costs of investing and managing the fund, comprising operating charges and portfolio transaction costs.

#### Operating charges

Operating charges include payments made to M&G and to providers independent of M&G:

- **Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge.  
For every £1 billion of a fund's net asset value, a discount of 0.02% will be applied to that fund's annual charge (up to a maximum of 0.12%).
- **Extraordinary legal and tax expenses:** Costs that specifically relate to legal or tax claims that are both exceptional and unforeseeable. Such expenses are uncommon, and would not be expected in most years. Although they result in a short-term cost to the fund, generally they can deliver longer term benefits for investors.
- **Investment management:** Charge paid to M&G for investment management of the fund. From 1 August 2019 this charge forms part of the annual charge.
- **Administration:** Charge paid for administration services in addition to investment management – any surplus from this charge will be retained by M&G. From 1 August 2019 this charge is rolled into the annual charge.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit. From 1 August 2019 these charges will be paid by M&G and rolled into the annual charge.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated. From 1 August 2019 charges from underlying funds (excluding Investment Trust Companies and Real Estate Investment Trusts) will be rebated.

The operating charges paid by each share class of the fund are shown in the following performance tables. These charges do not include portfolio transaction costs or any entry and exit charges (also known as initial and redemption charges). The charging structures of share classes may differ, and therefore the operating charges may differ.

Once the annual charge has been operational for twelve months, operating charges will be in line with the ongoing charges shown in the Key Investor Information Document, other than where there have been extraordinary legal or tax expenses, or an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

#### Portfolio transaction costs

Portfolio transaction costs are incurred by funds when buying and selling investments. These costs vary depending on the types of investment, their market capitalisation, country of exchange and method of execution. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission and taxes.
- **Indirect portfolio transaction costs:** 'Dealing spread' – the difference between the buying and selling prices of the fund's investments; some types of investment, such as fixed interest securities, have no direct transaction costs and only the dealing spread is paid.

Investments are bought or sold by a fund when changes are made to the investment portfolio and in response to net flows of money into or out of the fund from investors buying and selling shares in the fund.

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. As the fund invests mainly in fixed interest securities, the direct transaction costs paid on other investments are too small to be reflected in the table below. To give an indication of the indirect portfolio dealing costs the table shows the average portfolio dealing spread.

Further information on this process is in the Prospectus, which is available free of charge on request either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

#### Portfolio transaction costs

as at 31 May	2020	2019	2018	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.13	0.07	0.08	0.09

<sup>[a]</sup> Average of first three columns.

# M&G Gilt & Fixed Interest Income Fund

## Financial highlights

### Specific share class performance

The following tables show the performance of each share class. All 'Performance and charges' percentages represent an annual rate except for the 'Return after operating charges' which is calculated as a percentage of the opening net asset value per share (NAV). 'Dilution adjustments' are only in respect of direct portfolio transaction costs.

#### Sterling Class 'A' Income share performance

The share class was launched on 9 December 1980. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	100.40	98.07	100.31
Return before operating charges and after direct portfolio transaction costs	10.39	4.56	(0.16)
Operating charges	(0.63)	(0.89)	(0.89)
Return after operating charges	9.76	3.67	(1.05)
Distributions	(1.20)	(1.34)	(1.19)
Closing NAV	108.96	100.40	98.07
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	0.61	0.91	0.91
Return after operating charges	+9.72	+3.74	-1.05
Distribution yield	0.91	1.32	1.28
Effect on yield of charges offset against capital	0.61	0.90	0.90
Other information			
Closing NAV (£'000)	32,599	33,890	69,191
Closing NAV percentage of total fund NAV (%)	5.46	6.05	11.59
Number of shares	29,918,429	33,755,518	70,551,081
Highest share price (UK p)	111.67	100.74	100.37
Lowest share price (UK p)	98.67	94.16	95.01

#### Sterling Class 'A' Accumulation share performance

The share class was launched on 9 December 1980. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	577.27	556.19	562.03
Return before operating charges and after direct portfolio transaction costs	60.02	26.13	(0.83)
Operating charges	(3.62)	(5.05)	(5.01)
Return after operating charges	56.40	21.08	(5.84)
Distributions	(3.32)	(2.65)	(1.75)
Retained distributions	3.32	2.65	1.75
Closing NAV	633.67	577.27	556.19
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	0.61	0.91	0.91
Return after operating charges	+9.77	+3.79	-1.04
Distribution yield	0.36	0.43	0.40
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	390,008	335,149	332,613
Closing NAV percentage of total fund NAV (%)	65.27	59.86	55.74
Number of shares	61,547,258	58,057,391	59,802,398
Highest share price (UK p)	647.83	577.27	564.05
Lowest share price (UK p)	572.38	535.78	535.55

#### Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	1,146.29	1,116.92	1,139.58
Return before operating charges and after direct portfolio transaction costs	118.86	51.99	(1.76)
Operating charges	(4.29)	(7.33)	(7.35)
Return after operating charges	114.57	44.66	(9.11)
Distributions	(13.74)	(15.29)	(13.55)
Closing NAV	1,247.12	1,146.29	1,116.92
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.01	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	0.36	0.66	0.66
Return after operating charges	+9.99	+4.00	-0.80
Distribution yield	0.91	1.32	1.28
Effect on yield of charges offset against capital	0.36	0.65	0.65
Other information			
Closing NAV (£'000)	35,316	37,391	40,417
Closing NAV percentage of total fund NAV (%)	5.91	6.68	6.77
Number of shares	2,831,768	3,261,897	3,618,641
Highest share price (UK p)	1,277.47	1,150.22	1,141.00
Lowest share price (UK p)	1,128.76	1,073.32	1,081.32

# M&G Gilt & Fixed Interest Income Fund

## Financial highlights

### Specific share class performance

#### Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.			
for the year to 31 May	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	1,236.08	1,187.96	1,197.44
Return before operating charges and after direct portfolio transaction costs	128.80	55.96	(1.73)
Operating charges	(4.65)	(7.84)	(7.75)
Return after operating charges	124.15	48.12	(9.48)
Distributions	(10.31)	(8.63)	(6.67)
Retained distributions	10.31	8.63	6.67
Closing NAV	1,360.23	1,236.08	1,187.96
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.01	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	0.36	0.66	0.66
Return after operating charges	+10.04	+4.05	-0.79
Distribution yield	0.61	0.68	0.65
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	139,596	153,439	154,575
Closing NAV percentage of total fund NAV (%)	23.36	27.41	25.90
Number of shares	10,262,745	12,413,361	13,011,801
Highest share price (UK p)	1,389.85	1,236.07	1,202.56
Lowest share price (UK p)	1,228.05	1,145.41	1,143.07

<sup>[a]</sup> In respect of direct portfolio transaction costs.

<sup>[b]</sup> As a percentage of average net asset value.

<sup>[c]</sup> Following the change in charging structure, you may see variances between the comparative and current year figures.

# M&G Gilt & Fixed Interest Income Fund

## Financial statements and notes

### Financial statements

#### Statement of total return

for the year to 31 May	Note	2020		2019	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		51,595		17,466
Revenue	5	6,703		7,884	
Expenses	6	(3,052)		(4,688)	
Net revenue / (expense) before taxation		3,651		3,196	
Taxation	7	(20)		(2)	
Net revenue / (expense) after taxation			3,631		3,194
<b>Total return before distributions</b>			<b>55,226</b>		<b>20,660</b>
Distributions	8		(3,957)		(3,782)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>51,269</b>		<b>16,878</b>

#### Statement of change in net assets attributable to shareholders

for the year to 31 May	£'000	2020		2019	
		£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>			<b>559,869</b>		<b>596,796</b>
Amounts received on issue of shares	104,658			53,662	
Amounts paid on cancellation of shares	(121,580)			(110,223)	
			(16,922)		(56,561)
Dilution adjustments			110		36
Change in net assets attributable to shareholders from investment activities (see above)			51,269		16,878
Retained distributions on Accumulation shares			3,192		2,716
Unclaimed distributions			1		4
<b>Closing net assets attributable to shareholders</b>			<b>597,519</b>		<b>559,869</b>

## M&G Gilt & Fixed Interest Income Fund

# Financial statements and notes

### Financial statements (continued)

#### Balance sheet

as at 31 May	Note	2020 £'000	2019 £'000
<b>Assets</b>			
<b>Fixed assets</b>			
Investments		589,314	552,159
<b>Current assets</b>			
Debtors	9	5,008	4,804
Cash and bank balances	10	162	3,281
Cash equivalents		3,393	782
<b>Total assets</b>		<b>597,877</b>	<b>561,026</b>
<b>Liabilities</b>			
Investment liabilities		(36)	(623)
<b>Creditors</b>			
Distribution payable		(170)	(245)
Other creditors	11	(152)	(289)
<b>Total liabilities</b>		<b>(358)</b>	<b>(1,157)</b>
<b>Net assets attributable to shareholders</b>		<b>597,519</b>	<b>559,869</b>

# M&G Gilt & Fixed Interest Income Fund

## Financial statements and notes

### Notes to the financial statements

#### 1 Accounting policies

The financial statements have been prepared in accordance with the 'Summary of significant accounting policies' set out on pages 7 and 8.

#### 2 Distribution policy

In determining the amount available for distribution to Income shares, the annual charge, annual management charge and administration charge are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

Marginal tax relief has not been taken into account in respect of expenses offset against capital.

#### 3 Net capital gains / (losses)

	2020	2019
for the year to 31 May	£'000	£'000
Non-derivative securities	55,051	19,659
Derivative contracts	(3,420)	(1,592)
Currency gains / (losses)	(36)	(596)
Transaction charges	0	(5)
<b>Net capital gains / (losses)</b>	<b>51,595</b>	<b>17,466</b>

#### 4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 16.

	2020	2019		
for the year to 31 May	£'000	£'000		
a) Purchases				
Debt securities <sup>[a]</sup>	616,637	319,477		
b) Sales				
Debt securities <sup>[a]</sup>	628,280	369,704		
c) Direct portfolio transaction costs	2020 £'000	% of average NAV	2019 £'000	% of average NAV
Commissions paid				
Derivatives	1	0.00	2	0.00
Taxes paid				
Derivatives	1	0.00	2	0.00
Total direct portfolio transaction costs	2	0.00	4	0.00
d) Indirect portfolio transaction costs				
		%		%
Portfolio dealing spread <sup>[b]</sup>		0.13		0.07

<sup>[a]</sup> These transaction types do not attract direct portfolio transaction costs.

<sup>[b]</sup> Average portfolio dealing spread at the balance sheet date.

#### 5 Revenue

	2020	2019
for the year to 31 May	£'000	£'000
Bank interest	10	1
Derivative revenue	(34)	(129)
Interest distributions	24	24
Interest on debt securities	6,701	7,988
Rebate of ongoing charges from underlying funds	2	0
<b>Total revenue</b>	<b>6,703</b>	<b>7,884</b>

#### 6 Expenses

	2020	2019
for the year to 31 May	£'000	£'000
<b>Payable to the ACD or associate</b>		
Annual charge	2,279	0
Annual management charge <sup>[a]</sup>	620	3,782
Administration charge <sup>[a]</sup>	140	852
	3,039	4,634
<b>Payable to the Depositary or associate</b>		
Depositary's charge (including VAT) <sup>[a]</sup>	6	39
<b>Other expenses</b>		
Audit fee (including VAT) <sup>[a] [b]</sup>	2	11
Interest payable	4	0
Safe custody charge <sup>[a]</sup>	1	4
	7	15
<b>Total expenses</b>	<b>3,052</b>	<b>4,688</b>

<sup>[a]</sup> The segregated charges shown above for annual management, administration, depositary, audit and safe custody are those paid by the fund up to and including 31 July 2019. As of 1 August 2019 these charges have been replaced by the single annual charge.

<sup>[b]</sup> Audit fees for the financial year ending 2020 were £11,000 (including VAT).

#### 7 Taxation

	2020	2019
for the year to 31 May	£'000	£'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	0
Withholding tax	20	2
Deferred tax (note 7c)	0	0
<b>Total taxation</b>	<b>20</b>	<b>2</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue / (expense) before taxation	3,651	3,196
Corporation tax at 20%	730	639
<b>Effects of:</b>		
Interest distributions	(730)	(639)
Withholding tax	20	2
<b>Total tax charge (note 7a)</b>	<b>20</b>	<b>2</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The fund has not recognised a deferred tax asset in the current financial year (2019: same).

# M&G Gilt & Fixed Interest Income Fund

## Financial statements and notes

### Notes to the financial statements

#### 8 Distributions

for the year to 31 May	2020		2019	
	Inc <sup>[a]</sup>	Acc <sup>[b]</sup>	Inc <sup>[a]</sup>	Acc <sup>[b]</sup>
Interest distributions	£'000	£'000	£'000	£'000
First interim	221	687	258	666
Second interim	207	984	261	755
Third interim	181	842	238	635
Final	170	679	245	660
Total net distributions		3,971		3,718
Income deducted on cancellation of shares		103		102
Income received on issue of shares		(117)		(38)
<b>Distributions</b>		<b>3,957</b>		<b>3,782</b>
Net revenue / (expense) per statement of total return		3,631		3,194
Expenses offset against capital		326		588
<b>Distributions</b>		<b>3,957</b>		<b>3,782</b>

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

#### 9 Debtors

as at 31 May	2020	2019
	£'000	£'000
Debt security interest receivable	5,006	4,804
Distributions receivable	2	0
<b>Total debtors</b>	<b>5,008</b>	<b>4,804</b>

#### 10 Cash and bank balances

as at 31 May	2020	2019
	£'000	£'000
Amounts held at futures clearing houses and collateral manager	0	1,335
Cash held as bank balances	162	1,946
<b>Total cash and bank balances</b>	<b>162</b>	<b>3,281</b>

#### 11 Other creditors

as at 31 May	2020	2019
	£'000	£'000
ACD's annual management charge payable	0	112
Administration charge payable	0	25
Amounts payable on cancellation of shares	50	134
Annual charge payable	86	0
Bank overdraft interest payable	4	0
Derivative expense payable	0	2
Expenses payable	12	16
<b>Total other creditors</b>	<b>152</b>	<b>289</b>

#### 12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2019: same).

#### 13 Shares in issue

The following table shows each class of share in issue during the year. Each share class has the same rights on winding up however they may have different charging structures as set out in note 14.

Share class	Opening 01.06.19	Movements Issued	Cancelled	Closing 31.05.20
<b>Sterling</b>				
Class 'A' Income	33,755,518	1,434,599	(5,271,688)	29,918,429
Class 'A' Accumulation	58,057,391	15,718,345	(12,228,478)	61,547,258
Class 'I' Income	3,261,897	169,579	(599,708)	2,831,768
Class 'I' Accumulation	12,413,361	634,132	(2,784,748)	10,262,745

#### 14 Charging structure

The table below sets out the charging structure for each class of share. The charging structure is the same for both Income and Accumulation shares of each class.

Share class	Entry charge %	Exit charge %	Annual charge <sup>[a]</sup> %
<b>Sterling</b>			
Class 'A'	n/a	n/a	0.55
Class 'I'	n/a	n/a	0.30

[a] The amounts shown are the maximum annual charge. M&G will apply a discount of 0.02% for every £1 billion of a fund's net asset value. This is assessed quarterly and implemented on a forward basis no later than 13 business days after quarter end.

#### 15 Related parties

M&G Securities Limited, as Authorised Corporate Director (ACD), is a related party and acts as principal on all the transactions of shares in the fund except with in specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to shareholders' and note 8. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 9 and 11 where applicable.

Amounts paid to M&G Securities Limited in respect of the annual charge, ACD's annual management charge and administration charge are disclosed in note 6. Amounts due at the year end in respect of the annual charge are disclosed in note 11.

At the balance sheet date, shareholders from within M&G plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 52.32% (2019: 47.07%) of the fund's shares.

#### 16 Events after the balance sheet date

There were no events after the balance sheet date to disclose.



# M&G Gilt & Fixed Interest Income Fund

## Financial statements and notes

### Notes to the financial statements

#### 17 Fair value analysis

Financial instruments have been measured at their fair value and have been classified below using a hierarchy that reflects the significance of the inputs used in measuring their fair value:

##### Level 1: Unadjusted quoted price in an active market for an identical instrument

This includes instruments such as publicly traded equities, highly liquid bonds (e.g. Government bonds) and exchange traded derivatives (e.g. futures) for which quoted prices are readily and regularly available.

##### Level 2: Valuation technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

##### Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

as at 31 May	Assets	Liabilities	Assets	Liabilities
Basis of valuation	2020	2020	2019	2019
	£'000	£'000	£'000	£'000
Level 1	504,716	0	463,530	(623)
Level 2	84,598	(36)	88,629	0
Level 3	0	0	0	0
	589,314	(36)	552,159	(623)

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 13 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

#### 18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 9 to 10.

#### 19 Market risk sensitivity and exposure

VaR is the risk measurement methodology used to assess the fund's leverage and market risk volatility. When VaR is calculated as a percentage of the net asset value it may not be greater than the VaR limit set for the fund.

The VaR limit set during the financial year to 31 May 2020 was 15% (2019: 15%).

The lowest, highest and average VaR, as well as utilisation of VaR with reference to the limit above, are calculated during the financial years ended 31 May 2020 and 31 May 2019.

	2020	2020	2019	2019
	% of VaR	Utilisation of VaR [a]	% of VaR	Utilisation of VaR [a]
for the year to 31 May	15%	15%	15%	15%
Lowest	2.99	19.93	3.14	20.93
Highest	8.18	54.53	4.43	29.52
Average	4.44	29.62	3.75	24.98

[a] The VaR on the fund has been divided by its maximum limit.

#### 20 Credit risk

The fund is exposed to credit risk both through the credit quality of the investments it holds and through the derivative positions with counterparties. The table below shows the credit quality of the investments held in the portfolio.

	2020	2019
as at 31 May	£'000	£'000
Investment grade securities	567,360	546,129
Unrated securities	21,952	6,030
Other investments	(34)	(623)
Total	589,278	551,536

The tables below show the exposure to counterparties. Collateral is posted daily, in the form of cash or high-quality government bonds, to minimise this exposure.

	Forward currency contracts
as at 31 May 2020	£'000
Barclays Bank	(31)
HSBC	(8)
National Australia Bank	4
Standard Chartered Bank	1
State Street Bank	1
UBS	(1)
Total	(34)

	Futures
as at 31 May 2019	£'000
Bank of America Merrill Lynch	(623)
Total	(623)

# M&G Gilt & Fixed Interest Income Fund

## Financial statements and notes

### Notes to the financial statements

#### 21 Leverage risk

Funds using VaR approaches are required to disclose the level of leverage employed during the financial reporting period.

Derivatives can be used by the fund to generate market exposure to investments exceeding the net asset value. As a result of this exposure, the size of any positive or negative movement in markets may have a more significant effect on the net asset value of the fund.

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 31 May 2020 and 31 May 2019 are disclosed in the table below.

	2020 <sup>[a]</sup>	2020 <sup>[a]</sup>	2019 <sup>[a]</sup>	2019 <sup>[a]</sup>
for the year to 31 May	£'000	% <sup>[b]</sup>	£'000	% <sup>[b]</sup>
Lowest	0	0.00	0	0.00
Highest	67,905	12.00	127,288	23.00
Average	20,383	3.60	40,915	7.00

<sup>[a]</sup> Leverage has been calculated using the Gross Sum of Notional Approach for derivative positions only (including forward currency contracts) and excludes all physical holdings.

<sup>[b]</sup> Expressed as a percentage over fund valuation.

#### 22 Interest distribution tables

This fund pays quarterly interest distributions and the following table sets out the distribution periods.

##### Quarterly distribution periods

	Start	End	Xd	Payment
First interim	01.06.19	31.08.19	02.09.19	31.10.19
Second interim	01.09.19	30.11.19	02.12.19	31.01.20
Third interim	01.12.19	29.02.20	02.03.20	30.04.20
Final	01.03.20	31.05.20	01.06.20	31.07.20

The following tables set out for each distribution the rates per share for both Group 1 and Group 2 shares.

Group 1 shares are those purchased prior to a distribution period and therefore their income rate is the same as the distribution rate.

Group 2 shares are those purchased during a distribution period and therefore their distribution rate is made up of income and equalisation. Equalisation is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the income and equalisation components.

#### Sterling Class 'A' Income shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	0.1420	0.1800	0.3220	0.3244
Second interim	0.1350	0.1816	0.3166	0.3454
Third interim	0.1419	0.1485	0.2904	0.3262
Final	0.1418	0.1313	0.2731	0.3453

#### Sterling Class 'A' Accumulation shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	0.3043	0.4337	0.7380	0.6138
Second interim	0.2887	0.7133	1.0020	0.7402
Third interim	0.3748	0.4953	0.8701	0.6298
Final	0.4114	0.2968	0.7082	0.6647

#### Sterling Class 'I' Income shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	1.8909	1.7861	3.6770	3.6948
Second interim	1.6853	1.9316	3.6169	3.9375
Third interim	1.5726	1.7499	3.3225	3.7225
Final	1.3700	1.7537	3.1237	3.9395

#### Sterling Class 'I' Accumulation shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	1.2138	1.1287	2.3425	2.0386
Second interim	1.4661	1.4732	2.9393	2.3100
Third interim	0.9413	1.7166	2.6579	2.0800
Final	1.2759	1.0974	2.3733	2.2035

## M&G Global High Yield Bond Fund

# Authorised Corporate Director's Report

### Investment objective up to 22 March 2020

The fund aims to provide income and capital growth.

### Investment objective from 23 March 2020

The fund aims to provide a higher total return (the combination of capital growth and income), net of the ongoing charge figure, than that of the ICE BofAML Global High Yield Index (GBP Hedged) over any five-year period.

### Investment policy up to 22 March 2020

At least 80% of the fund is invested in higher yielding corporate debt instruments which may be denominated in sterling, European currencies and other major global currencies, should the investment managers deem them to be appropriate investments. The fund's exposure to higher yielding corporate debt instruments may be gained through the use of derivatives and any currency exposures within the fund may be managed by currency hedges into sterling.

Derivatives may also be used for efficient portfolio management.

The fund may also invest in collective investment schemes, government and public securities and other transferable securities, cash, near cash, other money market instruments, warrants and other derivative instruments. More than 80% of the fund will be in sterling or hedged back to sterling.

### Investment policy from 23 March 2020

At least 80% of the fund is invested, directly or indirectly through derivatives, in below investment grade corporate debt securities. These securities can be issued by companies from anywhere in the world, including Emerging Markets.

Other investments may include:

- Asset-Backed Securities and
- other transferable securities, government bonds, cash, and near cash, directly or via collective investment schemes (including funds managed by M&G).

There are no credit quality restrictions applicable to the fund's investments.

The fund aims to hedge any non-Sterling assets back to Sterling.

Derivatives may be used for investment purposes, efficient portfolio management and hedging.

### Investment approach up to 22 March 2020

The fund manager concentrates on bottom-up analysis of individual bond issues while remaining aware of macroeconomic developments. Emphasis is placed upon investigating the ability of a company or government to meet its interest payments, especially during unfavourable economic conditions. Credit risk is constantly monitored and typically spread across a variety of countries and industrial sectors.

### Investment approach from 23 March 2020

The fund is globally diversified across a range of below investment grade (high yield) debt securities from a variety of sectors and geographies. The fund manager focuses on the analysis of individual bond issues while remaining aware of macroeconomic developments. Emphasis is placed upon investigating the ability of a bond issuer to meet its interest payments, especially during unfavourable economic conditions.

The fund manager has the flexibility to adjust the fund's credit exposure, sector positioning and regional allocations depending on the assessment of current market valuations and the macroeconomic environment, including the likely path of economic growth, inflation and interest rates.

Individual credit selection is carried out with the assistance of an in-house team of credit analysts to complement the fund manager's views.

### Benchmark up to 22 March 2020

Benchmark: ICE BofAML Global High Yield Index (GBP Hedged)

The fund is actively managed. The benchmark is a comparator against which the fund's performance can be measured. The index has been chosen as the fund's comparator benchmark as it best reflects the scope of the fund's investment policy. The comparator benchmark does not constrain the fund's portfolio construction.

For unhedged share classes, the benchmark is shown in the share class currency.

For currency hedged share classes, the benchmark is hedged to the share class currency.

### Benchmark from 23 March 2020

Benchmark: ICE BofAML Global High Yield Index (GBP Hedged)

The benchmark is a target which the fund seeks to outperform.

The index has been chosen as the fund's benchmark as it best reflects the scope of the fund's investment policy. The benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction.

The fund is actively managed.

The fund manager has complete freedom in choosing which investments to buy, hold and sell in the fund. The fund's holdings may deviate significantly from the benchmark's constituents.

For unhedged share classes, the benchmark is shown in the share class currency.

For currency hedged share classes, the benchmark is hedged to the share class currency.

## M&G Global High Yield Bond Fund

# Authorised Corporate Director's Report

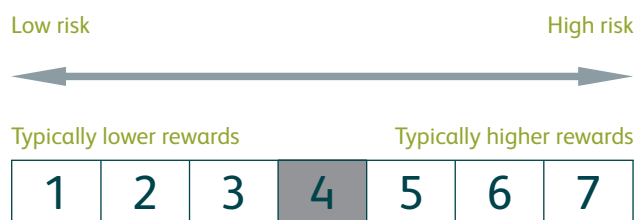
### Risk profile

The fund invests mainly in higher yielding fixed income securities, which may be denominated in sterling, European currencies and other major global currencies. It is, therefore, subject to the price volatility of the global bond market as well as the performance of individual issuers. In addition, the fund is subject to fluctuations in currency exchange rates.

The fund's focus on higher yielding debt securities implies that it may experience greater volatility than a fund that invests primarily in investment grade debt securities as higher risk assets could potentially experience a degree of illiquidity in times of market distress.

The fund's exposure to debt securities may be gained through the use of derivatives. In association with the use of derivatives, including those instruments not traded through an exchange, collateral is deposited in order to mitigate the risk that a counterparty may default on its obligations or become insolvent. Portfolio diversification is key in managing liquidity and default risks as well as reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

The following table shows the risk number associated with the fund and is based on Sterling Class 'A' shares.



The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has not changed during this period.

### Investment review

As at 1 June 2020, for the year ended 31 May 2020

#### Performance against objective

Between 3 June 2019 (the start of the review period) and 1 June 2020, the M&G Global High Yield Bond Fund delivered a negative total return (the combination of income and growth of capital) for its sterling share classes. The fund lagged its benchmark, the ICE BofAML Global High Yield Index (GBP Hedged), which returned -0.6% over the same period.\*

Over five years, the fund delivered a positive return, but did not meet its objective as the fund trailed the benchmark index, which returned 3.3% p.a. over this period.

\* For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Financial highlights' section of this report.

### Investment performance

The 12 months under review was a volatile period for high yield bond markets. (High yield bonds are loans paying fixed interest issued by companies with a low credit rating. Credit ratings are independent assessments of a borrower's ability to repay loans. Bonds from low-rated companies are considered riskier than those issued by companies with a high credit rating. They therefore pay a higher rate of interest than their higher-rated counterparts, to compensate investors for the greater possibility that the issuer might be unable to meet its obligations, or in other words, default.)

High yield bonds registered strong returns from the start of the period up until January 2020. Stimulus measures from the world's central banks, tentative signs of progress in the US/China trade dispute and better-than-expected corporate earnings buoyed investor appetite for the asset class. Despite persistent concerns over the underlying health of the world economy, risky assets, such as high yield bonds, remained in favour with investors; the high yield markets in the US, emerging markets and Europe all delivered positive returns.

However, events from mid-February 2020 onwards were to have a large impact on returns for the whole period, as financial markets began to react to the deadly COVID-19 pandemic and its very sudden hit to world economic growth. Investment gains from 2019 were quickly wiped out during a huge market sell-off in March 2020 as activity in most major economies came almost to a complete standstill while governments locked down populations and forced businesses to shutter in an attempt to control the spread of the virus.

Core government bonds held up relatively well during this period, but corporate bond markets sold off sharply, with high yield bonds and other riskier asset classes recording the largest declines. The yields available on global high yield bonds increased above core government bond yields to levels not seen since the 2008 global financial crisis, reflecting the heightened credit risk in the markets. An extraordinary level of central bank stimulus and government support in the world's major economies came to the aid of many consumers and businesses and was welcomed by investors. Markets then rebounded strongly through April and May as the virus appeared to peak in most developed countries and the number of cases started declining, prompting the gradual reopening of economies.

The fund's sterling share classes delivered a negative return over the 12-month review period, and it underperformed the ICE BofAML Global High Yield Index (GBP Hedged).

We have favoured a more cautious approach than the market, maintaining a preference for less cyclical businesses and areas where earnings looked more solid. This stance dragged on relative performance during 2019, in particular our below-index allocation to areas such as financial services and real estate. However, this stance rewarded us somewhat during the sell-off, as these sectors experienced some of the largest falls. The fund's overweight exposure to the leisure sector was a drag on returns for the entire period, as was stock selection in the retail sector.

## M&G Global High Yield Bond Fund

# Authorised Corporate Director's Report

### Investment performance (continued)

Despite the underperformance, credit selection within the fund proved helpful overall, especially in the energy and telecommunications sectors. We largely avoided the severe underperformance from low-rated US energy names which struggled to perform as concerns grew for the amount of excessive borrowing in the sector during 2019. Energy sector names also struggled badly during the market rout in March 2020 due to an oil price shock caused by disagreements amongst producer countries and a collapse in demand. However, the fund maintained some exposure to the sector throughout the period, which was a drag on returns.

### Investment activities

We have not made significant changes to the overall positioning of the portfolio over the period, although we have been quite active on an individual name basis as the market has been through one of the most turbulent periods in its history. We have broadly maintained our preference for defensive companies that offer resilient cashflows irrespective of the economic environment.

Through much of 2019 we steadily increased our exposure to the US and emerging markets. Having previously held a bias towards European companies, we started to see better value in other regions and favoured a more balanced regional exposure.

As the COVID-19 crisis unfolded, we sought to invest in areas of the market that appeared oversold. The fund witnessed both inflows and outflows over this period, so the focus was on managing these assets sensibly and maintaining the portfolio's overall shape whilst being mindful to preserve capital in some instances. We sold out of some positions in the energy sector where we were seeing imminent default risk with little hope of any recovery. On the flip side, we added to some attractively valued 'crossover' names that straddle the investment grade and high yield bond segments. We also took advantage of some attractive deals in the primary market.

More recently, we have added some risk back via positions in EasyJet, Italmatch (chemicals) and Louvre Bidco (debt collector). In addition, we re-added some energy risk via positions in Occidental Petroleum and Pemex, both of which had dropped out of the investment grade segment of the market.

### Outlook

The COVID-19 crisis caused high yield markets to fall dramatically, and until recently they were trading at levels that indicated corporate default rates were likely to be worse than previous default rate peaks, potentially offering investors attractive long-term value. In April and May, however, high yield markets staged a strong recovery, so a lot of the obvious value in markets has clearly disappeared.

With central bank support still firmly in place, many high yield investors feel more constructive on the higher-quality end of the high yield market, while at the same time, the environment for many companies with excessive borrowing remains challenging.

There are still some attractive opportunities on offer in the high yield space, but following the market rally, those are now increasingly found amongst more cyclical and lower-rated parts of the market.

While we expect default rates to rise over the coming months, we think these will be concentrated in the sectors most affected by the crisis, such as travel, leisure and energy. In contrast, many other sectors, such as food retailers and packagers, telecoms and healthcare, should prove resilient. In this environment, we believe active credit selection will become more important than ever.

Equally important is the ability to invest flexibly to take advantage of the investment opportunities where we see them. We believe having access to one of the largest credit research teams in the industry allows us to thoroughly scrutinise all aspects of a company's credit profile and to assess whether bond investors are being adequately compensated for the potential risks.

### Stefan Isaacs & James Tomlins

#### Co-fund managers

Employees of M&G FA Limited (formerly M&G Limited) which is an associate of M&G Securities Limited.

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

## M&amp;G Global High Yield Bond Fund

## Authorised Corporate Director's Report

## Portfolio statement

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>EQUITIES</b>	<b>105</b>	<b>0.01</b>	<b>0.23</b>
	<b>Equities</b>	<b>105</b>	<b>0.01</b>	<b>0.23</b>
141,319	Chaparral Energy	56	0.01	
680,748	Codere <sup>[a]</sup>	0	0.00	
21,345	Jones Energy II Warrants 17/05/2024	0	0.00	
48,841,504	New World Resources <sup>[a]</sup>	0	0.00	
9,295	Patterson-UTI Energy	32	0.00	
11,384	SandRidge Energy	15	0.00	
9,856	SandRidge Energy Warrants 4/10/2022 A	2	0.00	
4,150	SandRidge Energy Warrants 4/10/2022 B	0	0.00	
	<b>FIXED INCOME</b>	<b>988,832</b>	<b>97.42</b>	<b>93.23</b>
	<b>Debt securities</b>	<b>988,034</b>	<b>97.34</b>	<b>92.97</b>
	<b>'AA' credit rated bonds</b>	<b>68,431</b>	<b>6.74</b>	<b>4.87</b>
£50,000,000	UK Treasury 0.625% 07/06/2025	51,581	5.08	
US\$20,000,000	UK Treasury 1.125% 28/02/2025	16,850	1.66	
	<b>'A' credit rated bonds</b>	<b>7,433</b>	<b>0.73</b>	<b>1.71</b>
€5,200,000	Banco Bilbao Vizcaya Argentaria Var. Rate 6% Perpetual	4,559	0.45	
€2,955,000	Total Var. Rate 3.369% Perpetual	2,874	0.28	
	<b>'BBB' credit rated bonds</b>	<b>129,706</b>	<b>12.78</b>	<b>10.23</b>
€1,800,000	Banco de Sabadell Var. Rate 6.5% Perpetual	1,226	0.12	
US\$8,000,000	Berry Global 4.875% 15/07/2026	6,813	0.67	
€5,000,000	BHP Billiton Finance Var. Rate 5.625% 22/10/2079	5,189	0.51	
US\$11,199,000	Boeing 5.04% 01/05/2027	9,596	0.95	
US\$11,000,000	Carnival 11.5% 01/04/2023	9,551	0.94	
US\$11,261,000	Centene 4.75% 15/01/2025	9,440	0.93	
US\$6,980,000	Cheniere Corpus Christi 5.875% 31/03/2025	6,184	0.61	
US\$2,379,000	Corestates Capital III FRN 0.9624% 15/02/2027	1,692	0.17	
US\$6,365,000	Delta Air Lines 7% 01/05/2025	5,388	0.53	
€500,000	easyJet 0.875% 11/06/2025	367	0.04	
US\$6,316,000	EMC 5.45% 15/06/2023	5,464	0.54	
US\$2,322,000	EMC 8.1% 15/07/2036	2,280	0.22	
US\$5,450,000	Energy Transfer Operating 5.875% 15/01/2024	4,810	0.47	
US\$4,000,000	General Motors 5.15% 01/04/2038	3,040	0.30	
£4,418,000	GKN 4.625% 12/05/2032	4,316	0.43	
US\$7,716,000	HCA 4.5% 15/02/2027	6,916	0.68	
US\$2,379,000	HCA 4.75% 01/05/2023	2,080	0.20	
US\$2,724,000	HCA 5% 15/03/2024	2,431	0.24	
US\$3,036,000	HCA 5.5% 15/06/2047	2,958	0.29	
US\$2,729,000	Lear 3.5% 30/05/2030	1,974	0.19	
£2,855,000	Legal & General Var. Rate 5.375% 27/10/2045	3,142	0.31	
€2,700,000	Merck Var. Rate 1.625% 25/06/2079	2,429	0.24	
US\$6,000,000	NGPL PipeCo 4.875% 15/08/2027	5,275	0.52	
US\$1,903,000	Park Aerospace 5.5% 15/02/2024	1,319	0.13	
US\$7,000,000	Petroleos Mexicanos 6.5% 13/03/2027	5,052	0.50	
€9,123,000	PVH 3.625% 15/07/2024	8,184	0.81	
US\$3,807,000	Sabine Pass Liquefaction 5.625% 01/03/2025	3,427	0.34	
US\$3,729,329	S-JETS 2017-1 5.682% 15/08/2042	1,644	0.16	
£1,095,000	Society of Lloyd's Var. Rate 4.875% 07/02/2047	1,140	0.11	
US\$7,613,000	Syngenta Finance 5.182% 24/04/2028	6,379	0.63	
	<b>'BB' credit rated bonds</b>	<b>452,345</b>	<b>44.56</b>	<b>48.24</b>
US\$3,700,000	Albertsons 5.875% 15/02/2028	3,219	0.32	
US\$3,000,000	Aramark Services 5% 01/04/2025	2,451	0.24	
€2,000,000	Ardagh Packaging Finance 2.125% 15/08/2026	1,752	0.17	
US\$2,000,000	Ardagh Packaging Finance 4.125% 15/08/2026	1,627	0.16	
€5,810,000	Arrow Global Finance FRN 2.875% 01/04/2025	4,553	0.45	
€2,565,000	Axalta Coating Systems 4.25% 15/08/2024	2,259	0.22	
€5,263,000	Axalta Coating Systems Dutch 3.75% 15/01/2025	4,606	0.45	
€1,636,000	Belden 3.375% 15/07/2027	1,402	0.14	
€1,400,000	Belden 3.875% 15/03/2028	1,214	0.12	
£7,900,000	Cabot Financial Luxembourg 7.5% 01/10/2023	7,584	0.75	
US\$9,500,000	Cascades USA 5.125% 15/01/2026	7,865	0.78	
US\$3,859,000	CCO Holdings Capital 4% 01/03/2023	3,178	0.31	
US\$9,076,000	CCO Holdings Capital 5.125% 01/05/2027	7,754	0.76	
US\$7,768,000	CCO Holdings Capital 5.75% 15/02/2026	6,593	0.65	
US\$3,800,000	Cemex 5.7% 11/01/2025	3,043	0.30	



# M&G Global High Yield Bond Fund

## Authorised Corporate Director's Report

### Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>FIXED INCOME (continued)</b>			
	<b>Debt securities (continued)</b>			
	<b>'BB' credit rated bonds (continued)</b>			
US\$1,538,000	Cemex Finance 6% 01/04/2024	1,243	0.12	
US\$6,400,000	Cheniere Energy Partners 4.5% 01/10/2029	5,137	0.51	
US\$1,903,000	Cheniere Energy Partners 5.25% 01/10/2025	1,576	0.16	
US\$8,554,000	Cheniere Energy Partners 5.625% 01/10/2026	7,150	0.70	
US\$3,250,000	CIFI 6.55% 28/03/2024	2,640	0.26	
€1,836,000	Colfax 3.25% 15/05/2025	1,634	0.16	
€6,850,000	CPI Property Var. Rate 4.375% Perpetual	5,826	0.57	
US\$3,665,000	Crown Americas Capital 4.25% 30/09/2026	3,054	0.30	
€2,120,000	Crown European 3.375% 15/05/2025	1,964	0.19	
US\$4,897,000	CSC 5.5% 15/04/2027	4,214	0.42	
US\$7,137,000	CSC 6.625% 15/10/2025	6,085	0.60	
US\$2,800,000	Drax Finco 6.625% 01/11/2025	2,386	0.24	
US\$3,500,000	Energy Transfer Operating Var. Rate 6.25% Perpetual	2,151	0.21	
US\$12,570,000	EnLink Midstream 5.375% 01/06/2029	7,907	0.78	
US\$12,097,000	Ford Motor 9% 22/04/2025	10,380	1.02	
€3,735,000	Grifols 2.25% 15/11/2027	3,314	0.33	
US\$7,183,000	Hanesbrands 4.625% 15/05/2024	5,962	0.59	
US\$6,968,000	Hanesbrands 4.875% 15/05/2026	5,784	0.57	
US\$6,000,000	Hanesbrands 5.375% 15/05/2025	5,067	0.50	
US\$6,807,000	HCA 5.375% 01/09/2026	6,127	0.60	
US\$3,243,000	HCA 5.875% 01/02/2029	3,069	0.30	
US\$3,172,000	Hilton Worldwide Finance 4.625% 01/04/2025	2,573	0.25	
€4,200,000	Infineon Technologies Var. Rate 3.625% Perpetual	3,740	0.37	
US\$5,416,000	Inretail Pharma 5.375% 02/05/2023	4,525	0.45	
US\$9,516,000	International Game Technology 6.25% 15/02/2022	7,914	0.78	
€1,276,000	Intertrust 3.375% 15/11/2025	1,153	0.11	
€4,800,000	Intesa Sanpaolo Var. Rate 3.75% Perpetual	3,373	0.33	
€4,758,000	Intesa Sanpaolo Var. Rate 6.25% Perpetual	4,190	0.41	
€1,911,000	Intesa Sanpaolo Var. Rate 7.75% Perpetual	1,813	0.18	
€9,500,000	Intrum 3.5% 15/07/2026	7,291	0.72	
€5,303,000	IQVIA 3.25% 15/03/2025	4,844	0.48	
€900,000	IQVIA 3.5% 15/10/2024	821	0.08	
US\$12,500,000	KB Home 4.8% 15/11/2029	10,192	1.00	
€2,800,000	KBC Var. Rate 4.25% Perpetual	2,421	0.24	
€3,400,000	Koninklijke KPN Var. Rate 2% Perpetual	2,912	0.29	
US\$6,900,000	Kraft Heinz Foods 4.25% 01/03/2031	5,914	0.58	
US\$6,327,000	KUO 5.75% 07/07/2027	4,225	0.42	
€6,858,000	Levi Strauss 3.375% 15/03/2027	6,209	0.61	
US\$1,255,000	Levi Strauss 5% 01/05/2025	1,044	0.10	
€6,076,000	Lincoln Financing 3.625% 01/04/2024	4,964	0.49	
US\$2,300,000	MARB BondCo 6.875% 19/01/2025	1,871	0.18	
US\$4,212,000	MGM Resorts International 5.5% 15/04/2027	3,324	0.33	
US\$2,401,000	Muthoot Finance 6.125% 31/10/2022	1,914	0.19	
€1,903,000	National Westminster Bank Var. Rate 1.814% Perpetual	1,493	0.15	
£1,850,000	Nationwide Building Society Var. Rate 5.875% Perpetual	1,851	0.18	
€6,535,000	Netflix 3.625% 15/05/2027	6,279	0.62	
US\$9,055,000	Network i2i Var. Rate 5.65% Perpetual	7,123	0.70	
US\$9,000,000	Occidental Petroleum 3.5% 15/08/2029	4,927	0.49	
US\$8,076,000	Olin 5% 01/02/2030	5,672	0.56	
€1,400,000	Orano 4.875% 23/09/2024	1,361	0.13	
US\$3,460,000	Parsley Energy 4.125% 15/02/2028	2,616	0.26	
US\$2,855,000	Parsley Energy 5.375% 15/01/2025	2,277	0.22	
US\$2,927,000	Parsley Energy 5.625% 15/10/2027	2,339	0.23	
US\$8,000,000	Petrobras Global Finance 6.9% 19/03/2049	6,511	0.64	
US\$11,568,000	Pilgrim's Pride 5.75% 15/03/2025	9,610	0.95	
€8,452,000	Playtech 4.25% 07/03/2026	7,404	0.73	
€5,500,000	Q-Park I 2% 01/03/2027	4,683	0.46	
US\$4,758,000	Rede D'or Finance 4.95% 17/01/2028	3,489	0.34	
€3,000,000	Repsol International Finance Var. Rate 4.5% 25/03/2075	2,820	0.28	
US\$4,758,000	Sealed Air 5.125% 01/12/2024	4,176	0.41	
US\$3,806,000	Service Corporation International 5.375% 15/05/2024	3,158	0.31	
US\$3,376,000	Shea Homes Funding 6.125% 01/04/2025	2,737	0.27	
US\$11,211,000	Sirius XM Radio 5% 01/08/2027	9,559	0.94	

# M&G Global High Yield Bond Fund

## Authorised Corporate Director's Report

### Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>FIXED INCOME (continued)</b>			
	<b>Debt securities (continued)</b>			
	<b>'BB' credit rated bonds (continued)</b>			
€3,532,000	Smurfit Kappa Treasury ULC 1.5% 15/09/2027	3,044	0.30	
US\$4,610,000	Société Générale Var. Rate 7.875% Perpetual	3,813	0.38	
€4,000,000	SoftBank 4% 20/04/2023	3,698	0.36	
US\$10,897,000	Southwestern Energy 7.75% 01/10/2027	8,239	0.81	
US\$9,850,000	Sprint 7.875% 15/09/2023	9,092	0.90	
€1,124,000	Stena International 3.75% 01/02/2025	885	0.09	
US\$6,750,000	Taylor Morrison Communities 5.875% 15/06/2027	5,395	0.53	
US\$8,542,000	TEGNA 4.625% 15/03/2028	6,610	0.65	
€10,200,000	Telefónica Europe Var. Rate 4.375% Perpetual	9,521	0.94	
US\$6,100,000	Tenet Healthcare 4.875% 01/01/2026	5,115	0.50	
US\$6,200,000	Tenet Healthcare 5.125% 01/11/2027	5,231	0.52	
€1,540,000	Teva Pharmaceutical Finance Netherlands II 1.625% 15/10/2028	1,145	0.11	
€1,351,000	Teva Pharmaceutical Finance Netherlands II 4.5% 01/03/2025	1,245	0.12	
US\$6,945,000	Teva Pharmaceutical Finance Netherlands III 3.15% 01/10/2026	5,054	0.50	
US\$2,268,000	Teva Pharmaceutical Finance Netherlands III 4.1% 01/10/2046	1,540	0.15	
US\$1,586,000	T-Mobile USA 5.125% 15/04/2025	1,310	0.13	
US\$2,855,000	T-Mobile USA 6% 15/04/2024	2,370	0.23	
US\$2,855,000	T-Mobile USA 6.375% 01/03/2025	2,390	0.24	
US\$5,710,000	UBS Var. Rate 7% Perpetual	5,055	0.50	
US\$4,986,000	United Rentals North America 4.625% 15/10/2025	4,140	0.41	
US\$855,000	United Rentals North America 6.5% 15/12/2026	745	0.07	
US\$6,344,000	Videotron 5.375% 15/06/2024	5,472	0.54	
£3,671,100	Virgin Media Secured Finance 6.25% 28/03/2029	3,833	0.38	
US\$6,402,000	Vodafone Var. Rate 7% 04/04/2079	6,051	0.60	
€2,438,000	Volvo Car 2.125% 02/04/2024	2,112	0.21	
€800,000	WEPA Hygieneprodukte FRN 2.875% 15/12/2026	712	0.07	
US\$9,992,000	WPX Energy 5.25% 15/09/2024	8,067	0.79	
US\$7,800,000	Yingde Gases Investment 6.25% 19/01/2023	6,295	0.62	
€1,500,000	ZF Europe Finance 2.5% 23/10/2027	1,234	0.12	
€2,000,000	ZF Europe Finance 3% 23/10/2029	1,616	0.16	
US\$2,850,000	ZF North America Capital 4.75% 29/04/2025	2,234	0.22	
	<b>'B' credit rated bonds</b>	<b>209,583</b>	<b>20.65</b>	<b>22.57</b>
US\$7,639,000	ADES International 8.625% 24/04/2024	5,083	0.50	
€4,847,000	Algeco Global Finance 6.5% 15/02/2023	4,114	0.41	
US\$2,968,000	Alpha 9% 10/02/2025	1,967	0.19	
€5,800,000	Altice France 5.875% 01/02/2027	5,587	0.55	
US\$2,158,000	Altice France 7.375% 01/05/2026	1,860	0.18	
€4,000,000	Antolin-Irausa 3.25% 30/04/2024	2,997	0.30	
€4,450,000	ARD Finance 5% 30/06/2027	3,798	0.37	
£1,196,000	Ardagh Packaging Finance 4.75% 15/07/2027	1,142	0.11	
US\$3,806,000	Avis Budget Finance 5.25% 15/03/2025	2,498	0.25	
£2,719,000	Barclays Var. Rate 5.875% Perpetual	2,405	0.24	
US\$2,500,000	Bausch Health 5% 30/01/2028	1,974	0.19	
US\$13,983,000	Bausch Health 7% 15/01/2028	12,040	1.19	
€5,250,000	Boxer Parent 6.5% 02/10/2025	4,855	0.48	
€6,600,000	Casino Guichard Perrachon 4.498% 07/03/2024	5,202	0.51	
US\$6,231,000	China Evergrande 6.25% 28/06/2021	4,819	0.47	
€10,945,000	CMA CGM 5.25% 15/01/2025	7,029	0.69	
US\$5,456,000	CommScope 8.25% 01/03/2027	4,624	0.46	
US\$1,807,000	Community Health Systems 6.625% 15/02/2025	1,414	0.14	
£3,874,000	CPUK Finance 4.25% 28/08/2022	3,506	0.35	
US\$1,900,000	CSC 7.5% 01/04/2028	1,722	0.17	
US\$3,177,000	DaVita 5% 01/05/2025	2,643	0.26	
US\$3,000,000	Diamond Sports 6.625% 15/08/2027	1,464	0.14	
€6,913,000	Fire BC FRN 4.75% 30/09/2024	5,236	0.52	
€4,539,000	Gamenet FRN 3.75% 27/04/2023	3,696	0.36	
€1,666,000	Guala Closures FRN 3.5% 15/04/2024	1,488	0.15	
£4,418,000	Iceland Bondco 4.625% 15/03/2025	3,777	0.37	
US\$3,241,000	IHS Netherlands 8% 18/09/2027	2,571	0.25	
€3,999,000	Jaguar Land Rover Automotive 6.875% 15/11/2026	2,775	0.27	
€4,091,000	Louvre Bidco 4.25% 30/09/2024	3,385	0.33	
€4,449,000	LSF10 Wolverine Investments 5% 15/03/2024	3,751	0.37	
US\$3,000,000	Mauser Packaging Solutions 5.5% 15/04/2024	2,437	0.24	



# M&G Global High Yield Bond Fund

## Authorised Corporate Director's Report

### Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>FIXED INCOME (continued)</b>			
	<b>Debt securities (continued)</b>			
	<b>'B' credit rated bonds (continued)</b>			
US\$2,820,000	MHP 7.75% 10/05/2024	2,311	0.23	
US\$2,825,000	New Red Finance 5% 15/10/2025	2,324	0.23	
€1,807,000	OI European 2.875% 15/02/2025	1,518	0.15	
US\$625,000	Owens-Brockway Glass Container 5% 15/01/2022	512	0.05	
US\$860,000	Owens-Brockway Glass Container 6.625% 13/05/2027	740	0.07	
€4,858,000	Paprec FRN 3.5% 31/03/2025	3,547	0.35	
US\$3,400,000	Par Pharmaceutical 7.5% 01/04/2027	2,813	0.28	
US\$1,497,000	Performance Food 5.5% 15/10/2027	1,209	0.12	
€3,600,000	Picard FRN 3% 30/11/2023	3,083	0.30	
US\$4,293,000	Post 5.5% 15/12/2029	3,661	0.36	
US\$5,846,000	PPD Development 5% 15/06/2028	4,830	0.48	
£4,147,000	Premier Foods Finance 6.25% 15/10/2023	4,211	0.42	
£3,096,000	Premier Foods Finance FRN 5.6678% 15/07/2022	3,081	0.30	
€3,316,000	Rekeep 9% 15/06/2022	2,767	0.27	
€2,499,000	Rossini FRN 3.875% 30/10/2025	2,191	0.22	
US\$6,616,000	Sally Capital 5.625% 01/12/2025	5,202	0.51	
€6,834,000	Scientific Games International 5.5% 15/02/2026	4,439	0.44	
US\$1,688,000	Scientific Games International 7% 15/05/2028	1,195	0.12	
€10,305,000	Selecta 5.875% 01/02/2024	3,441	0.34	
€6,302,000	Starfruit US 6.5% 01/10/2026	5,608	0.55	
US\$3,200,000	Starfruit US 8% 01/10/2026	2,693	0.27	
US\$6,250,000	Sunac China 6.5% 10/01/2025	4,733	0.47	
€3,500,000	Superior Industries International 6% 15/06/2025	1,968	0.19	
€3,028,000	Techem Verwaltungsgesellschaft 674 6% 30/07/2026	2,757	0.27	
€1,602,000	Trivium Packaging Finance 3.75% 15/08/2026	1,417	0.14	
US\$4,003,000	Trivium Packaging Finance 8.5% 15/08/2027	3,420	0.34	
€1,333,000	Verisure FRN 5% 15/04/2025	1,217	0.12	
US\$9,868,000	VTR Finance 6.875% 15/01/2024	8,124	0.80	
€1,646,000	VZ Vendor Financing 2.5% 31/01/2024	1,470	0.14	
€6,743,000	Walnut Bidco 6.75% 01/08/2024	5,349	0.53	
€6,300,000	Ziggo 4.25% 15/01/2027	5,893	0.58	
	<b>'CCC' credit rated bonds</b>	<b>71,344</b>	<b>7.03</b>	<b>3.01</b>
€4,500,000	Altice France 4% 15/02/2028	3,663	0.36	
€2,750,000	Altice France 8% 15/05/2027	2,649	0.26	
US\$3,000,000	Bombardier 7.5% 15/03/2025	1,450	0.14	
US\$5,600,000	Bombardier 7.875% 15/04/2027	2,693	0.27	
US\$7,577,000	CRC Finco 5.25% 15/10/2025	5,441	0.54	
US\$1,598,000	Del Monte Foods 11.875% 15/05/2025	1,375	0.14	
US\$2,631,000	Endo Finco 6% 01/02/2025	1,579	0.16	
€2,174,000	Foodco Bondco SL 6.25% 15/05/2026	1,623	0.16	
US\$8,467,000	Future Retail 5.6% 22/01/2025	2,297	0.23	
US\$6,800,000	Hexion 7.875% 15/07/2027	4,922	0.48	
US\$3,000,000	iHeartCommunications 8.375% 01/05/2027	2,270	0.22	
US\$5,006,000	Ithaca Energy North Sea 9.375% 15/07/2024	3,056	0.30	
£5,818,000	Matalan Finance 6.75% 31/01/2023	3,317	0.33	
US\$5,100,000	Mauser Packaging Solutions 7.25% 15/04/2025	3,747	0.37	
€3,214,488	Newco 8% 15/12/2022	2,400	0.24	
2,491,000	Ortho-Clinical Diagnostics 7.38% 01/06/2025	2,036	0.20	
€6,230,000	Ruyi US Finance 5.375% 01/05/2023	3,122	0.31	
US\$1,944,000	Staples 10.75% 15/04/2027	1,153	0.11	
€4,271,891	Summer BC 9.25% 31/10/2027	2,824	0.28	
US\$980,000	Team Health 6.375% 01/02/2025	446	0.04	
US\$2,722,000	Transocean 7.5% 15/01/2026	1,220	0.12	
US\$6,800,000	Transocean 8% 01/02/2027	3,027	0.30	
US\$474,000	Transocean 9.35% 15/12/2041	123	0.01	
US\$6,000,000	Uber Technologies 7.5% 15/05/2025	4,966	0.49	
€6,056,000	Vallourec 6.625% 15/10/2022	3,505	0.34	
€4,946,000	Verisure Midholding 5.75% 01/12/2023	4,461	0.44	
US\$2,462,000	Zayo 6.125% 01/03/2028	1,979	0.19	
	<b>'CC' credit rated bonds</b>	<b>2,447</b>	<b>0.24</b>	<b>0.00</b>
US\$2,855,000	Callon Petroleum 6.25% 15/04/2023	818	0.08	
US\$3,806,000	SM Energy 5% 15/01/2024	1,629	0.16	

# M&G Global High Yield Bond Fund

## Authorised Corporate Director's Report

### Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>FIXED INCOME (continued)</b>			
	<b>Debt securities (continued)</b>			
	<b>'C' credit rated bonds</b>	<b>1,175</b>	<b>0.12</b>	<b>0.00</b>
US\$3,272,000	AMC Entertainment 6.125% 15/05/2027	687	0.07	
£1,562,000	AMC Entertainment 6.375% 15/11/2024	432	0.04	
US\$2,611,000	Chesapeake Energy 8% 15/06/2027	56	0.01	
	<b>Bonds with no credit rating</b>	<b>45,570</b>	<b>4.49</b>	<b>2.34</b>
€6,000,000	Banca Monte dei Paschi di Siena Var. Rate 8% 22/01/2030	4,837	0.48	
£2,855,000	Cattles 1% 01/01/2049	6	0.00	
US\$1,187,000	Diamond Offshore Drilling 4.875% 01/11/2043	103	0.01	
US\$1,535,000	Digicel Group One 8.25% 30/12/2022	796	0.08	
€1,942,000	Eurofins Scientific 3.75% 17/07/2026	1,800	0.18	
€4,673,000	Eurofins Scientific Var. Rate 2.875% Perpetual	4,042	0.40	
€900,000	Eurofins Scientific Var. Rate 3.25% Perpetual	750	0.07	
US\$6,250,000	Greenko Solar Mauritius 5.55% 29/01/2025	4,832	0.47	
£5,000,000	Heathrow Finance 3.875% 01/03/2027	4,432	0.44	
€3,761,784	Hellas Telecom III 1% 01/01/2049 <sup>[b]</sup>	0	0.00	
£2,152,000	House of Fraser Funding 5.9704% 15/09/2020	78	0.01	
US\$1,345,000	Intelsat Luxembourg 8.125% 01/06/2023	60	0.00	
US\$1,191,000	JC Penney 6.375% 15/10/2036	20	0.00	
US\$605,705	K2016470219 South Africa 3% 31/12/2022	0	0.00	
ZAR8,212,459	K2016470219 South Africa 3% 31/12/2022 <sup>[b]</sup>	0	0.00	
€50,000	Lehman Brothers 1% 26/09/2040 <sup>[b]</sup>	0	0.00	
US\$5,511,000	Lenovo 5.875% 24/04/2025	4,531	0.45	
US\$2,603,000	Millicom International Cellular 6.25% 25/03/2029	2,147	0.21	
US\$2,600,000	Norddeutsche Landesbank-Girozentrale 6.25% 10/04/2024	1,920	0.19	
£7,350,000	Ocado 4% 15/06/2024	7,398	0.73	
US\$5,653,000	Puma International Financing 5% 24/01/2026	3,839	0.38	
US\$1,000,000	Puma International Financing 5.125% 06/10/2024	682	0.07	
US\$5,043,000	Sandridge Energy 7.5% 15/03/2021 <sup>[b]</sup>	0	0.00	
US\$951,595	Seventy Seven Energy 6.5% 15/07/2022 <sup>[b]</sup>	0	0.00	
US\$3,331,000	Stora Enso 7.25% 15/04/2036	3,297	0.32	
	<b>Debt derivatives</b>	<b>798</b>	<b>0.08</b>	<b>0.26</b>
	<b>Credit default swaps</b>	<b>509</b>	<b>0.05</b>	<b>0.34</b>
US\$(8,820,000)	Markit CDX North American High Yield Series 34 V2 5 Year Jun 2025	(160)	(0.02)	
€(17,500,000)	Markit iTraxx Europe Xover Series 32 V1 4 Year Dec 2024	669	0.07	
	<b>Interest rate futures</b>	<b>289</b>	<b>0.03</b>	<b>(0.07)</b>
(339)	EuroBobl June 2020	289	0.03	
	<b>Asset swaps</b>	<b>0</b>	<b>0.00</b>	<b>(0.01)</b>
	<b>CURRENCY</b>	<b>(11,435)</b>	<b>(1.13)</b>	<b>(2.97)</b>
	<b>Forward currency contracts</b>	<b>(11,435)</b>	<b>(1.13)</b>	<b>(2.97)</b>
€3,806,076	Bought for £3,373,993 (expires 03.06.20)	64	0.01	
€(308,072,268)	Sold for £271,336,849 (expires 03.06.20)	(6,955)	(0.69)	
US\$7,243,913	Bought for £5,972,878 (expires 03.06.20)	(95)	(0.01)	
US\$(729,033,297)	Sold for £587,105,283 (expires 03.06.20)	(4,449)	(0.44)	
<b>Portfolio of investments</b>		<b>977,502</b>	<b>96.30</b>	<b>90.49</b>
	<b>CASH EQUIVALENTS</b>	<b>28,418</b>	<b>2.80</b>	<b>6.31</b>
	<b>'AAA' rated money market funds <sup>[c]</sup></b>	<b>28,418</b>	<b>2.80</b>	<b>6.31</b>
28,418,000	Northern Trust Global Fund - Sterling	28,418	2.80	
<b>Total portfolio (notes 2c &amp; 2d on page 7)</b>		<b>1,005,920</b>	<b>99.10</b>	<b>96.80</b>
<b>Net other assets / (liabilities)</b>		<b>9,129</b>	<b>0.90</b>	<b>3.20</b>
<b>Net assets attributable to shareholders</b>		<b>1,015,049</b>	<b>100.00</b>	<b>100.00</b>

All securities are on an official stock exchange listing except where referenced.

<sup>[a]</sup> Unlisted / unquoted.

<sup>[b]</sup> Defaulted bond.

<sup>[c]</sup> Uncommitted surplus cash is placed into 'AAA' rated money market funds with the aim of reducing counterparty risk.

# M&G Global High Yield Bond Fund

## Financial highlights

### Fund performance

Please note past performance is not a guide to future performance and the value of investments, and the income from them, will fluctuate. This will cause the fund price to fall as well as rise and you may not get back the original amount you invested.

The following charts and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be different. For more information on the different share classes in this fund please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

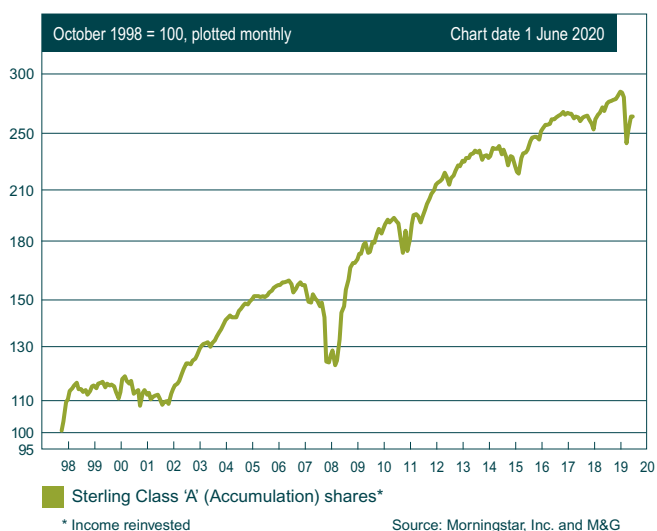
### Fund level performance

#### Fund net asset value

	2020	2019	2018
as at 31 May	£'000	£'000	£'000
Fund net asset value (NAV)	1,015,049	1,058,635	1,172,791

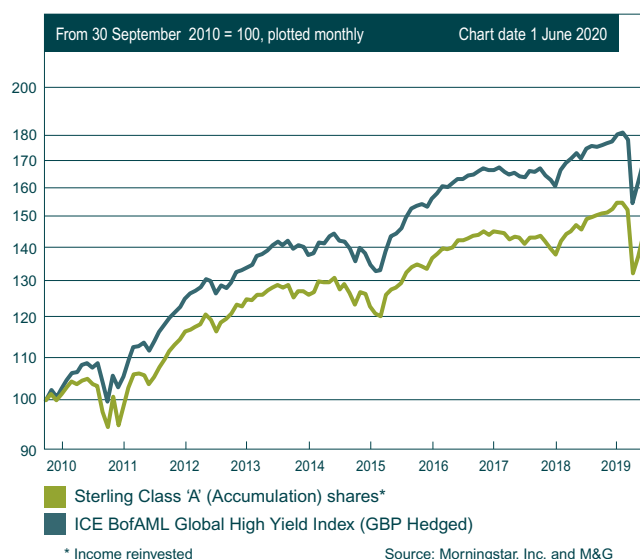
### Performance since launch

To give an indication of how the fund has performed since launch, the chart below shows total return of Sterling Class 'A' (Accumulation) shares.



### Fund performance against the comparator benchmark

We are unable to show the fund's performance against the comparator benchmark from inception, as the fund was previously managed against a different comparator benchmark. Therefore, the graph below shows the performance of the fund from the period where the fund was managed against the ICE BofAML Global High Yield Index (GBP Hedged).



Please note prior to 30 September 2010, the fund was not managed with reference to the ICE BofAML Global High Yield Index (GBP Hedged).

To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period. Calculated on a price to price basis with income reinvested.

#### Long-term performance by share class

	One year 03.06.19 % [a]	Three years 01.06.17 % p.a.	Five years 01.06.15 % p.a.	Since launch % p.a.
<b>Sterling [b]</b>				
Class 'A'	-1.5	+0.2	+1.8	+5.1 [c]
Class 'I'	-1.0	+0.8	+2.4	+4.3 [d]
Class 'PP'	-0.9	n/a	n/a	-1.2 [e]
Class 'R'	-1.3	+0.5	+2.0	+4.0 [d]
Class 'X'	-1.5	+0.2	+1.8	+4.6 [f]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 1 October 2002, the launch date of the share class.

[d] 3 August 2012, the launch date of the share class.

[e] 8 April 2019, the launch date of the share class.

[f] 16 October 1998, the end of the initial offer period of the predecessor unit trust.

# M&G Global High Yield Bond Fund

## Financial highlights

### Operating charges and portfolio transaction costs

We explain below the payments made to meet the ongoing costs of investing and managing the fund, comprising operating charges and portfolio transaction costs.

#### Operating charges

Operating charges include payments made to M&G and to providers independent of M&G:

- **Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge.  
For every £1 billion of a fund's net asset value, a discount of 0.02% will be applied to that fund's annual charge (up to a maximum of 0.12%).
- **Extraordinary legal and tax expenses:** Costs that specifically relate to legal or tax claims that are both exceptional and unforeseeable. Such expenses are uncommon, and would not be expected in most years. Although they result in a short-term cost to the fund, generally they can deliver longer term benefits for investors.
- **Investment management:** Charge paid to M&G for investment management of the fund. From 1 August 2019 this charge forms part of the annual charge.
- **Administration:** Charge paid for administration services in addition to investment management – any surplus from this charge will be retained by M&G. From 1 August 2019 this charge is rolled into the annual charge.
- **Share class hedging:** Charge paid to M&G for currency hedging services to minimise exchange rate risk for the share class. From 1 August 2019 this charge is rolled into the annual charge.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit. From 1 August 2019 these charges will be paid by M&G and rolled into the annual charge.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated. From 1 August 2019 charges from underlying funds (excluding Investment Trust Companies and Real Estate Investment Trusts) will be rebated.

The operating charges paid by each share class of the fund are shown in the following performance tables. These charges do not include portfolio transaction costs or any entry and exit charges (also known as initial and redemption charges). The charging structures of share classes may differ, and therefore the operating charges may differ.

Once the annual charge has been operational for twelve months, operating charges will be in line with the ongoing charges shown in the Key Investor Information Document, other than where there have been extraordinary legal or tax expenses, or an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

#### Portfolio transaction costs

Portfolio transaction costs are incurred by funds when buying and selling investments. These costs vary depending on the types of investment, their market capitalisation, country of exchange and method of execution. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission and taxes.
- **Indirect portfolio transaction costs:** 'Dealing spread' – the difference between the buying and selling prices of the fund's investments; some types of investment, such as fixed interest securities, have no direct transaction costs and only the dealing spread is paid.

Investments are bought or sold by a fund when changes are made to the investment portfolio and in response to net flows of money into or out of the fund from investors buying and selling shares in the fund.

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. As the fund invests mainly in fixed interest securities, the direct transaction costs paid on other investments are too small to be reflected in the table below. To give an indication of the indirect portfolio dealing costs the table shows the average portfolio dealing spread.

Further information on this process is in the Prospectus, which is available free of charge on request either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

#### Portfolio transaction costs

as at 31 May	2020	2019	2018	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	1.03	0.84	0.79	0.89

<sup>[a]</sup> Average of first three columns.

# M&G Global High Yield Bond Fund

## Financial highlights

### Specific share class performance

The following tables show the performance of each share class. All 'Performance and charges' percentages represent an annual rate except for the 'Return after operating charges' which is calculated as a percentage of the opening net asset value per share (NAV). 'Dilution adjustments' are only in respect of direct portfolio transaction costs.

#### Sterling Class 'A' Income share performance

The share class was launched on 1 October 2002. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	48.04	49.25	51.46
Return before operating charges and after direct portfolio transaction costs	(0.63)	1.94	0.97
Operating charges	(0.58)	(0.69)	(0.72)
Return after operating charges	(1.21)	1.25	0.25
Distributions	(2.49)	(2.46)	(2.46)
Closing NAV	44.34	48.04	49.25
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	1.22	1.41	1.41
Return after operating charges	-2.52	+2.54	+0.49
Distribution yield	5.50	5.20	4.99
Effect on yield of charges offset against capital	1.22	1.40	1.40
Other information			
Closing NAV (£'000)	56,794	60,257	88,585
Closing NAV percentage of total fund NAV (%)	5.59	5.69	7.55
Number of shares	128,073,793	125,436,058	179,851,159
Highest share price (UK p)	49.86	49.81	52.06
Lowest share price (UK p)	38.62	46.33	49.75

#### Sterling Class 'A' Accumulation share performance

The share class was launched on 1 October 2002. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	133.40	130.02	129.44
Return before operating charges and after direct portfolio transaction costs	(1.98)	5.24	2.44
Operating charges	(1.65)	(1.86)	(1.86)
Return after operating charges	(3.63)	3.38	0.58
Distributions	(5.43)	(4.81)	(4.48)
Retained distributions	5.43	4.81	4.48
Closing NAV	129.77	133.40	130.02
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	1.22	1.41	1.41
Return after operating charges	-2.72	+2.60	+0.45
Distribution yield	4.37	3.79	3.58
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	283,159	250,671	259,871
Closing NAV percentage of total fund NAV (%)	27.90	23.68	22.16
Number of shares	218,200,075	187,906,510	199,863,410
Highest share price (UK p)	143.16	135.30	133.76
Lowest share price (UK p)	111.36	125.99	129.08

#### Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	1,031.08	1,050.92	1,091.29
Return before operating charges and after direct portfolio transaction costs	(13.62)	41.34	20.83
Operating charges	(7.23)	(8.48)	(8.85)
Return after operating charges	(20.85)	32.86	11.98
Distributions	(53.56)	(52.70)	(52.35)
Closing NAV	956.67	1,031.08	1,050.92
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	0.70	0.81	0.81
Return after operating charges	-2.02	+3.13	+1.10
Distribution yield	5.50	5.20	4.99
Effect on yield of charges offset against capital	0.70	0.80	0.80
Other information			
Closing NAV (£'000)	88,147	108,981	125,311
Closing NAV percentage of total fund NAV (%)	8.68	10.29	10.68
Number of shares	9,213,979	10,569,588	11,923,918
Highest share price (UK p)	1,074.31	1,062.86	1,106.95
Lowest share price (UK p)	832.56	992.00	1,061.50

# M&G Global High Yield Bond Fund

## Financial highlights

### Specific share class performance

#### Sterling Class 'T' Accumulation share performance

The share class was launched on 3 August 2012. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	1,409.31	1,365.39	1,351.18
Return before operating charges and after direct portfolio transaction costs	(21.20)	55.19	25.42
Operating charges	(10.11)	(11.27)	(11.21)
Return after operating charges	(31.31)	43.92	14.21
Distributions	(64.90)	(58.99)	(55.22)
Retained distributions	64.90	58.99	55.22
Closing NAV	1,378.00	1,409.31	1,365.39
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	0.70	0.81	0.81
Return after operating charges	-2.22	+3.22	+1.05
Distribution yield	4.85	4.39	4.18
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	91,223	116,584	121,298
Closing NAV percentage of total fund NAV (%)	8.99	11.01	10.34
Number of shares	6,619,946	8,272,395	8,883,780
Highest share price (UK p)	1,518.08	1,429.11	1,401.66
Lowest share price (UK p)	1,181.41	1,327.60	1,348.33

#### Sterling Class 'PP' Income share performance

The share class was launched on 5 August 2019. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	100.00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	(4.02)	n/a	n/a
Operating charges	(0.43)	n/a	n/a
Return after operating charges	(4.45)	n/a	n/a
Distributions	(4.18)	n/a	n/a
Closing NAV	91.37	n/a	n/a
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	n/a	n/a
Dilution adjustments <sup>[a]</sup>	0.00	n/a	n/a
Total direct portfolio transaction costs	0.00	n/a	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	n/a	n/a
Operating charges	0.53	n/a	n/a
Return after operating charges	-4.45	n/a	n/a
Distribution yield	5.50	n/a	n/a
Effect on yield of charges offset against capital	0.53	n/a	n/a
Other information			
Closing NAV (£'000)	18	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0.00	n/a	n/a
Number of shares	20,000	n/a	n/a
Highest share price (UK p)	102.56	n/a	n/a
Lowest share price (UK p)	79.49	n/a	n/a

#### Sterling Class 'PP' Accumulation share performance

The share class was launched on 8 April 2019. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	99.67	100.00	n/a
Return before operating charges and after direct portfolio transaction costs	(1.50)	(0.22)	n/a
Operating charges	(0.57)	(0.11)	n/a
Return after operating charges	(2.07)	(0.33)	n/a
Distributions	(4.74)	(0.77)	n/a
Retained distributions	4.74	0.77	n/a
Closing NAV	97.60	99.67	n/a
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	n/a
Dilution adjustments <sup>[a]</sup>	0.00	0.00	n/a
Total direct portfolio transaction costs	0.00	0.00	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	n/a
Operating charges	0.55	0.66	n/a
Return after operating charges	-2.08	-0.33	n/a
Distribution yield	4.99	4.54	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV (£'000)	108	223	n/a
Closing NAV percentage of total fund NAV (%)	0.01	0.02	n/a
Number of shares	111,058	223,386	n/a
Highest share price (UK p)	107.48	101.07	n/a
Lowest share price (UK p)	83.66	99.67	n/a

#### Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	102.17	104.49	108.88
Return before operating charges and after direct portfolio transaction costs	(1.34)	4.10	2.09
Operating charges	(0.98)	(1.21)	(1.27)
Return after operating charges	(2.32)	2.89	0.82
Distributions	(5.30)	(5.21)	(5.21)
Closing NAV	94.55	102.17	104.49
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	0.97	1.16	1.16
Return after operating charges	-2.27	+2.77	+0.75
Distribution yield	5.50	5.20	4.99
Effect on yield of charges offset against capital	0.97	1.15	1.15
Other information			
Closing NAV (£'000)	15,415	15,721	13,273
Closing NAV percentage of total fund NAV (%)	1.52	1.49	1.13
Number of shares	16,304,308	15,386,912	12,703,313
Highest share price (UK p)	106.24	105.66	110.28
Lowest share price (UK p)	82.32	98.42	105.54

# M&G Global High Yield Bond Fund

## Financial highlights

### Specific share class performance

#### Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	137.99	134.16	133.23
Return before operating charges and after direct portfolio transaction costs	(2.07)	5.41	2.54
Operating charges	(1.36)	(1.58)	(1.61)
Return after operating charges	(3.43)	3.83	0.93
Distributions	(5.97)	(5.30)	(4.96)
Retained distributions	5.97	5.30	4.96
Closing NAV	134.56	137.99	134.16
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	0.97	1.16	1.16
Return after operating charges	-2.49	+2.85	+0.70
Distribution yield	4.61	4.04	3.83
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	15,609	15,754	13,233
Closing NAV percentage of total fund NAV (%)	1.54	1.49	1.13
Number of shares	11,599,797	11,416,874	9,863,114
Highest share price (UK p)	148.35	139.94	137.89
Lowest share price (UK p)	115.42	130.19	132.90

#### Sterling Class 'X' Income share performance

The share class was launched on 16 October 1998. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	48.06	49.27	51.47
Return before operating charges and after direct portfolio transaction costs	(0.63)	1.94	0.98
Operating charges	(0.58)	(0.69)	(0.72)
Return after operating charges	(1.21)	1.25	0.26
Distributions	(2.49)	(2.46)	(2.46)
Closing NAV	44.36	48.06	49.27
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	1.22	1.41	1.41
Return after operating charges	-2.52	+2.54	+0.51
Distribution yield	5.50	5.20	4.99
Effect on yield of charges offset against capital	1.22	1.40	1.40
Other information			
Closing NAV (£'000)	322,048	368,257	397,647
Closing NAV percentage of total fund NAV (%)	31.73	34.79	33.90
Number of shares	725,996,167	766,322,488	807,032,081
Highest share price (UK p)	49.88	49.83	52.08
Lowest share price (UK p)	38.64	46.34	49.77

#### Sterling Class 'X' Accumulation share performance

The share class was launched on 16 October 1998. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	133.50	130.12	129.54
Return before operating charges and after direct portfolio transaction costs	(1.98)	5.24	2.45
Operating charges	(1.65)	(1.86)	(1.87)
Return after operating charges	(3.63)	3.38	0.58
Distributions	(5.43)	(4.81)	(4.49)
Retained distributions	5.43	4.81	4.49
Closing NAV	129.87	133.50	130.12
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	1.22	1.41	1.41
Return after operating charges	-2.72	+2.60	+0.45
Distribution yield	4.37	3.79	3.58
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	142,528	122,187	94,493
Closing NAV percentage of total fund NAV (%)	14.04	11.54	8.06
Number of shares	109,747,810	91,524,756	72,618,561
Highest share price (UK p)	143.26	135.40	133.86
Lowest share price (UK p)	111.44	126.08	129.18

<sup>[a]</sup> In respect of direct portfolio transaction costs.

<sup>[b]</sup> As a percentage of average net asset value.

<sup>[c]</sup> Following the change in charging structure, you may see variances between the comparative and current year figures.



# M&G Global High Yield Bond Fund

## Financial statements and notes

### Financial statements

#### Statement of total return

for the year to 31 May	Note	2020 £'000	2019 £'000
Income			
Net capital gains / (losses)	3	(64,551)	(12,245)
Revenue	5	53,035	57,021
Expenses	6	(11,269)	(14,204)
Net revenue / (expense) before taxation		41,766	42,817
Taxation	7	15	(42)
Net revenue / (expense) after taxation		41,781	42,775
<b>Total return before distributions</b>		<b>(22,770)</b>	<b>30,530</b>
Distributions	8	(47,683)	(50,201)
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>(70,453)</b>	<b>(19,671)</b>

#### Statement of change in net assets attributable to shareholders

for the year to 31 May	2020 £'000	2019 £'000
<b>Opening net assets attributable to shareholders</b>	<b>1,058,635</b>	<b>1,172,791</b>
Amounts received on issue of shares	201,101	123,761
Amounts paid on cancellation of shares	(195,514)	(183,485)
Transfer to M&G (Lux) Global High Yield Bond Fund	0	(56,010)
	5,587	(115,734)
Dilution adjustments	1,309	690
Change in net assets attributable to shareholders from investment activities (see above)	(70,453)	(19,671)
Retained distributions on Accumulation shares	19,961	20,544
Unclaimed distributions	10	15
<b>Closing net assets attributable to shareholders</b>	<b>1,015,049</b>	<b>1,058,635</b>



# M&G Global High Yield Bond Fund

## Financial statements and notes

### Financial statements (continued)

#### Balance sheet

as at 31 May	Note	2020 £'000	2019 £'000
<b>Assets</b>			
<b>Fixed assets</b>			
Investments		989,161	991,001
<b>Current assets</b>			
Debtors	9	25,525	14,237
Cash and bank balances	10	13,896	40,386
Cash equivalents		28,418	66,773
<b>Total assets</b>		<b>1,057,000</b>	<b>1,112,397</b>
<b>Liabilities</b>			
Investment liabilities		(11,659)	(32,966)
<b>Creditors</b>			
Bank overdrafts		0	(1,141)
Overdrawn positions at futures clearing houses and collateral manager		0	(486)
Distribution payable		(2,188)	(2,702)
Other creditors	11	(28,104)	(16,467)
<b>Total liabilities</b>		<b>(41,951)</b>	<b>(53,762)</b>
<b>Net assets attributable to shareholders</b>		<b>1,015,049</b>	<b>1,058,635</b>

# M&G Global High Yield Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 1 Accounting policies

The financial statements have been prepared in accordance with the 'Summary of significant accounting policies' set out on pages 7 and 8.

#### 2 Distribution policy

In determining the amount available for distribution to Income shares, the annual charge, annual management charge, administration charge and share class hedging charge are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

Marginal tax relief has not been taken into account in respect of expenses offset against capital.

#### 3 Net capital gains / (losses)

	2020	2019
for the year to 31 May	£'000	£'000
Non-derivative securities	(32,984)	30,262
Derivative contracts	(20,441)	(50,292)
Currency gains / (losses)	(11,123)	7,797
Transaction charges	(3)	(12)
<b>Net capital gains / (losses)</b>	<b>(64,551)</b>	<b>(12,245)</b>

#### 4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 34.

	2020	2019		
for the year to 31 May	£'000	£'000		
a) Purchases				
Debt securities <sup>[a]</sup>	712,548	487,619		
b) Sales				
Equities	44	0		
Debt securities <sup>[a]</sup>	663,118	579,520		
Other transaction types				
Corporate actions	14,757	2,383		
Total sales	677,919	581,903		
c) Direct portfolio transaction costs				
	2020 £'000	% of average NAV	2019 £'000	% of average NAV
Commissions paid				
Derivatives	2	0.00	3	0.00
Taxes paid				
Derivatives	2	0.00	2	0.00
Total direct portfolio transaction costs	4	0.00	5	0.00
d) Indirect portfolio transaction costs				
		%		%
Portfolio dealing spread <sup>[b]</sup>		1.03		0.84

<sup>[a]</sup> These transaction types do not attract direct portfolio transaction costs.

<sup>[b]</sup> Average portfolio dealing spread at the balance sheet date.

#### 5 Revenue

	2020	2019
for the year to 31 May	£'000	£'000
Bank interest	68	74
Derivative revenue	1,976	3,664
Dividends from equity investments: non-taxable	1	1
Dividends from equity investments: taxable	492	0
Interest distributions	484	380
Interest on debt securities	49,978	52,902
Rebate of ongoing charges from underlying funds	36	0
<b>Total revenue</b>	<b>53,035</b>	<b>57,021</b>

#### 6 Expenses

	2020	2019
for the year to 31 May	£'000	£'000
<b>Payable to the ACD or associate</b>		
Annual charge	8,937	0
Annual management charge <sup>[a]</sup>	2,003	12,352
Administration charge <sup>[a]</sup>	269	1,684
Share class hedging charge <sup>[a]</sup>	0	5
	11,209	14,041
<b>Payable to the Depositary or associate</b>		
Depositary's charge (including VAT) <sup>[a]</sup>	9	58
<b>Other expenses</b>		
Audit fee (including VAT) <sup>[a] [b]</sup>	2	12
Interest payable	34	42
Legal fees	10	13
Safe custody charge <sup>[a]</sup>	5	38
	51	105
<b>Total expenses</b>	<b>11,269</b>	<b>14,204</b>

<sup>[a]</sup> The segregated charges shown above for annual management, administration, share class hedging, depositary, audit and safe custody are those paid by the fund up to and including 31 July 2019. As of 1 August 2019 these charges have been replaced by the single annual charge.

<sup>[b]</sup> Audit fees for the financial year ending 2020 were £11,000 (including VAT).

#### 7 Taxation

	2020	2019
for the year to 31 May	£'000	£'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	0
Withholding tax	(15)	42
Deferred tax (note 7c)	0	0
<b>Total taxation</b>	<b>(15)</b>	<b>42</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue / (expense) before taxation	41,766	42,817
Corporation tax at 20%	8,353	8,563
<b>Effects of:</b>		
Interest distributions	(8,353)	(8,563)
Withholding tax	(15)	42
<b>Total tax charge (note 7a)</b>	<b>(15)</b>	<b>42</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The fund does not have an unrecognised deferred tax asset at the year end (2019: same).

# M&G Global High Yield Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 8 Distributions

for the year to 31 May	2020		2019	
	Inc <sup>[a]</sup>	Acc <sup>[b]</sup>	Inc <sup>[a]</sup>	Acc <sup>[b]</sup>
Interest distributions	£'000	£'000	£'000	£'000
First interim	2,100	1,442	2,528	1,673
Second interim	2,849	2,035	2,776	1,884
Third interim	2,306	1,617	2,593	1,932
Fourth interim	2,288	1,569	2,188	1,604
Fifth interim	2,115	1,410	2,787	2,121
Sixth interim	2,161	1,514	2,398	1,650
Seventh interim	2,277	1,584	2,460	1,686
Eighth interim	2,308	1,474	2,196	1,437
Ninth interim	2,228	1,444	2,181	1,511
Tenth interim	2,790	2,257	2,339	1,638
Eleventh interim	2,006	1,670	2,301	1,513
Final	2,188	1,945	2,702	1,895
Total net distributions		47,577		49,993
Income deducted on cancellation of shares		373		341
Income received on issue of shares		(267)		(133)
<b>Distributions</b>		<b>47,683</b>		<b>50,201</b>
Net revenue / (expense) per statement of total return		41,781		42,775
Expenses offset against capital		5,902		7,425
Undistributed income brought forward		0		1
<b>Distributions</b>		<b>47,683</b>		<b>50,201</b>

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

#### 9 Debtors

	2020	2019
as at 31 May	£'000	£'000
Amounts receivable on issues of shares	731	621
Currency deals outstanding	10,655	0
Debt security interest receivable	13,221	12,302
Derivative revenue receivable	223	617
Distributions receivable	10	35
Rebate of ongoing charges from underlying funds	1	0
Sales awaiting settlement	684	611
Withholding tax recoverable	0	51
<b>Total debtors</b>	<b>25,525</b>	<b>14,237</b>

#### 10 Cash and bank balances

	2020	2019
as at 31 May	£'000	£'000
Amounts held at futures clearing houses and collateral manager	74	30,184
Cash held as bank balances	13,822	10,202
<b>Total cash and bank balances</b>	<b>13,896</b>	<b>40,386</b>

#### 11 Other creditors

	2020	2019
as at 31 May	£'000	£'000
ACD's annual management charge payable	0	359
Administration charge payable	0	49
Amounts payable on cancellation of shares	625	1,238
Annual charge payable	325	0
Currency deals outstanding	10,675	0
Expenses payable	14	33
Purchases awaiting settlement	16,463	14,786
Payable to M&G (Lux) Global High Yield Bond Fund	2	2
<b>Total other creditors</b>	<b>28,104</b>	<b>16,467</b>

#### 12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2019: same).

#### 13 Shares in issue

The following table shows each class of share in issue during the year. Each share class has the same rights on winding up however they may have different charging structures as set out in note 14.

Share class	Opening	Movements		Closing
	01.06.19	Issued	Cancelled	31.05.20
<b>Sterling</b>				
Class 'A' Income	125,436,058	13,213,333	(10,575,598)	128,073,793
Class 'A' Accumulation	187,906,510	89,779,070	(59,485,505)	218,200,075
Class 'I' Income	10,569,588	199,212	(1,554,821)	9,213,979
Class 'I' Accumulation	8,272,395	221,950	(1,874,399)	6,619,946
Class 'PP' Income	0	20,000	0	20,000
Class 'PP' Accumulation	223,386	15,929	(128,257)	111,058
Class 'R' Income	15,386,912	2,609,434	(1,692,038)	16,304,308
Class 'R' Accumulation	11,416,874	1,553,574	(1,370,651)	11,599,797
Class 'X' Income	766,322,488	11,381,304	(51,707,625)	725,996,167
Class 'X' Accumulation	91,524,756	43,334,288	(25,111,234)	109,747,810

#### 14 Charging structure

The table below sets out the charging structure for each class of share. The charging structure is the same for both Income and Accumulation shares of each class.

Share class	Entry charge %	Exit charge %	Annual charge <sup>[a]</sup> %
<b>Sterling</b>			
Class 'A'	n/a	n/a	1.20
Class 'I'	n/a	n/a	0.70
Class 'PP'	n/a	n/a	0.55
Class 'R'	n/a	n/a	0.95
Class 'X'	n/a	n/a	1.20

[a] The amounts shown are the maximum annual charge. M&G will apply a discount of 0.02% for every £1 billion of a fund's net asset value. This is assessed quarterly and implemented on a forward basis no later than 13 business days after quarter end.

#### 15 Related parties

M&G Securities Limited, as Authorised Corporate Director (ACD), is a related party and acts as principal on all the transactions of shares in the fund except with in specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to shareholders' and note 8. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 9 and 11 where applicable.

Amounts paid to M&G Securities Limited in respect of the annual charge, ACD's annual management charge, administration charge and share class hedging charge are disclosed in note 6. Amounts due at the year end in respect of the annual charge are disclosed in note 11.

# M&G Global High Yield Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 15 Related parties (continued)

At the balance sheet date, shareholders from within M&G plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 21.99% (2019: 17.95%) of the fund's shares.

#### 16 Events after the balance sheet date

There were no events after the balance sheet date to disclose.

#### 17 Fair value analysis

Financial instruments have been measured at their fair value and have been classified below using a hierarchy that reflects the significance of the inputs used in measuring their fair value:

##### Level 1: Unadjusted quoted price in an active market for an identical instrument

This includes instruments such as publicly traded equities, highly liquid bonds (e.g. Government bonds) and exchange traded derivatives (e.g. futures) for which quoted prices are readily and regularly available.

##### Level 2: Valuation technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

##### Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights.

as at 31 May	Assets 2020	Liabilities 2020	Assets 2019	Liabilities 2019
Basis of valuation	£'000	£'000	£'000	£'000
Level 1	68,825	0	52,203	(742)
Level 2	920,330	(11,659)	938,792	(32,224)
Level 3	6	0	6	0
	989,161	(11,659)	991,001	(32,966)

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 13 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

#### 18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 9 to 10.

#### 19 Market risk sensitivity and exposure

VaR is the risk measurement methodology used to assess the fund's leverage and market risk volatility. When VaR is calculated as a percentage of the net asset value it may not be greater than the VaR limit set for the fund.

The VaR limit set during the financial year to 31 May 2020 was 12% (2019: 12%).

The lowest, highest and average VaR, as well as utilisation of VaR with reference to the limit above, are calculated during the financial years ended 31 May 2020 and 31 May 2019.

	2020 % of VaR	2020 Utilisation of VaR <sup>[a]</sup> 12%	2019 % of VaR	2019 Utilisation of VaR <sup>[a]</sup> 12%
for the year to 31 May				
Lowest	1.42	11.83	0.90	7.48
Highest	17.47 <sup>[b]</sup>	145.58	2.78	23.14
Average	4.19	34.88	1.56	12.97

<sup>[a]</sup> The VaR on the fund has been divided by its maximum limit.

<sup>[b]</sup> Due to market volatility caused by the COVID-19 pandemic there was a passive breach on the internally set upper VaR limit. The recent volatility has been more abrupt than the 2008-09 crisis on which these limits were initially modelled. The VaR levels on all funds remained below the regulatory upper VaR limit and are being monitored with increased oversight.

#### 20 Credit risk

The fund is exposed to credit risk both through the credit quality of the investments it holds and through the derivative positions with counterparties. The table below shows the credit quality of the investments held in the portfolio.

as at 31 May	2020 £'000	2019 £'000
Investment grade securities	205,570	177,949
Below investment grade securities	736,894	781,478
Unrated securities	45,570	24,789
Other investments	(10,532)	(26,181)
<b>Total</b>	<b>977,502</b>	<b>958,035</b>

The tables below show the exposure to counterparties. Collateral is posted daily, in the form of cash or high-quality government bonds, to minimise this exposure.

as at 31 May 2020	Swaps £'000	Forward currency contracts £'000	Futures £'000
Bank of America Merrill Lynch	(160)	(45)	289
Barclays Bank	669	0	0
BNP Paribas	0	74	0
Citigroup	0	64	0
HSBC	0	(4,466)	0
JPMorgan	0	(7)	0
National Australia Bank	0	(31)	0
Standard Chartered Bank	0	(28)	0
State Street Bank	0	(6,791)	0
UBS	0	(205)	0
<b>Total</b>	<b>509</b>	<b>(11,435)</b>	<b>289</b>

# M&G Global High Yield Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 20 Credit risk (continued)

	Swaps	Forward currency contracts	Futures
as at 31 May 2019	£'000	£'000	£'000
Bank of America Merrill Lynch	(127)	0	(742)
Barclays Bank	(191)	0	0
Citigroup	1,040	0	0
Goldman Sachs	1,484	0	0
HSBC	0	(68)	0
JPMorgan	1,350	(31,771)	0
Standard Chartered Bank	0	192	0
State Street Bank	0	239	0
<b>Total</b>	<b>3,556</b>	<b>(31,408)</b>	<b>(742)</b>

#### 21 Leverage risk

Funds using VaR approaches are required to disclose the level of leverage employed during the financial reporting period.

Derivatives can be used by the fund to generate market exposure to investments exceeding the net asset value. As a result of this exposure, the size of any positive or negative movement in markets may have a more significant effect on the net asset value of the fund.

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 31 May 2020 and 31 May 2019 are disclosed in the table below.

	2020 <sup>[a]</sup>	2020 <sup>[a]</sup>	2019 <sup>[a]</sup>	2019 <sup>[a]</sup>
for the year to 31 May	£'000	% <sup>[b]</sup>	£'000	% <sup>[b]</sup>
Lowest	776,645	83.20	961,030	88.00
Highest	2,879,886	309.20	3,121,153	271.00
Average	1,190,080	117.80	1,215,370	108.00

<sup>[a]</sup> Leverage has been calculated using the Gross Sum of Notional Approach for derivative positions only (including forward currency contracts) and excludes all physical holdings.

<sup>[b]</sup> Expressed as a percentage over fund valuation.

#### 22 Exchange rate risk for hedged share classes

Hedged share classes operated currency hedges designed to reduce the impact of exchange rates in certain circumstances. As a result, profit and loss on the currency hedges may impact the liquidity of the overall fund. On a day to day basis this was monitored using reporting from the outsourced provider of the hedged share class service. On an ongoing basis the size of the hedged share classes was monitored to ensure that unforeseen exchange rate volatility can be adequately managed without significantly impacting all shareholders.

#### 23 Interest distribution tables

This fund pays monthly interest distributions and the following table sets out the distribution periods.

##### Monthly distribution periods

	Start	End	Xd	Payment
First interim	01.06.19	30.06.19	01.07.19	31.07.19
Second interim	01.07.19	31.07.19	01.08.19	31.08.19
Third interim	01.08.19	31.08.19	02.09.19	30.09.19
Fourth interim	01.09.19	29.02.20	01.10.19	31.10.19
Fifth interim	01.10.19	31.10.19	01.11.19	30.11.19
Sixth interim	01.11.19	30.11.19	02.12.19	31.12.19
Seventh interim	01.12.19	31.12.19	01.01.20	31.01.20
Eighth interim	01.01.20	31.01.20	03.02.20	29.02.20
Ninth interim	01.02.20	29.02.20	02.03.20	31.03.20
Tenth interim	01.03.20	31.03.20	01.04.20	30.04.20
Eleventh interim	01.04.20	30.04.20	01.05.20	31.05.20
Final	01.05.20	31.05.20	01.06.20	30.06.20

The following tables set out for each distribution the rates per share for both Group 1 and Group 2 shares.

Group 1 shares are those purchased prior to a distribution period and therefore their income rate is the same as the distribution rate.

Group 2 shares are those purchased during a distribution period and therefore their distribution rate is made up of income and equalisation. Equalisation is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the income and equalisation components.

##### Sterling Class 'A' Income shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	0.0731	0.1103	0.1834	0.1975
Second interim	0.0795	0.1721	0.2516	0.2181
Third interim	0.0798	0.1250	0.2048	0.2130
Fourth interim	0.0930	0.1113	0.2043	0.1805
Fifth interim	0.0748	0.1149	0.1897	0.2311
Sixth interim	0.0699	0.1246	0.1945	0.2039
Seventh interim	0.0904	0.1156	0.2060	0.2100
Eighth interim	0.0605	0.1494	0.2099	0.1857
Ninth interim	0.0851	0.1181	0.2032	0.1862
Tenth interim	0.0557	0.2006	0.2563	0.2008
Eleventh interim	0.0655	0.1191	0.1846	0.1988
Final	0.0928	0.1087	0.2015	0.2336

# M&G Global High Yield Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 23 Interest distribution tables (continued)

##### Sterling Class 'A' Accumulation shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2	
	Income	Equalisation	Distribution	
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	0.2070	0.1609	0.3679	0.3794
Second interim	0.3544	0.1736	0.5280	0.4180
Third interim	0.1463	0.2935	0.4398	0.4107
Fourth interim	0.1669	0.2688	0.4357	0.3404
Fifth interim	0.1424	0.2548	0.3972	0.4541
Sixth interim	0.1721	0.2485	0.4206	0.3995
Seventh interim	0.2422	0.1986	0.4408	0.4165
Eighth interim	0.2008	0.2577	0.4585	0.3581
Ninth interim	0.2548	0.1993	0.4541	0.3669
Tenth interim	0.4738	0.1333	0.6071	0.4028
Eleventh interim	0.2144	0.2003	0.4147	0.3817
Final	0.3350	0.1298	0.4648	0.4829

##### Sterling Class 'I' Income shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2	
	Income	Equalisation	Distribution	
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	1.5024	2.4361	3.9385	4.2143
Second interim	2.3812	3.0223	5.4035	4.6587
Third interim	1.8459	2.5550	4.4009	4.5524
Fourth interim	2.6044	1.7872	4.3916	3.8581
Fifth interim	2.7247	1.3544	4.0791	4.9408
Sixth interim	1.9125	2.2730	4.1855	4.3617
Seventh interim	2.2770	2.1567	4.4337	4.4962
Eighth interim	1.8498	2.6693	4.5191	4.0339
Ninth interim	2.5469	1.8321	4.3790	3.9862
Tenth interim	2.4143	3.1101	5.5244	4.3058
Eleventh interim	1.3161	2.6634	3.9795	4.2618
Final	1.8447	2.4838	4.3285	5.0272

##### Sterling Class 'T' Accumulation shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2	
	Income	Equalisation	Distribution	
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	2.2274	2.3005	4.5279	4.6238
Second interim	2.8192	3.5470	6.3662	5.1142
Third interim	2.2637	2.9878	5.2515	5.0232
Fourth interim	2.9926	2.2399	5.2325	4.2212
Fifth interim	2.0303	2.7956	4.8259	5.5267
Sixth interim	1.8799	3.1558	5.0357	4.8850
Seventh interim	3.1945	2.1283	5.3228	5.0745
Eighth interim	2.7140	2.7844	5.4984	4.4752
Ninth interim	3.5469	1.8488	5.3957	4.5074
Tenth interim	1.7361	5.2943	7.0304	4.9170
Eleventh interim	3.6574	1.2795	4.9369	4.7759
Final	1.8000	3.6711	5.4711	5.8431

##### Sterling Class 'PP' Income shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2	
	Income	Equalisation	Distribution	
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	n/a	n/a	n/a	n/a
Second interim	n/a	n/a	n/a	n/a
Third interim	0.3812	0.0000	0.3812	n/a
Fourth interim	0.4180	0.0000	0.4180	n/a
Fifth interim	0.3896	0.0000	0.3896	n/a
Sixth interim	0.3993	0.0000	0.3993	n/a
Seventh interim	0.4225	0.0000	0.4225	n/a
Eighth interim	0.4315	0.0000	0.4315	n/a
Ninth interim	0.4186	0.0000	0.4186	n/a
Tenth interim	0.5279	0.0000	0.5279	n/a
Eleventh interim	0.3804	0.0000	0.3804	n/a
Final	0.4141	0.0000	0.4141	n/a

##### Sterling Class 'PP' Accumulation shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2	
	Income	Equalisation	Distribution	
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	0.2205	0.1109	0.3314	n/a
Second interim	0.2977	0.1664	0.4641	n/a
Third interim	0.2765	0.1076	0.3841	n/a
Fourth interim	0.2712	0.1123	0.3835	n/a
Fifth interim	0.2282	0.1263	0.3545	n/a
Sixth interim	0.2552	0.1142	0.3694	n/a
Seventh interim	0.2734	0.1172	0.3906	n/a
Eighth interim	0.2735	0.1285	0.4020	n/a
Ninth interim	0.2412	0.1531	0.3943	n/a
Tenth interim	0.1200	0.3903	0.5103	n/a
Eleventh interim	0.1174	0.2436	0.3610	0.3481
Final	0.1607	0.2385	0.3992	0.4264

##### Sterling Class 'R' Income shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2	
	Income	Equalisation	Distribution	
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	0.1566	0.2336	0.3902	0.4189
Second interim	0.1441	0.3911	0.5352	0.4629
Third interim	0.0928	0.3430	0.4358	0.4523
Fourth interim	0.1429	0.2918	0.4347	0.3832
Fifth interim	0.1242	0.2796	0.4038	0.4906
Sixth interim	0.2571	0.1571	0.4142	0.4328
Seventh interim	0.1933	0.2454	0.4387	0.4462
Eighth interim	0.2174	0.2297	0.4471	0.3841
Ninth interim	0.2847	0.1483	0.4330	0.3948
Tenth interim	0.2135	0.3327	0.5462	0.4270
Eleventh interim	0.1853	0.2081	0.3934	0.4225
Final	0.2278	0.2007	0.4285	0.4986

# M&G Global High Yield Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 23 Interest distribution tables (continued)

##### Sterling Class 'R' Accumulation shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2	
	Income	Equalisation	Distribution	
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	0.1308	0.2759	0.4067	0.4178
Second interim	0.3851	0.1932	0.5783	0.4610
Third interim	0.1613	0.3230	0.4843	0.4528
Fourth interim	0.3907	0.0908	0.4815	0.3777
Fifth interim	0.2863	0.1553	0.4416	0.4996
Sixth interim	0.2609	0.2038	0.4647	0.4405
Seventh interim	0.0857	0.4028	0.4885	0.4584
Eighth interim	0.2216	0.2835	0.5051	0.3854
Ninth interim	0.2602	0.2387	0.4989	0.4043
Tenth interim	0.3126	0.3455	0.6581	0.4436
Eleventh interim	0.2319	0.2242	0.4561	0.4252
Final	0.3126	0.1945	0.5071	0.5299

##### Sterling Class 'X' Income shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2	
	Income	Equalisation	Distribution	
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	0.0001	0.1834	0.1835	0.1976
Second interim	0.0119	0.2398	0.2517	0.2182
Third interim	0.0462	0.1585	0.2047	0.2132
Fourth interim	0.0059	0.1984	0.2043	0.1806
Fifth interim	0.0020	0.1877	0.1897	0.2311
Sixth interim	0.0069	0.1879	0.1948	0.2038
Seventh interim	0.0030	0.2030	0.2060	0.2100
Eighth interim	0.0013	0.2083	0.2096	0.1852
Ninth interim	0.0054	0.1979	0.2033	0.1859
Tenth interim	0.0699	0.1865	0.2564	0.2009
Eleventh interim	0.0000	0.1846	0.1846	0.1988
Final	0.0202	0.1810	0.2012	0.2350

##### Sterling Class 'X' Accumulation shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2	
	Income	Equalisation	Distribution	
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	0.1328	0.2354	0.3682	0.3798
Second interim	0.4175	0.1109	0.5284	0.4184
Third interim	0.2460	0.1941	0.4401	0.4110
Fourth interim	0.3635	0.0726	0.4361	0.3408
Fifth interim	0.1426	0.2549	0.3975	0.4544
Sixth interim	0.2071	0.2143	0.4214	0.4000
Seventh interim	0.3865	0.0547	0.4412	0.4169
Eighth interim	0.2507	0.2061	0.4568	0.3592
Ninth interim	0.0735	0.3809	0.4544	0.3657
Tenth interim	0.4490	0.1585	0.6075	0.4030
Eleventh interim	0.2283	0.1867	0.4150	0.3820
Final	0.3443	0.1202	0.4645	0.4833



## M&G Index-Linked Bond Fund

# Authorised Corporate Director's Report

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### Investment objective up to 22 March 2020

The fund aims to provide income and capital growth.

### Investment objective from 23 March 2020

The fund aims to provide a higher total return (the combination of capital growth and income), net of the ongoing charge figure, than that of the FTSE Actuaries UK Index-Linked Gilts All Stocks Index over any five-year period.

### Investment policy up to 22 March 2020

At least 70% of the fund is invested in index-linked debt instruments which may be government and public securities or corporate debt instruments. Non-sterling denominated securities may be held and, if deemed appropriate by the investment manager, the associated currency risks hedged.

The fund's exposure to index-linked, government and public securities or corporate debt may be gained through the use of derivatives.

Derivatives may also be used for efficient portfolio management.

The fund may also invest in collective investment schemes, other transferable securities, cash, near cash, other money market securities, warrants and other derivative instruments.

### Investment policy from 23 March 2020

At least 70% of the fund is invested, directly or indirectly, in inflation-linked debt securities issued or guaranteed by the UK government, and denominated in Sterling.

The fund's indirect exposure to inflation-linked debt securities is achieved by investing through a combination of instruments. These include the combination of government bonds or corporate bonds with credit derivatives, such as credit default swaps.

Other investment may include:

- debt securities issued or guaranteed by governments and their agencies, public authorities, quasi-sovereigns, supranational bodies or corporate debt instruments denominated in any currency; and
- other transferable securities, cash, and near cash, directly or via collective investment schemes (including funds managed by M&G).

Derivatives may be used for investment purposes, efficient portfolio management and hedging.

### Investment approach up to 22 March 2020

The fund manager's investment approach is driven primarily by macroeconomic factors such as views on interest rates, inflation and economic growth. As different factors dominate returns at different stages of the economic cycle, the manager applies a dynamic investment approach.

### Investment approach from 23 March 2020

The fund is diversified across a range of inflation-linked debt securities from a variety of sectors. The fund's investment approach is based on the principle that returns from bond markets are driven by a combination of macroeconomic factors such as expectations on interest rates, inflation and economic growth. As different factors dominate returns at different stages of the economic cycle, the manager applies a flexible investment approach, adjusting the portfolio's duration as deemed appropriate.

The fund manager seeks to take advantage of 'relative value' opportunities within the inflation-linked bond market, which involves buying the inflation-linked bonds that offer the best value.

Individual credit selection is carried out with the assistance of an in-house team of credit analysts to complement the fund manager's views.

### Benchmark up to 22 March 2020

Benchmark: FTSE Actuaries UK Index-Linked Gilts All Stocks Index.

The fund is actively managed. The benchmark is a comparator against which the fund's performance can be measured. The index has been chosen as the fund's comparator benchmark as it best reflects the scope of the fund's investment policy. The comparator benchmark does not constrain the fund's portfolio construction.

For unhedged Share Classes, the benchmark is shown in the Share Class currency.

### Benchmark from 23 March 2020

Benchmark: FTSE Actuaries UK Index-Linked Gilts All Stocks Index.

The benchmark is a target which the fund seeks to outperform.

The index has been chosen as the fund's benchmark as it best reflects the scope of the fund's investment policy. The benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction.

The fund is actively managed.

The fund manager has complete freedom in choosing which investments to buy, hold and sell in the fund. The fund's holdings may deviate significantly from the benchmark's constituents.

For unhedged Share Classes, the benchmark is shown in the Share Class currency.

## M&G Index-Linked Bond Fund

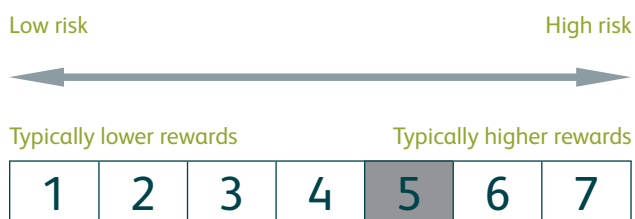
# Authorised Corporate Director's Report

### Risk profile

The fund invests mainly in index-linked fixed income securities issued by governments and companies. Non-sterling denominated securities may be held. The fund is, therefore, subject to the price volatility of the global bond market as well as the performance of individual issuers. In addition, the fund may be subject to fluctuations in currency exchange rates.

The fund's exposure to debt securities may be gained through the use of derivatives. In association with the use of derivatives, including those instruments not traded through an exchange, collateral is deposited in order to mitigate the risk that a counterparty may default on its obligations or become insolvent. Portfolio diversification is key in managing liquidity and default risks as well as reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

The following table shows the risk number associated with the fund and is based on Sterling Class 'A' shares.



The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has not changed during this period.

### Investment review

As at 1 June 2020, for the year ended 31 May 2020

#### Performance against objective

Between 3 June 2019 (the start of the review period) and 1 June 2020, the M&G Index-Linked Bond Fund's Sterling Class 'A' and Class 'I' shares delivered a total return (the combination of income and growth of capital) of 7.5% and 7.8%, respectively. This was behind the return from the fund's benchmark, the FTSE Actuaries UK Index-Linked Gilts All Stocks Index, which was 8.6% over the same period.

Over five years, the fund also delivered a positive return, but did not meet its objective as the fund modestly trailed the benchmark index, which returned 7.8% p.a. over this period.\*

\* For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Financial highlights' section of this report.

### Investment performance

UK government bonds (also known as gilts) delivered positive returns in the 12-month period under review. However, index-linked government bonds trailed conventional gilts due to lower inflation expectations and concerns over potential changes to the Retail Prices Index (RPI).

Bonds are loans in the form of a security, usually issued by a government (government bonds) or a company (corporate bonds), which normally pay a fixed rate of interest over a given period, at the end of which the initial amount borrowed is repaid. Index-linked bonds refer to bonds where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. In bond markets, actual or expected declines in interest rates typically support sentiment towards government bonds.

Investor sentiment towards government bonds on the whole was supported by monetary policy moves by the US Federal Reserve (Fed) during 2019 as well as heightened trade tensions between the US and China at times. Investors also turned to the perceived safety of government bonds, including gilts and index-linked gilts, at the beginning of 2020 as the spread of the new coronavirus around the world began to dominate headlines from late February onwards.

Over the course of 2019, both the European Central Bank (ECB) and the US Federal Reserve implemented a range of stimulus measures to help boost growth, including a series of interest rate cuts and the resumption of their bond-purchase programmes, which helped drive the performance of core government bonds such as US Treasuries and gilts.

However, long-dated index-linked UK government bonds sold off sharply in early September following the announcement of potential changes to the RPI, which could have a significant impact on index-linked gilts with a long time to maturity. The proposed changes, which could start from 2025, may complicate the process of determining bond valuations.

Investors favoured gilts when a 'no deal' Brexit seemed probable, but they were deemed less attractive following the UK Conservative Party's decisive win in December 2019, as some form of deal between the UK and European Union seemed more likely. Furthermore, sterling rose following the election result, in turn leading to a marked fall in inflation expectations, which weighed on index-linked gilts.

Signs of progress in the US/China trade negotiations towards the end of 2019 also supported investors' risk appetite, rendering gilts less appealing.

However, sentiment turned abruptly as the COVID-19 outbreak took hold in the new year, devastating financial markets from late February onwards. The virus meant most nations had to adopt strict population lockdowns, causing a sharp slump in consumer demand for many goods and services. Governments and central banks scrambled to provide huge levels of fiscal and monetary support. While such an increase in government borrowing to support the economy would normally be negative for gilts, the huge level of central bank bond purchases has helped to support

## M&G Index-Linked Bond Fund

# Authorised Corporate Director's Report

### Investment performance (continued)

bond prices. At the same time, a sharp oil price decline as a result of a contraction in demand, coupled with a failure to agree supply cuts, added to levels of distress in the markets. In this environment, investors sought refuge in government bonds for their perceived safe-haven qualities.

The pandemic has already had a significant effect on the domestic economy, which shrank by 2% in the first three months of the year. Given that the lockdown only began towards the end of March, the impact for the second quarter of 2020 is expected to be significant and is very likely to take the country into recession.

Against this backdrop, UK inflation eased materially, with the Consumer Prices Index (CPI) standing at 0.8% in April, compared with 1.5% the previous month. Inflation was pushed lower by falling energy and fuel pump prices, although rising prices for recreational goods partially offset the weakness. Meanwhile, domestic interest rates have been cut to 0.1%.

The value of UK conventional and index-linked government bonds increased over the 12 months under review, supported by cuts in US interest rates. The assets also appealed to investors as the coronavirus pandemic took hold due to their perceived safe haven characteristics.

Although positive, returns from UK index-linked government bonds were lower compared to conventional gilts, with news of potential RPI reform and falling inflation expectations acting as a drag. The fund underperformed its benchmark due to its generally lower sensitivity to changes in interest rates, relative to the benchmark index, although losses were partly offset by a relatively large position in very long-dated index-linked gilts.

### Investment activities

The fund's performance is affected by its 'duration', which refers to the portfolio's sensitivity to changes in interest rates. The fund was positioned to be modestly less sensitive to the possibility of rising interest rates for much of the period under review. However, in response to the huge levels of central bank support that has been announced since the onset of the coronavirus crisis, we have recently moved to a neutral duration stance.

We see value in index-linked government bonds maturing in five to 10 years as well as those maturing in more than 40 years. Our allocation to index-linked gilts maturing in 10 to 40 years is relatively small, compared to the wider index-linked market. It is also worth noting that, relative to the index-linked market, we have a very small position in index-linked gilts maturing in the very short term (3 years), as they are coming under pressure due to heavy supply.

We continued to seek out 'relative value' opportunities in the index-linked gilt market, with an emphasis on buying gilts that appeared most attractively priced. For example, in August, we sold some UK index-linked gilts maturing in 2050 and 2020 in order to buy more attractively valued index-linked gilts maturing in 2041 and 2034.

On the back of the RPI reform news, in September we sold some index-linked bonds maturing in 2065 and 2047 whilst switching into conventional government bonds, thus minimising the potential impact of the proposed changes on the fund.

### Outlook

Policymakers globally have responded to the coronavirus pandemic and have shown they are prepared to take unprecedented action to mitigate the slowdown in global economic growth, but a recession is now expected. The UK government has pledged vast sums to support individuals, jobs and the economy but it is too early to understand the ultimate impact of COVID-19 on domestic activity. To complicate matters further, the UK only has until the end of this year to secure a trade deal with the EU, or face the prospect of a 'no-deal' scenario.

In the near term, we think the impact of the coronavirus-induced shutdown will slow the pace of inflation as demand in the economy has fallen sharply. Over the medium term, however, we think the massive increases in government borrowing and measures to stimulate the economy could result in higher UK inflation over the coming years. Given our focus on inflation-linked bonds, we believe the fund will be well placed in such an environment.

Furthermore, investors tend to turn to gilts during periods of volatility as they are seen as representing lower risk than other asset classes. For this reason, we believe that conventional and index-linked UK government bonds should appeal to investors in the event of further market volatility going forward.

### Ben Lord Fund manager

An employee of M&G FA Limited (formerly M&G Limited) which is an associate of M&G Securities Limited.

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

# M&G Index-Linked Bond Fund

## Authorised Corporate Director's Report

### Portfolio statement

as at 31 May		2020	2020	2019
Holding		£'000	%	%
	<b>FIXED INCOME</b>	<b>264,044</b>	<b>99.22</b>	<b>99.68</b>
	<b>Debt securities</b>	<b>264,044</b>	<b>99.22</b>	<b>99.68</b>
	<b>'AA' credit rated bonds</b>	<b>260,218</b>	<b>97.78</b>	<b>98.35</b>
£1,000,000	Network Rail Infrastructure Finance IL 1.9618% 01/12/2025	1,958	0.74	
£4,250,000	UK Treasury 4.5% 07/09/2034	6,680	2.51	
£25,920,000	UK Treasury IL 0.125% 22/03/2024	34,796	13.07	
£9,400,000	UK Treasury IL 0.125% 10/08/2028	12,584	4.73	
£16,250,000	UK Treasury IL 0.125% 22/03/2029	26,022	9.78	
£9,575,000	UK Treasury IL 0.125% 22/11/2036	16,942	6.37	
£33,800,000	UK Treasury IL 0.125% 10/08/2041	60,745	22.82	
£1,500,000	UK Treasury IL 0.125% 22/11/2065	4,682	1.76	
£22,301,253	UK Treasury IL 0.375% 22/03/2062	75,420	28.34	
£6,620,000	UK Treasury IL 0.75% 22/11/2047	20,389	7.66	
	<b>'A' credit rated bonds</b>	<b>516</b>	<b>0.20</b>	<b>0.17</b>
£200,000	National Grid Electricity Transmission IL 2.817% 08/07/2032	516	0.20	
	<b>Bonds with no credit rating</b>	<b>3,310</b>	<b>1.24</b>	<b>1.16</b>
£2,722,000	University of Cambridge IL 0.25% 27/06/2068	3,310	1.24	
<b>Portfolio of investments</b>		<b>264,044</b>	<b>99.22</b>	<b>99.68</b>
	<b>CASH EQUIVALENTS</b>	<b>1,793</b>	<b>0.67</b>	<b>0.00</b>
	<b>'AAA' rated money market funds <sup>[a]</sup></b>	<b>1,793</b>	<b>0.67</b>	<b>0.00</b>
1,793,000	Northern Trust Global Fund - Sterling	1,793	0.67	
<b>Total portfolio (notes 2c &amp; 2d on page 7)</b>		<b>265,837</b>	<b>99.89</b>	<b>99.68</b>
<b>Net other assets / (liabilities)</b>		<b>299</b>	<b>0.11</b>	<b>0.32</b>
<b>Net assets attributable to shareholders</b>		<b>266,136</b>	<b>100.00</b>	<b>100.00</b>

All securities are on an official stock exchange listing except where referenced.

<sup>[a]</sup> Uncommitted surplus cash is placed into 'AAA' rated money market funds with the aim of reducing counterparty risk.

# M&G Index-Linked Bond Fund

## Financial highlights

### Fund performance

Please note past performance is not a guide to future performance and the value of investments, and the income from them, will fluctuate. This will cause the fund price to fall as well as rise and you may not get back the original amount you invested.

The following chart and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be different. For more information on the different share classes in this fund please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period. Calculated on a price to price basis with income reinvested.

### Long-term performance by share class

	One year 03.06.19 % <sup>[a]</sup>	Three years 01.06.17 % p.a.	Five years 01.06.15 % p.a.	Since launch % p.a.
<b>Sterling <sup>[b]</sup></b>				
Class 'A'	+7.5	+5.0	+7.2	+6.7 <sup>[c]</sup>
Class 'I'	+7.8	+5.1	+7.3	+7.6 <sup>[d]</sup>

<sup>[a]</sup> Absolute basis.

<sup>[b]</sup> Price to price with income reinvested.

<sup>[c]</sup> 4 October 1999, the end of the initial offer period of the predecessor unit trust.

<sup>[d]</sup> 3 August 2012, the launch date of the share class.

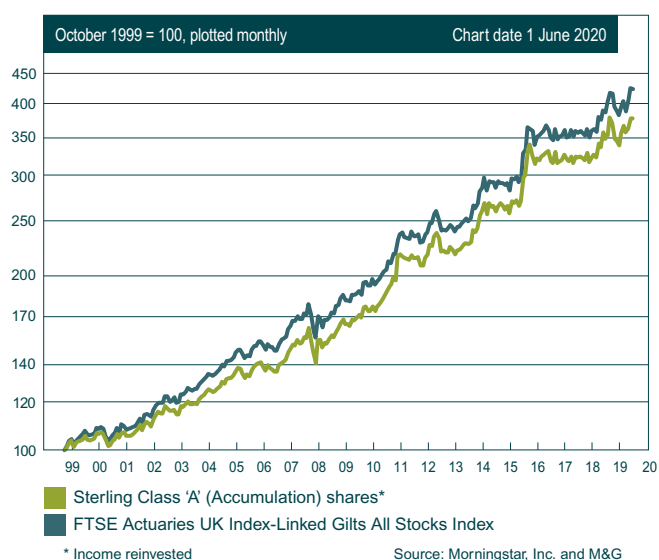
### Fund level performance

#### Fund net asset value

	2020	2019	2018
as at 31 May	£'000	£'000	£'000
Fund net asset value (NAV)	266,136	287,753	314,094

### Performance since launch

To give an indication of how the fund has performed since launch, the chart below shows total return of Sterling Class 'A' (Accumulation) shares.



# M&G Index-Linked Bond Fund

## Financial highlights

### Operating charges and portfolio transaction costs

We explain below the payments made to meet the ongoing costs of investing and managing the fund, comprising operating charges and portfolio transaction costs.

#### Operating charges

Operating charges include payments made to M&G and to providers independent of M&G:

- **Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge.  
For every £1 billion of a fund's net asset value, a discount of 0.02% will be applied to that fund's annual charge (up to a maximum of 0.12%).
- **Extraordinary legal and tax expenses:** Costs that specifically relate to legal or tax claims that are both exceptional and unforeseeable. Such expenses are uncommon, and would not be expected in most years. Although they result in a short-term cost to the fund, generally they can deliver longer term benefits for investors.
- **Investment management:** Charge paid to M&G for investment management of the fund. From 1 August 2019 this charge forms part of the annual charge.
- **Administration:** Charge paid for administration services in addition to investment management – any surplus from this charge will be retained by M&G. From 1 August 2019 this charge is rolled into the annual charge.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit. From 1 August 2019 these charges will be paid by M&G and rolled into the annual charge.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated. From 1 August 2019 charges from underlying funds (excluding Investment Trust Companies and Real Estate Investment Trusts) will be rebated.

The operating charges paid by each share class of the fund are shown in the following performance tables. These charges do not include portfolio transaction costs or any entry and exit charges (also known as initial and redemption charges). The charging structures of share classes may differ, and therefore the operating charges may differ.

Once the annual charge has been operational for twelve months, operating charges will be in line with the ongoing charges shown in the Key Investor Information Document, other than where there have been extraordinary legal or tax expenses, or an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

#### Portfolio transaction costs

Portfolio transaction costs are incurred by funds when buying and selling investments. These costs vary depending on the types of investment, their market capitalisation, country of exchange and method of execution. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission and taxes.
- **Indirect portfolio transaction costs:** 'Dealing spread' – the difference between the buying and selling prices of the fund's investments; some types of investment, such as fixed interest securities, have no direct transaction costs and only the dealing spread is paid.

Investments are bought or sold by a fund when changes are made to the investment portfolio and in response to net flows of money into or out of the fund from investors buying and selling shares in the fund.

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. As the fund invests mainly in fixed interest securities, the direct transaction costs paid on other investments are too small to be reflected in the table below. To give an indication of the indirect portfolio dealing costs the table shows the average portfolio dealing spread.

Further information on this process is in the Prospectus, which is available free of charge on request either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

#### Portfolio transaction costs

as at 31 May	2020	2019	2018	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.13	0.13	0.10	0.12

<sup>[a]</sup> Average of first three columns.

# M&G Index-Linked Bond Fund

## Financial highlights

### Specific share class performance

The following tables show the performance of each share class. All 'Performance and charges' percentages represent an annual rate except for the 'Return after operating charges' which is calculated as a percentage of the opening net asset value per share (NAV). 'Dilution adjustments' are only in respect of direct portfolio transaction costs.

#### Sterling Class 'A' Income share performance

The share class was launched on 4 October 1999. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	155.40	141.16	144.31
Return before operating charges and after direct portfolio transaction costs	10.09	15.19	(2.23)
Operating charges	(0.88)	(0.95)	(0.92)
Return after operating charges	9.21	14.24	(3.15)
Distributions	0.00	0.00	0.00
Closing NAV	164.61	155.40	141.16
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	0.57	0.66	0.66
Return after operating charges	+5.93	+10.09	-2.18
Distribution yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.57	0.65	0.65
Other information			
Closing NAV (£'000)	14,654	15,929	18,080
Closing NAV percentage of total fund NAV (%)	5.51	5.54	5.75
Number of shares	8,902,149	10,250,393	12,807,899
Highest share price (UK p)	165.65	155.44	146.50
Lowest share price (UK p)	134.36	136.86	134.21

#### Sterling Sterling Class 'A' Accumulation share performance

The share class was launched on 4 October 1999. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	178.53	162.16	165.78
Return before operating charges and after direct portfolio transaction costs	11.59	17.46	(2.56)
Operating charges	(1.01)	(1.09)	(1.06)
Return after operating charges	10.58	16.37	(3.62)
Distributions	0.00	0.00	0.00
Retained distributions	0.00	0.00	0.00
Closing NAV	189.11	178.53	162.16
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	0.57	0.66	0.66
Return after operating charges	+5.93	+10.09	-2.18
Distribution yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	37,463	44,350	47,960
Closing NAV percentage of total fund NAV (%)	14.08	15.41	15.27
Number of shares	19,810,354	24,841,658	29,574,772
Highest share price (UK p)	190.30	178.57	168.30
Lowest share price (UK p)	154.36	157.23	154.18

#### Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	1,666.49	1,512.24	1,544.44
Return before operating charges and after direct portfolio transaction costs	108.36	162.87	(23.79)
Operating charges	(5.66)	(8.62)	(8.41)
Return after operating charges	102.70	154.25	(32.20)
Distributions	0.00	0.00	0.00
Closing NAV	1,769.19	1,666.49	1,512.24
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	0.34	0.56	0.56
Return after operating charges	+6.16	+10.20	-2.08
Distribution yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.34	0.55	0.55
Other information			
Closing NAV (£'000)	95,139	86,709	86,869
Closing NAV percentage of total fund NAV (%)	35.75	30.13	27.66
Number of shares	5,377,557	5,203,124	5,744,397
Highest share price (UK p)	1,777.11	1,666.86	1,568.27
Lowest share price (UK p)	1,443.40	1,466.64	1,436.51



# M&G Index-Linked Bond Fund

## Financial highlights

### Specific share class performance

#### Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.			
for the year to 31 May	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	1,668.67	1,514.22	1,546.46
Return before operating charges and after direct portfolio transaction costs	108.60	163.06	(23.82)
Operating charges	(5.77)	(8.61)	(8.42)
Return after operating charges	102.83	154.45	(32.24)
Distributions	0.00	0.00	0.00
Retained distributions	0.00	0.00	0.00
Closing NAV	1,771.50	1,668.67	1,514.22
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	0.34	0.56	0.56
Return after operating charges	+6.16	+10.20	-2.08
Distribution yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	118,880	140,765	161,185
Closing NAV percentage of total fund NAV (%)	44.66	48.92	51.32
Number of shares	6,710,713	8,435,781	10,644,776
Highest share price (UK p)	1,779.44	1,669.04	1,570.32
Lowest share price (UK p)	1,445.29	1,468.56	1,438.39

<sup>[a]</sup> In respect of direct portfolio transaction costs.

<sup>[b]</sup> As a percentage of average net asset value.

<sup>[c]</sup> Following the change in charging structure, you may see variances between the comparative and current year figures.

## M&G Index-Linked Bond Fund

# Financial statements and notes

### Financial statements

#### Statement of total return

		2020	2019
for the year to 31 May	Note	£'000	£'000
Income			
Net capital gains / (losses)	3	18,595	25,391
Revenue	5	(1,665)	3,727
Expenses	6	(1,046)	(1,707)
Net revenue / (expense) before taxation		(2,711)	2,020
Taxation	7	0	0
Net revenue / (expense) after taxation		(2,711)	2,020
<b>Total return before equalisation</b>		<b>15,884</b>	<b>27,411</b>
Equalisation	8	349	531
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>16,233</b>	<b>27,942</b>

#### Statement of change in net assets attributable to shareholders

	2020	2019
for the year to 31 May	£'000	£'000
<b>Opening net assets attributable to shareholders</b>	<b>287,753</b>	<b>314,094</b>
Amounts received on issue of shares	27,743	11,759
Amounts paid on cancellation of shares	(65,659)	(66,076)
	(37,916)	(54,317)
Dilution adjustments	66	34
Change in net assets attributable to shareholders from investment activities (see above)	16,233	27,942
<b>Closing net assets attributable to shareholders</b>	<b>266,136</b>	<b>287,753</b>

## M&G Index-Linked Bond Fund

# Financial statements and notes

### Financial statements (continued)

#### Balance sheet

as at 31 May	Note	2020 £'000	2019 £'000
<b>Assets</b>			
<b>Fixed assets</b>			
Investments		264,044	286,835
<b>Current assets</b>			
Debtors	9	113	440
Cash and bank balances	10	227	798
Cash equivalents		1,793	0
<b>Total assets</b>		<b>266,177</b>	<b>288,073</b>
<b>Liabilities</b>			
<b>Creditors</b>			
Other creditors	11	(41)	(320)
<b>Total liabilities</b>		<b>(41)</b>	<b>(320)</b>
<b>Net assets attributable to shareholders</b>		<b>266,136</b>	<b>287,753</b>

## M&G Index-Linked Bond Fund

# Financial statements and notes

### Notes to the financial statements

#### 1 Accounting policies

The financial statements have been prepared in accordance with the 'Summary of significant accounting policies' set out on pages 7 and 8.

#### 2 Distribution policy

In determining the amount available for distribution to Income shares, the annual charge, annual management charge and administration charge are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

In determining the amount available for distribution, a transfer has been made between revenue and capital to disregard the change in the Retail Prices Index, during the period in respect of interest from index-linked gilt-edged securities. This is to contribute to the preservation of the share value in real terms.

Marginal tax relief has not been taken into account in respect of expenses offset against capital.

#### 3 Net capital gains / (losses)

	2020 £'000	2019 £'000
<b>for the year to 31 May</b>		
Non-derivative securities	18,123	25,394
Derivative contracts	472	0
Transaction charges	0	(3)
<b>Net capital gains / (losses)</b>	<b>18,595</b>	<b>25,391</b>

#### 4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 51.

	2020 £'000	2019 £'000
<b>for the year to 31 May</b>		
<b>a) Purchases</b>		
Debt securities <sup>[a]</sup>	329,098	217,970
<b>b) Sales</b>		
Debt securities <sup>[a]</sup>	367,440	268,629
<b>c) Indirect portfolio transaction costs</b>	<b>%</b>	<b>%</b>
Portfolio dealing spread <sup>[b]</sup>	0.13	0.13

<sup>[a]</sup> These transaction types do not attract direct portfolio transaction costs.

<sup>[b]</sup> Average portfolio dealing spread at the balance sheet date.

#### 5 Revenue

	2020 £'000	2019 £'000
<b>for the year to 31 May</b>		
Bank interest	1	3
Interest distributions	6	11
Interest on debt securities	(1,673)	3,713
Rebate of ongoing charges from underlying funds	1	0
<b>Total revenue</b>	<b>(1,665)</b>	<b>3,727</b>

#### 6 Expenses

	2020 £'000	2019 £'000
<b>for the year to 31 May</b>		
<b>Payable to the ACD or associate</b>		
Annual charge	768	0
Annual management charge <sup>[a]</sup>	197	1,232
Administration charge <sup>[a]</sup>	70	440
	<b>1,035</b>	<b>1,672</b>
<b>Payable to the Depositary or associate</b>		
Depositary's charge (including VAT) <sup>[a]</sup>	4	22
<b>Other expenses</b>		
Audit fee (including VAT) <sup>[a] [b]</sup>	2	12
Interest payable	5	0
Safe custody charge <sup>[a]</sup>	0	1
	<b>7</b>	<b>13</b>
<b>Total expenses</b>	<b>1,046</b>	<b>1,707</b>

<sup>[a]</sup> The segregated charges shown above for annual management, administration, depositary, audit and safe custody are those paid by the fund up to and including 31 July 2019. As of 1 August 2019 these charges have been replaced by the single annual charge.

<sup>[b]</sup> Audit fees for the financial year ending 2020 were £12,000 (including VAT).

#### 7 Taxation

	2020 £'000	2019 £'000
<b>for the year to 31 May</b>		
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	0
Deferred tax (note 7c)	0	0
<b>Total taxation</b>	<b>0</b>	<b>0</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue / (expense) before taxation	(2,711)	2,020
Corporation tax at 20%	(542)	404
<b>Effects of:</b>		
Relief for indexation on UK gilts	(557)	(1,620)
Current year expenses not utilised	1,099	1,216
<b>Total tax charge (note 7a)</b>	<b>0</b>	<b>0</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The fund has not recognised a deferred tax asset of £7,604,000 (2019: £6,505,000) arising as a result of having excess management expenses and interest distributions. We do not expect this asset to be utilised in the foreseeable future.

# M&G Index-Linked Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 8 Distributions

for the year to 31 May	2020		2019	
	Inc <sup>[a]</sup>	Acc <sup>[b]</sup>	Inc <sup>[a]</sup>	Acc <sup>[b]</sup>
Interest distributions	£'000	£'000	£'000	£'000
Interim	nil	nil	nil	nil
Final	nil	nil	nil	nil
Total net distributions		nil		nil
Income deducted on cancellation of shares		(604)		(631)
Income received on issue of shares		255		100
<b>Equalisation</b>		<b>(349)</b>		<b>(531)</b>
Net revenue / (expense) per statement of total return		(2,711)		2,020
Expenses offset against capital		384		576
Effective yield adjustment not distributed		(2,784)		(8,096)
Income deficit transferred to capital		4,762		4,969
<b>Equalisation</b>		<b>(349)</b>		<b>(531)</b>

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

#### 9 Debtors

	2020	2019
as at 31 May	£'000	£'000
Amounts receivable on issues of shares	0	23
Debt security interest receivable	113	415
Distributions receivable	0	2
<b>Total debtors</b>	<b>113</b>	<b>440</b>

#### 10 Cash and bank balances

	2020	2019
as at 31 May	£'000	£'000
Cash held as bank balances	227	798
<b>Total cash and bank balances</b>	<b>227</b>	<b>798</b>

#### 11 Other creditors

	2020	2019
as at 31 May	£'000	£'000
ACD's annual management charge payable	0	35
Administration charge payable	0	13
Amounts payable on cancellation of shares	0	258
Annual charge payable	28	0
Expenses payable	13	14
<b>Total other creditors</b>	<b>41</b>	<b>320</b>

#### 12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2019: same).

#### 13 Shares in issue

The following table shows each class of share in issue during the year. Each share class has the same rights on winding up however they may have different charging structures as set out in note 14.

Share class	Opening 01.06.19	Movements		Closing 31.05.20
		Issued	Cancelled	
<b>Sterling</b>				
Class 'A' Income	10,250,393	419,765	(1,768,009)	8,902,149
Sterling Class 'A' Accumulation	24,841,658	994,876	(6,026,180)	19,810,354
Class 'I' Income	5,203,124	1,379,122	(1,204,689)	5,377,557
Class 'I' Accumulation	8,435,781	158,499	(1,883,567)	6,710,713

#### 14 Charging structure

The table below sets out the charging structure for each class of share. The charging structure is the same for both Income and Accumulation shares of each class.

Share class	Entry charge %	Exit charge %	Annual charge <sup>[a]</sup> %
<b>Sterling</b>			
Class 'A'	n/a	n/a	0.55
Class 'I'	n/a	n/a	0.30

[a] The amounts shown are the maximum annual charge. M&G will apply a discount of 0.02% for every £1 billion of a fund's net asset value. This is assessed quarterly and implemented on a forward basis no later than 13 business days after quarter end.

#### 15 Related parties

M&G Securities Limited, as Authorised Corporate Director (ACD), is a related party and acts as principal on all the transactions of shares in the fund except with in specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to shareholders' and note 8. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 9 and 11 where applicable.

Amounts paid to M&G Securities Limited in respect of the annual charge, ACD's annual management charge and administration charge are disclosed in note 6. Amounts due at the year end in respect of the annual charge are disclosed in note 11.

At the balance sheet date, shareholders from within M&G plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 4.29% (2019: 3.78%) of the fund's shares.

#### 16 Events after the balance sheet date

There were no events after the balance sheet date to disclose.

## M&G Index-Linked Bond Fund

# Financial statements and notes

### Notes to the financial statements

#### 17 Fair value analysis

Financial instruments have been measured at their fair value and have been classified below using a hierarchy that reflects the significance of the inputs used in measuring their fair value:

##### Level 1: Unadjusted quoted price in an active market for an identical instrument

This includes instruments such as publicly traded equities, highly liquid bonds (e.g. Government bonds) and exchange traded derivatives (e.g. futures) for which quoted prices are readily and regularly available.

##### Level 2: Valuation technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

##### Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

as at 31 May	Assets 2020	Liabilities 2020	Assets 2019	Liabilities 2019
Basis of valuation	£'000	£'000	£'000	£'000
Level 1	258,260	0	281,023	0
Level 2	5,784	0	5,812	0
Level 3	0	0	0	0
	264,044	0	286,835	0

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 13 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

#### 18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 9 to 10.

#### 19 Market risk sensitivity and exposure

VaR is the risk measurement methodology used to assess the fund's leverage and market risk volatility. When VaR is calculated as a percentage of the net asset value it may not be greater than the VaR limit set for the fund.

The VaR limit set during the financial year to 31 May 2020 was 20% (2019: 20%).

The lowest, highest and average VaR, as well as utilisation of VaR with reference to the limit above, are calculated during the financial years ended 31 May 2020 and 31 May 2019.

	2020 Utilisation of VaR [a]	2019 Utilisation of VaR [a]
for the year to 31 May	% of VaR	% of VaR
Lowest	6.06	33.00
Highest	14.35	61.38
Average	4.44	50.91

[a] The VaR on the fund has been divided by its maximum limit.

#### 20 Credit risk

The fund is exposed to credit risk both through the credit quality of the investments it holds and through the derivative positions with counterparties. The table below shows the credit quality of the investments held in the portfolio.

	2020 £'000	2019 £'000
as at 31 May		
Investment grade securities	260,734	283,490
Unrated securities	3,310	3,345
Total	264,044	286,835

#### 21 Leverage risk

Funds using VaR approaches are required to disclose the level of leverage employed during the financial reporting period.

Derivatives can be used by the fund to generate market exposure to investments exceeding the net asset value. As a result of this exposure, the size of any positive or negative movement in markets may have a more significant effect on the net asset value of the fund.

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 31 May 2020 and 31 May 2019 are disclosed in the table below.

	2020 [a] £'000	2020 [a] % [b]	2019 [a] £'000	2019 [a] % [b]
for the year to 31 May				
Lowest	0	0.00	0	0.00
Highest	5,042	1.90	0	0.00
Average	2,495	0.90	0	0.00

[a] Leverage has been calculated using the Gross Sum of Notional Approach for derivative positions only (including forward currency contracts) and excludes all physical holdings.

[b] Expressed as a percentage over fund valuation.

## M&G Index-Linked Bond Fund

# Financial statements and notes

### Notes to the financial statements

#### 22 Interest distribution tables

This fund pays semi-annual interest distributions and the following table sets out the distribution periods.

##### Semi-annual distribution periods

	Start	End	Xd	Payment
Interim	01.06.19	30.11.19	02.12.19	31.01.20
Final	01.12.19	31.05.20	01.06.20	31.07.20

The following tables set out for each distribution the rates per share for both Group 1 and Group 2 shares.

Group 1 shares are those purchased prior to a distribution period and therefore their income rate is the same as the distribution rate.

Group 2 shares are those purchased during a distribution period and therefore their distribution rate is made up of income and equalisation. Equalisation is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the income and equalisation components.

##### Sterling Class 'A' Income shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation		
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
Interim	0.0000	0.0000	0.0000	0.0000
Final	0.0000	0.0000	0.0000	0.0000

##### Sterling Class 'A' Accumulation shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation		
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
Interim	0.0000	0.0000	0.0000	0.0000
Final	0.0000	0.0000	0.0000	0.0000

##### Sterling Class 'I' Income shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation		
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
Interim	0.0000	0.0000	0.0000	0.0000
Final	0.0000	0.0000	0.0000	0.0000

##### Sterling Class 'I' Accumulation shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation		
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
Interim	0.0000	0.0000	0.0000	0.0000
Final	0.0000	0.0000	0.0000	0.0000



## M&G Index Tracker Fund

# Authorised Corporate Director's Report

### Investment objective and policy

The fund is designed to track the FTSE All-Share Index. The fund manager has full discretionary investment management powers within the confines of this investment objective of the fund.

### Investment approach

The M&G Index Tracker Fund is a UK fund that broadly replicates the FTSE All-Share Index\*. The fund holds nearly all of the companies in the index and closely matches the weight that each represents in the FTSE All-Share Index.

\* FTSE® International. FTSE is a joint trademark of the London Stock Exchange Limited and the Financial Times Limited and is used by FTSE International Limited under licence. The FTSE All-Share Index is calculated by FTSE International Limited. FTSE International Limited does not sponsor, endorse or promote these products. All copyright in the index values and constituent lists rests with FTSE International Limited. M&G Securities Limited has obtained full licence from FTSE International Limited to use such copyright in the creation of this product.

### Benchmark

Benchmark: FTSE All-Share Index

The index is a constraining benchmark for the fund.

The fund is passively managed and aims to track the return of the index. The fund's holdings are therefore unlikely to significantly deviate from the benchmark's constituents.

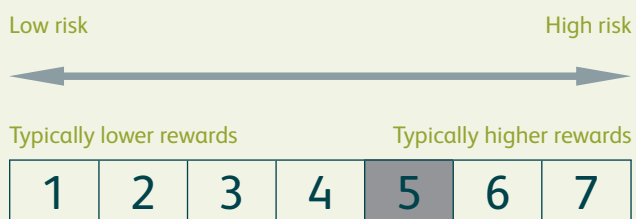
For unhedged and hedged Share Classes, the benchmark is shown in the Share Class currency.

### Risk profile

The fund is designed to track the performance of the FTSE All-Share Index, which represents a broad spread of UK company shares. Its performance, therefore, reflects the price volatility of the UK stockmarket and the performance of individual companies.

The fund holds nearly all of the companies in the index and closely matches the weight that each represents in the FTSE All-Share Index. The fund's risks are measured and managed as an integral part of the investment process.

The following table shows the risk number associated with the fund and is based on Sterling Class 'A' shares.



The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has not changed during this period.

### Investment review

As at 1 June 2020, for the year ended 31 May 2020

#### Performance against objective

The M&G Index Tracker Fund is designed to track the FTSE All-Share Index. Between 3 June 2019 (the start of the review period) and 1 June 2020, the fund's Sterling Class 'A' and Class 'C' shares produced a total return (the combination of income and growth of capital) of -9.2% and -9.0%, respectively in sterling terms. Meanwhile, the fund's benchmark, the FTSE All-Share Index, produced a total return of -10.0% over the same period.\*

\* For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Financial highlights' section of this report.

#### Investment performance

There are several factors that can result in the fund underperforming or outperforming the benchmark index over specific periods.

**Price swings** – This is a dilution adjustment within the share price, which aims to protect existing shareholders from a dilution in performance resulting from deals placed to buy or sell shares. This pricing method has the effect of moving the single price up or down from the mid-price.

**Timing** – This reflects the fact that the fund is priced at midday while the index is priced at close of business day. In this instance, the index rose in the afternoon of the first business day and thus started the period at a higher value than the fund. This means that the fund benefited from the market movement.

**Fund charges** – The fees we charge for managing the fund, as well as the costs incurred when we buy and sell underlying investments, will mean the fund's return after charges is below that of the index (which does not reflect the costs of investing).

**Tracking difference** – This refers to the difference in performance, positive or negative, due to the fund not fully replicating the composition of the index.

As the fund tracks the index, its overall performance can largely be explained by market developments over the period under review. It is worth noting that, in a global economy, the fates of individual markets are often closely connected to each other. As a result, the performance and prospects of the UK stockmarket tend to be affected by developments around the world.

The 12-month period under review saw the emergence and spread of the COVID-19 virus, leading to a tragic loss of life and widespread risk-aversion in global markets. The UK stockmarket was reasonably buoyant until mid-February 2020 when global panic about the virus set in, resulting in plunging markets worldwide, as well as a significant slowdown in economic activity and the near certainty of recession.

Throughout the second half of 2019, investors were encouraged as US interest rates were reduced three times, although the ongoing trade tensions between the US and China and weaker global growth unnerved investors at times. The UK Conservative

## M&G Index Tracker Fund

# Authorised Corporate Director's Report

### Investment performance (continued)

Party's decisive victory in the December 2019 general election removed much uncertainty, particularly regarding Brexit. The UK duly left the European Union (EU) at the end of January 2020, with the UK abiding by EU rules until the end of 2020.

The outbreak of COVID-19 in China in late 2019 initially made little impact on market observers. However, investors soon became worried that steps taken by the Chinese authorities to contain the spread of the coronavirus would affect the global supply chain, due to factory closures and transport restrictions, as well as dampening demand for goods.

In February, the virus spread beyond China, rapidly reaching most countries, including the UK, which adopted far-reaching measures aimed at containing the virus and the cost on human lives as well as reducing the impact on the economy. Steps included heavy cuts to interest rates, extensive stimulus and support packages, as well as a population lockdown and the temporary closure of non-essential businesses.

Following the steep declines in February and March, the UK stockmarket subsequently rallied as investors were encouraged by some indications that the rate of infection was slowing. The mood was also supported by some discussion of when and how economies may be reopened and continued announcements of support from the government. However, the gains towards the end of the 12-month period were not enough to outweigh the earlier notable weakness; hence the UK stockmarket, and in turn the fund, declined over the full period.

The pandemic has already had a significant effect on the domestic economy, which shrank by 2% in the first three months of the year. Given that the lockdown only began towards the end of March, the impact for the second quarter of 2020 is expected to be considerable and take the UK into recession.

Against this backdrop, UK inflation fell sharply, with the Consumer Prices Index (CPI) standing at 0.8% in April, compared with 1.5% the previous month, and well below the Bank of England's 2.0% target level. Inflation was pushed lower by falling energy and fuel pump prices, although rising prices for recreational goods partially offset the weakness. Meanwhile, unemployment stood at 3.9% in the three months to March 2020, broadly similar to the preceding quarter. However, this figure is likely to increase in the near term due to the economic fallout of the pandemic, although the government has taken unprecedented steps to support the economy and businesses.

At a sector level, many industries declined over the 12 months, although pharmaceuticals made significant gains as investors contemplated the prospect of potential advances in drug and vaccine developments. Other defensive stocks, which tend to be relatively resilient in uncertain times, advanced too, with tobacco and utilities making robust gains. Meanwhile, oil & gas and banks came under particular pressure as they reacted to the impact of the virus on domestic and global economic growth. In particular, the oil sector is facing extremely low prices, due to plummeting demand and excess supply, coupled with a lack of storage capacity.

Turning to individual stocks, leading contributors included pharmaceutical firms AstraZeneca and GlaxoSmithKline, as well as British American Tobacco. In contrast, significant detractors over the 12 months included banking group HSBC and energy firms BP and Royal Dutch Shell.

### Investment activities

We bought more shares in a number of companies that had issued new shares in order to raise funds. For example, we added to holdings in bookmaking holding firm Flutter Entertainment and online food delivery company Just Eat Takeaway.

Other purchases reflected takeover activity, for example, miner Anglo American bought fertiliser miner Sirius Minerals, increasing the size of the holding. Similarly, we added to the position in oil & gas firm Energean in connection with its purchase of Edison E&P.

Some holdings feature as both sales and purchases over the period. For example, we sold some shares in pub and hotel operator Whitbread back to the company as part of a tender offer in summer 2019. More recently, we bought back some Whitbread shares via a rights issue when the company issued new shares to raise funds.

Further sales involved companies that had bought back shares from investors via tender offers. Specific examples of such firms include investment trusts Baillie Gifford European Growth Trust PLC and JPMorgan India.

In other sales, we sold some of the holding in investment company Standard Life Aberdeen in connection with the disposal of its remaining stake in an Indian-based joint venture.

A number of sales over the period involved stocks that left the FTSE All-Share Index during the period, thus becoming ineligible for inclusion in the portfolio. Specific examples of stocks leaving the portfolio during the period under review included investment company Third Point Offshore Investors, floor covering retailer Carpetright, performance materials company Low & Bonar, Xaar, a supplier of industrial inkjet printheads, and property group Countrywide.

### Outlook

Policymakers globally have responded to the coronavirus pandemic and have shown they are prepared to take unprecedented action to mitigate the slowdown in global economic growth, but a recession is now expected. In the UK, the government has pledged vast sums to support individuals, jobs and the economy. However, it is too early to understand the ultimate impact of COVID-19 on UK economic activity.

Towards the end of the period under review, the government began easing the lockdown restrictions, with a view to beginning a return to something approaching normality. In terms of economic activity, much will depend on how households and companies respond to this change in circumstances. Furthermore, as restrictions on movement for individuals are relaxed, the authorities are aware of the potential for a second spike of the virus, which could lead to renewed restrictions.

## M&G Index Tracker Fund

# Authorised Corporate Director's Report

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### Outlook (continued)

Meanwhile, although increased government spending and bond purchases are providing some support against the economic fallout, stockmarkets are likely to be vulnerable to further volatility until the virus is contained or a medical solution is found.

To complicate matters further, the UK only has until the end of this year to secure a trade deal with the EU, or face the prospect of a 'no-deal' scenario. Negotiations are ongoing and businesses will welcome greater clarity regarding future trade relations over the coming months.

### Richard O'Connor

Fund manager

An employee of M&G FA Limited (formerly M&G Limited) which is an associate of M&G Securities Limited.

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

## M&amp;G Index Tracker Fund

## Authorised Corporate Director's Report

## Portfolio statement

as at 31 May		2020	2020	2019
Holding		£'000	%	%
	<b>EQUITIES</b>	<b>439,312</b>	<b>98.30</b>	<b>99.10</b>
	<b>Software &amp; computer services</b>	<b>4,425</b>	<b>0.99</b>	<b>1.09</b>
117,989	Avast	590	0.13	
16,000	AVEVA	649	0.15	
18,923	Computacenter	303	0.07	
21,635	FDM	189	0.04	
76,862	Micro Focus International	320	0.07	
84,545	NCC	134	0.03	
245,468	Sage	1,703	0.38	
24,806	SDL	119	0.03	
36,554	Softcat	418	0.09	
	<b>Technology hardware &amp; equipment</b>	<b>405</b>	<b>0.09</b>	<b>0.05</b>
162,534	Spirent Communications	405	0.09	
	<b>Telecommunications service providers</b>	<b>10,896</b>	<b>2.44</b>	<b>2.47</b>
187,752	Airtel Africa	65	0.02	
2,006,369	BT	2,362	0.53	
151,871	TalkTalk Telecom	140	0.03	
13,585	Telecom Plus	196	0.04	
6,068,354	Vodafone	8,133	1.82	
	<b>Medical equipment &amp; services</b>	<b>4,791</b>	<b>1.07</b>	<b>0.99 <sup>[a]</sup></b>
346,974	ConvaTec	713	0.16	
8,432	Georgia Healthcare	7	0.00	
108,588	Mediclinical International	295	0.07	
198,468	Smith & Nephew	3,273	0.73	
83,002	Spire Healthcare	78	0.02	
58,560	UDG Healthcare	425	0.09	
	<b>Pharmaceuticals &amp; biotechnology</b>	<b>47,433</b>	<b>10.61</b>	<b>7.19</b>
296,620	AstraZeneca	26,458	5.92	
24,862	Dechra Pharmaceuticals	702	0.16	
17,209	Genus	599	0.13	
1,107,628	GlaxoSmithKline	18,559	4.15	
33,399	Hikma Pharmaceuticals	881	0.20	
161,108	Indivior	103	0.02	
143,970	Vectura	131	0.03	
	<b>Banks</b>	<b>30,782</b>	<b>6.89</b>	<b>10.24</b>
9,871	Bank of Georgia	89	0.02	
3,852,938	Barclays	4,536	1.01	
35,678	Close Brothers	392	0.09	
4,577,659	HSBC	17,139	3.84	
16,026,117	Lloyds Banking	4,919	1.10	
36,424	Metro Bank	26	0.01	
1,017,049	Royal Bank of Scotland	1,162	0.26	
594,105	Standard Chartered	2,246	0.50	
296,153	Virgin Money	273	0.06	
	<b>Finance &amp; credit services</b>	<b>7,182</b>	<b>1.61</b>	<b>1.02</b>
61,570	International Personal Finance	26	0.01	
116,125	John Laing	412	0.09	
70,798	London Stock Exchange	5,774	1.29	
87,138	OneSavings Bank	243	0.05	
72,188	Paragon Banking	259	0.06	
26,655	Plus500	349	0.08	
58,983	Provident Financial	119	0.03	
	<b>Investment banking &amp; brokerage services</b>	<b>11,841</b>	<b>2.65</b>	<b>2.26</b>
217,101	3i	1,772	0.40	
72,221	AJ Bell	285	0.06	
87,249	Allied Minds	30	0.01	
106,689	Ashmore	462	0.10	
69,960	Brewin Dolphin	196	0.04	
12,000	City of London Investment	37	0.01	
11,132	Georgia Capital	51	0.01	
70,059	Hargreaves Lansdown	1,296	0.29	
88,277	IG	678	0.15	
61,069	IntegraFin	320	0.07	
69,264	Intermediate Capital	886	0.20	

## M&amp;G Index Tracker Fund

## Authorised Corporate Director's Report

## Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>EQUITIES (continued)</b>			
	<b>Investment banking &amp; brokerage services (continued)</b>			
154,172	Investec	236	0.05	
261,778	IP	163	0.04	
102,819	Jupiter Fund Management	257	0.06	
12,290	Liontrust Asset Management	149	0.03	
586,885	M&G <sup>[b]</sup>	866	0.19	
366,314	Man Jersey	530	0.12	
77,086	Ninety One	157	0.04	
445,500	Quilter	590	0.13	
12,825	Rathbone Brothers	187	0.04	
26,270	Schroders	781	0.18	
18,864	Sole Realisation Company <sup>[c]</sup>	1	0.00	
555,014	Standard Life Aberdeen	1,450	0.33	
137,097	TP ICAP	461	0.10	
	<b>Equity investment instruments</b>	<b>27,867</b>	<b>6.23</b>	<b>5.19</b>
142,819	3i Infrastructure	399	0.09	
49,232	Aberdeen Asian Income Fund	84	0.02	
116,749	Aberdeen Diversified Income and Growth Trust	104	0.02	
35,696	Aberdeen New Dawn Investment Trust	80	0.02	
11,497	Aberdeen New India Investment Trust	43	0.01	
14,869	Aberdeen Standard Asia Focus	132	0.03	
13,252	Aberdeen Standard Equity Income Trust	36	0.01	
23,204	Aberforth Smaller Companies Trust	214	0.05	
76,474	Alliance Trust	578	0.13	
7,763	Allianz Technology Trust	160	0.04	
11,508	Artemis Alpha Trust	30	0.01	
28,499	Asia Dragon Trust	104	0.02	
20,401	Baillie Gifford Japan Trust	157	0.03	
54,320	Baillie Gifford Shin Nippon	100	0.02	
32,730	Baillie Gifford UK Growth Fund	56	0.01	
27,330	Bankers Investment Trust	262	0.06	
101,416	BB Healthcare Trust	163	0.04	
134,428	BBGI SICAV	219	0.05	
7,235	BH Global	135	0.03	
3,165	BH Macro	107	0.02	
19,019	Biotech Growth Trust	225	0.05	
59,047	BlackRock Frontier Investment Trust	53	0.01	
9,332	BlackRock Latin American Investment Trust	29	0.01	
10,751	BlackRock Smaller Companies Trust	139	0.03	
19,967	BlackRock Throgmorton Trust	110	0.02	
44,057	BlackRock World Mining Trust	156	0.03	
81,569	Bluefield Solar Income Fund	108	0.02	
177,780	BMO Global Smaller Companies Fund	206	0.05	
27,330	British Empire Securities & General Trust	179	0.04	
7,952	Brunner Investment Trust	62	0.01	
9,571	Caledonia Investments	257	0.06	
2,642	Capital Gearing Trust	116	0.03	
48,759	City Merchants High Yield Trust	79	0.02	
90,496	City of London Investment Trust	304	0.07	
70,000	Diverse Income Trust	59	0.01	
36,288	Dunedin Income Growth Investment Trust	92	0.02	
52,621	Ecofin Global Utilities and Infrastructure Trust	82	0.02	
48,494	Edinburgh Investment Trust	220	0.05	
60,095	Edinburgh Worldwide Investment Trust	148	0.03	
5,282	Electra Private Equity	10	0.00	
14,371	EP Global Opportunities Trust	36	0.01	
12,614	European Investment Trust	124	0.03	
24,614	European Opportunities Trust	185	0.04	
21,354	F&C Capital & Income Investment Trust	55	0.01	
26,956	F&C Private Equity Trust	87	0.02	
15,537	Fidelity Asian Values	47	0.01	
112,110	Fidelity China Special Situations	265	0.06	
105,890	Fidelity European Trust	263	0.06	
64,515	Fidelity Special Values	116	0.03	
47,160	Finsbury Growth & Income Trust	394	0.09	

## M&amp;G Index Tracker Fund

## Authorised Corporate Director's Report

## Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>EQUITIES (continued)</b>			
	<b>Equity investment instruments (continued)</b>			
123,226	Foreign & Colonial Investment Trust	831	0.19	
159,137	Foresight Solar Fund	171	0.04	
6,000	Fundsmith Emerging Equities Trust	64	0.01	
195,921	GCP Infrastructure	228	0.05	
27,825	Genesis Emerging Markets	185	0.04	
366,726	Greencoat UK Wind	519	0.12	
5,000	Hansa Investment	7	0.00	
18,219	Harbourvest Global Private Equity	258	0.06	
12,144	Henderson Alternative Strategies Trust	32	0.01	
96,266	Henderson Diversified Income Trust	77	0.02	
7,185	Henderson European Focus Trust	82	0.02	
4,288	Henderson EuroTrust	48	0.01	
30,980	Henderson Far East Income	94	0.02	
28,474	Henderson High Income Trust	40	0.01	
20,599	Henderson Smaller Companies Investment Trust	160	0.04	
20,371	Herald Investment Trust	307	0.07	
96,840	HgCapital Trust	227	0.05	
430,102	HICL Infrastructure	750	0.17	
143,440	Hipgnosis Songs Fund The Fund	154	0.03	
18,845	ICG Enterprise Trust	135	0.03	
64,010	Impax Environmental Markets	198	0.04	
57,585	Income & Growth Investment Trust	123	0.03	
13,560	International Biotechnology Trust	103	0.02	
353,647	International Public Partnerships	572	0.13	
14,914	Invesco Asia Trust	37	0.01	
13,876	Invesco Income Growth Trust	32	0.01	
114,253	JLEN Environmental Assets	134	0.03	
64,465	JPMorgan American Investment Trust	301	0.07	
24,860	JPMorgan Asia Growth & Income	91	0.02	
19,298	JPMorgan China Growth & Income	73	0.02	
14,381	JPMorgan Claverhouse Investment Trust	79	0.02	
31,308	JPMorgan Emerging Markets Investment Trust	284	0.06	
30,134	JPMorgan European Growth Investment Trust	74	0.02	
41,600	JPMorgan European Smaller Companies Trust	139	0.03	
70,540	JPMorgan Global Emerging Markets Income Trust	74	0.02	
43,965	JPMorgan Global Growth & Income	143	0.03	
23,006	JPMorgan Indian Investment Trust	119	0.03	
9,427	JPMorgan Japan Smaller Companies Trust	41	0.01	
37,340	JPMorgan Japanese Investment Trust	187	0.04	
5,749	JPMorgan Mid Cap Investment Trust	51	0.01	
13,206	JPMorgan Russian Securities	81	0.02	
26,765	JPMorgan Smaller Companies Investment Trust	60	0.01	
4,455	Jupiter US Smaller Companies	41	0.01	
22,035	Keystone Investment Trust	55	0.01	
28,440	Law Debenture	144	0.03	
9,558	Lowland Investment	90	0.02	
6,893	Majedie Investments	15	0.00	
30,524	Martin Currie Global Portfolio Trust	91	0.02	
193,700	Mercantile Investment Trust	374	0.08	
22,619	Merchants Trust	87	0.02	
44,162	Middlefield Canadian Income Trust	33	0.01	
49,929	Monks Investment Trust	493	0.11	
45,360	Montanaro UK Smaller Companies Investment Trust	49	0.01	
15,376	Murray Income Trust	116	0.03	
29,533	Murray International Trust	292	0.06	
250,550	NB Global Floating Rate Income Fund	197	0.04	
151,521	NextEnergy Solar Fund	164	0.04	
42,740	North American Income Trust	102	0.02	
2,919	North Atlantic Smaller Companies Investment Trust	82	0.02	
28,753	Pacific Assets Trust	68	0.01	
10,174	Pacific Horizon Investment Trust	43	0.01	
13,513	Pantheon International	282	0.06	
51,232	Pershing Square	970	0.22	
596	Personal Assets Trust	264	0.06	

## M&amp;G Index Tracker Fund

## Authorised Corporate Director's Report

## Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>EQUITIES (continued)</b>			
	<b>Equity investment instruments (continued)</b>			
23,952	Polar Capital Global Healthcare Trust	59	0.01	
32,466	Polar Capital Technology Trust	625	0.14	
20,848	Pollen Street Secured Lending	144	0.03	
5,802	Princess Private Equity	43	0.01	
394,077	Renewables Infrastructure	485	0.11	
29,616	RIT Capital Partners	541	0.12	
12,710	Riverstone Energy	40	0.01	
33,743	Ruffer Investment Company (Preference shares)	82	0.02	
36,469	Schroder Asia Pacific Fund	156	0.03	
18,284	Schroder Asian Total Return Investment Company	62	0.01	
18,236	Schroder Income Growth Fund	44	0.01	
19,162	Schroder Japan Growth Fund	33	0.01	
58,397	Schroder Oriental Income Fund	119	0.03	
7,670	Schroder UK Mid Cap Fund	34	0.01	
193,141	Schroder UK Public Private	55	0.01	
31,306	Scottish American Investment	129	0.03	
22,562	Scottish Investment Trust	167	0.04	
332,833	Scottish Mortgage Investment Trust	2,451	0.55	
8,864	Scottish Oriental Small Companies Trust	67	0.01	
56,230	SDCL Energy Efficiency Income Trust	59	0.01	
20,541	Securities Trust of Scotland	38	0.01	
364,923	Sequoia Economic Infrastructure Income Fund	369	0.08	
26,569	Smithson Investment Trust	387	0.09	
19,011	Standard Life European Private Equity Trust	54	0.01	
40,740	Standard Life UK Smaller Companies Trust	198	0.04	
107,954	Syncona	220	0.05	
14,154	Temple Bar Investment Trust	107	0.02	
60,759	Templeton Emerging Markets Investment Trust	440	0.10	
7,016	Third Point Offshore Investors	79	0.02	
12,510	TR European Growth Trust	98	0.02	
72,712	TR Property Investment Trust	256	0.06	
45,234	Troy Income & Growth Trust	33	0.01	
96,355	TwentyFour Income Fund	86	0.02	
63,982	Utilico Emerging Markets Trust	108	0.02	
17,183	Value & Income Trust	28	0.01	
51,879	Vietnam Enterprise Investments	224	0.05	
44,009	VinaCapital Vietnam Opportunity Fund	138	0.03	
196,695	Witan Investment Trust	344	0.08	
17,102	Witan Pacific Investment Trust	58	0.01	
11,654	Worldwide Healthcare Trust	421	0.09	
	<b>Life insurance</b>	<b>13,201</b>	<b>2.95</b>	<b>3.67</b>
889,878	Aviva	2,220	0.50	
38,408	Chesnara	122	0.03	
218,857	Just	114	0.02	
1,309,662	Legal & General	2,633	0.59	
129,937	Phoenix	816	0.18	
586,885	Prudential	6,212	1.39	
116,214	St. James's Place	1,084	0.24	
	<b>Non-life insurance</b>	<b>4,562</b>	<b>1.02</b>	<b>1.09</b>
45,337	Admiral	1,051	0.24	
136,317	Beazley	525	0.12	
316,517	Direct Line Insurance	852	0.19	
70,851	Hastings	131	0.03	
76,654	Hiscox	572	0.13	
48,530	Lancashire	329	0.07	
230,842	RSA Insurance	916	0.20	
71,306	Sabre Insurance	186	0.04	
	<b>Real estate investment &amp; services</b>	<b>1,968</b>	<b>0.44</b>	<b>0.40<sup>[a]</sup></b>
123,795	BMO Commercial Property Trust	97	0.02	
171,834	Capital & Counties Properties	276	0.06	
53,320	CLS	104	0.02	
93,425	Foxtons	42	0.01	
159,473	Grainger	455	0.10	



## M&amp;G Index Tracker Fund

## Authorised Corporate Director's Report

## Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>EQUITIES (continued)</b>			
	<b>Real estate investment &amp; services (continued)</b>			
29,362	Helical	98	0.02	
28,988	Henry Boot	71	0.02	
23,460	LSL Property Services	41	0.01	
19,439	Phoenix Spree Deutschland	55	0.01	
85,813	Raven Property	29	0.01	
31,732	Savills	286	0.07	
283,080	Sirius Real Estate	217	0.05	
43,703	St. Modwen Properties	151	0.03	
54,660	U and I	46	0.01	
	<b>Real estate investment trusts</b>	<b>10,371</b>	<b>2.32</b>	<b>2.20</b>
555,785	Assura	438	0.10	
37,591	Big Yellow	382	0.09	
104,655	BMO Real Estate Investments	60	0.01	
229,655	British Land	934	0.21	
13,662	Capital & Regional	16	0.00	
213,089	Civitas Social Housing	223	0.05	
23,360	Derwent London	700	0.16	
95,000	Ediston Property Investment Company	43	0.01	
132,584	Empiric Student Property	81	0.02	
92,924	GCP Student Living	126	0.03	
67,357	Great Portland Estates	440	0.10	
178,883	Hammerson	133	0.03	
210,191	Intu Properties	12	0.00	
161,856	Land Securities	972	0.22	
206,208	LondonMetric Property	431	0.10	
85,975	LXI	96	0.02	
82,394	NewRiver	46	0.01	
127,327	Picton Property Income	89	0.02	
306,384	Primary Health Properties	473	0.11	
74,686	RDI	51	0.01	
59,451	Safestore	400	0.09	
120,865	Schroder Real Estate Investment Trust	45	0.01	
260,510	Segro	2,214	0.49	
57,483	Shaftesbury	357	0.08	
92,278	Standard Life Investment Property Income Trust	63	0.01	
70,000	Target Healthcare	73	0.02	
22,910	Town Centre Securities	24	0.00	
392,254	Tritax Big Box	545	0.12	
147,517	UK Commercial Property Trust	91	0.02	
67,530	UNITE	587	0.13	
30,462	Workspace	226	0.05	
	<b>Automobiles &amp; parts</b>	<b>40</b>	<b>0.01</b>	<b>0.03</b>
72,845	Aston Martin Lagonda Global	40	0.01	
	<b>Household goods &amp; home construction</b>	<b>17,144</b>	<b>3.84</b>	<b>3.16</b>
225,384	Barratt Developments	1,131	0.25	
28,909	Bellway	744	0.17	
27,061	Berkeley	1,111	0.25	
51,008	Bovis Homes	388	0.09	
100,328	Countryside Properties	287	0.06	
75,076	Crest Nicholson	193	0.04	
70,212	McBride	40	0.01	
138,605	McCarthy & Stone	98	0.02	
19,105	MJ Gleeson	136	0.03	
71,271	Persimmon	1,632	0.37	
141,927	Reckitt Benckiser	10,122	2.27	
48,770	Redrow	229	0.05	
710,147	Taylor Wimpey	1,033	0.23	
	<b>Leisure goods</b>	<b>619</b>	<b>0.14</b>	<b>0.07</b>
7,504	Games Workshop	583	0.13	
73,700	Photo-Me International	36	0.01	
	<b>Personal goods</b>	<b>12,272</b>	<b>2.75</b>	<b>2.72</b>
92,822	Burberry	1,412	0.32	
52,316	PZ Cussons	91	0.02	

## M&amp;G Index Tracker Fund

## Authorised Corporate Director's Report

## Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>EQUITIES (continued)</b>			
	<b>Personal goods (continued)</b>			
11,827	Superdry	16	0.00	
6,838	Ted Baker	11	0.00	
246,934	Unilever	10,742	2.41	
	<b>Media</b>	<b>16,790</b>	<b>3.76</b>	<b>3.83</b>
9,581	4imprint	226	0.05	
88,547	Ascential	245	0.06	
210,893	Auto Trader	1,178	0.26	
11,581	Bloomsbury Publishing	25	0.01	
23,121	Euromoney Institutional Investor	170	0.04	
18,306	Future	245	0.06	
70,989	GoCo	55	0.01	
17,955	Hyve	18	0.00	
40,399	Hyve Rights 12/06/2020	13	0.00	
329,549	Informa	1,568	0.35	
826,715	ITV	679	0.15	
117,735	Moneysupermarket.com	405	0.09	
174,005	Pearson	807	0.18	
58,726	Reach	47	0.01	
427,309	RELX	8,134	1.82	
209,140	Rightmove	1,229	0.28	
282,326	WPP	1,746	0.39	
	<b>Retailers</b>	<b>6,261</b>	<b>1.40</b>	<b>1.63 [a]</b>
199,283	B&M European Value Retail	779	0.17	
81,886	Card Factory	30	0.01	
52,153	DFS Furniture	87	0.02	
13,380	Dignity	31	0.01	
230,640	Dixons Carphone	177	0.04	
22,551	Dunelm	236	0.05	
60,566	Fraser's	188	0.04	
48,578	Halfords	82	0.02	
94,687	Inchcape	468	0.11	
95,780	JD Sports Fashion	621	0.14	
481,393	Kingfisher	954	0.21	
81,746	Lookers	20	0.00	
461,265	Marks & Spencer	443	0.10	
48,869	N Brown	11	0.00	
29,435	Next	1,464	0.33	
337,904	Pendragon	30	0.01	
110,480	Pets at Home	261	0.06	
21,315	Studio Retail	39	0.01	
34,479	Topps Tiles	14	0.00	
29,456	WH Smith	326	0.07	
	<b>Travel &amp; leisure</b>	<b>17,247</b>	<b>3.86</b>	<b>4.48 [a]</b>
37,185	Carnival	402	0.09	
238,688	Cineworld	212	0.05	
399,564	Compass	4,877	1.09	
128,343	Domino's Pizza	468	0.10	
55,555	easyJet	383	0.09	
280,496	FirstGroup	161	0.04	
25,746	Flutter Entertainment	2,671	0.60	
8,404	Fuller Smith & Turner	59	0.01	
18,738	Gamesys	156	0.04	
9,796	Go-Ahead	108	0.02	
134,831	GVC	1,087	0.24	
24,530	Hostelworld	18	0.00	
41,109	InterContinental Hotels	1,629	0.36	
363,597	International Consolidated Airlines	846	0.19	
22,361	J.D.Wetherspoon	261	0.06	
143,101	Marston's	92	0.02	
66,119	Mitchells & Butlers	122	0.03	
119,306	National Express	258	0.06	
70,497	Playtech	187	0.04	
64,084	Rank	88	0.02	

## M&amp;G Index Tracker Fund

## Authorised Corporate Director's Report

## Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>EQUITIES (continued)</b>			
	<b>Travel &amp; leisure (continued)</b>			
115,910	Restaurant	70	0.02	
268,345	Saga	55	0.01	
122,710	SSP	355	0.08	
102,684	Stagecoach	70	0.02	
110,210	Trainline	543	0.12	
99,012	TUI	451	0.10	
30,695	Whitbread	758	0.17	
15,347	Whitbread Rights 10/06/2020	149	0.03	
210,230	William Hill	284	0.06	
13,219	Wizz Air	427	0.10	
	<b>Beverages</b>	<b>16,847</b>	<b>3.77</b>	<b>3.92</b>
20,044	A.G. Barr	98	0.02	
59,718	Britvic	440	0.10	
30,685	C&C	60	0.01	
44,626	Coca-Cola HBC	927	0.21	
523,305	Diageo	15,165	3.39	
65,456	Stock Spirits	157	0.04	
	<b>Food producers</b>	<b>3,214</b>	<b>0.72</b>	<b>0.73</b>
77,605	Associated British Foods	1,443	0.32	
12,758	Cranswick	464	0.10	
58,284	Devro	93	0.02	
102,937	Greencore	141	0.03	
14,452	Hilton Food	184	0.04	
266,618	Premier Foods	122	0.03	
28,460	PureCircle	27	0.01	
108,201	Tate & Lyle	740	0.17	
	<b>Tobacco</b>	<b>19,977</b>	<b>4.47</b>	<b>3.63</b>
516,470	British American Tobacco	16,809	3.76	
215,078	Imperial Brands	3,168	0.71	
	<b>Personal care, drug &amp; grocery stores</b>	<b>9,432</b>	<b>2.11</b>	<b>1.64</b>
24,944	Greggs	465	0.10	
363,891	J Sainsbury	703	0.16	
101,964	Ocado	2,229	0.50	
2,189,185	Tesco	5,107	1.14	
491,187	Wm Morrison Supermarkets	928	0.21	
	<b>Construction &amp; materials</b>	<b>7,905</b>	<b>1.77</b>	<b>1.60 [a]</b>
154,114	Balfour Beatty	396	0.09	
85,469	Costain	67	0.01	
184,944	CRH	4,938	1.10	
28,538	Forterra	56	0.01	
24,525	Galliford Try	29	0.01	
88,734	Ibstock	165	0.04	
18,581	Keller	117	0.02	
34,008	Kier	28	0.01	
48,210	Marshalls	316	0.07	
1,116,238	Melrose Industries	1,331	0.30	
9,357	Morgan Sindall	118	0.03	
25,215	Norcros	36	0.01	
52,055	Polypipe	225	0.05	
45,817	Tyman	83	0.02	
	<b>Aerospace &amp; defense</b>	<b>6,926</b>	<b>1.55</b>	<b>1.87</b>
6,707	Avon Rubber	219	0.05	
118,009	Babcock International	467	0.11	
728,853	BAE Systems	3,686	0.83	
69,509	Chemring	154	0.03	
173,723	Meggitt	493	0.11	
135,024	QinetiQ	405	0.09	
388,155	Rolls-Royce	1,121	0.25	
100,908	Senior	62	0.01	
16,139	Ultra Electronics	319	0.07	
	<b>Electronic &amp; electrical equipment</b>	<b>3,583</b>	<b>0.80</b>	<b>0.61</b>
7,665	Dialight	19	0.00	

## M&amp;G Index Tracker Fund

## Authorised Corporate Director's Report

## Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>EQUITIES (continued)</b>			
	<b>Electronic &amp; electrical equipment (continued)</b>			
85,497	Halma	2,015	0.45	
69,363	Morgan Advanced Materials	148	0.03	
13,436	Oxford Instruments	167	0.04	
8,130	Renishaw	317	0.07	
27,324	Spectris	708	0.16	
55,780	TT electronics	94	0.02	
3,641	XP Power	115	0.03	
	<b>General industrials</b>	<b>3,935</b>	<b>0.88</b>	<b>0.90</b>
325,197	Coats	172	0.04	
281,576	DS Smith	976	0.22	
88,393	Smiths	1,171	0.26	
54,051	Smurfit Kappa	1,429	0.32	
50,382	Vesuvius	187	0.04	
	<b>Industrial engineering</b>	<b>4,242</b>	<b>0.95</b>	<b>0.89</b>
46,912	Bodycote	297	0.07	
18,805	Hill & Smith	234	0.05	
61,398	IMI	555	0.12	
7,911	RHI Magnesita	190	0.04	
204,200	Rotork	549	0.12	
69,710	Severfield	48	0.01	
17,449	Spirax-Sarco Engineering	1,724	0.39	
10,123	Vitec	72	0.02	
60,088	Weir	573	0.13	
	<b>Industrial support services</b>	<b>28,897</b>	<b>6.47</b>	<b>5.01</b>
146,475	AA	39	0.01	
55,051	Aggreko	259	0.06	
108,490	Ashtead	2,668	0.60	
76,581	Bunzl	1,454	0.33	
397,024	Capita	137	0.03	
58,424	Connect	10	0.00	
22,604	DCC	1,530	0.34	
23,584	De La Rue	10	0.00	
25,288	Diploma	464	0.10	
104,642	Electrocomponents	671	0.15	
69,865	Equiniti	96	0.02	
59,501	Essentra	173	0.04	
206,764	Experian	5,920	1.32	
50,856	Ferguson	3,252	0.73	
352,754	G4S	308	0.07	
50,047	Grafton	318	0.07	
304,704	Hays	346	0.08	
63,883	HomeServe	832	0.19	
134,942	Howden Joinery	804	0.18	
36,470	Intertek	2,042	0.46	
176,024	IWG	524	0.12	
22,348	John Menzies	25	0.01	
25,177	Just Eat Takeaway.com	2,238	0.50	
25,681	Mears	43	0.01	
85,169	Mitie	59	0.01	
103,022	Network International	475	0.11	
70,973	PageGroup	271	0.06	
15,904	PayPoint	118	0.03	
57,088	Redde Northgate	108	0.02	
143,021	Renewi	32	0.01	
418,674	Rentokil Initial	2,102	0.47	
13,784	Ricardo	53	0.01	
16,475	Robert Walters	56	0.01	
55,347	RPS	23	0.00	
32,202	Sanne	213	0.05	
287,092	Serco	371	0.08	
150,196	SIG	42	0.01	
136,075	Speedy Hire	72	0.02	
29,569	SThree	67	0.01	

## M&amp;G Index Tracker Fund

## Authorised Corporate Director's Report

## Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>EQUITIES (continued)</b>			
	<b>Industrial support services (continued)</b>			
58,242	Travis Perkins	647	0.14	
3,773	Vp	25	0.01	
	<b>Industrial transportation</b>	<b>1,173</b>	<b>0.26</b>	<b>0.30</b>
7,359	Clarkson	167	0.04	
10,291	James Fisher & Sons	134	0.03	
201,124	Royal Mail	353	0.08	
181,862	Signature Aviation	427	0.09	
74,400	Stobart	37	0.01	
30,574	Wincanton	55	0.01	
	<b>Industrial materials</b>	<b>1,662</b>	<b>0.37</b>	<b>0.26</b>
109,226	Mondi	1,662	0.37	
	<b>Industrial metals &amp; mining</b>	<b>28,228</b>	<b>6.32</b>	<b>6.33</b>
283,289	Anglo American	4,777	1.07	
77,439	Antofagasta	686	0.15	
471,042	BHP	7,444	1.67	
114,349	Evraz	331	0.07	
68,390	Ferrexpo	122	0.03	
2,491,732	Glencore	3,777	0.85	
53,149	KAZ Minerals	254	0.06	
3,132	Kenmare Resources	7	0.00	
250,120	Rio Tinto	10,830	2.42	
	<b>Precious metals &amp; mining</b>	<b>2,107</b>	<b>0.47</b>	<b>0.26</b>
260,758	Centamin	428	0.10	
40,289	Fresnillo	310	0.07	
29,397	Gem Diamonds	10	0.00	
56,453	Hochschild Mining	109	0.02	
228,114	Petropavlovsk	55	0.01	
73,812	Polymetal International	1,195	0.27	
	<b>Chemicals</b>	<b>3,216</b>	<b>0.72</b>	<b>0.73</b>
28,331	Croda International	1,476	0.33	
136,270	Elementis	92	0.02	
44,755	Johnson Matthey	969	0.22	
86,647	Synthomer	272	0.06	
19,709	Victrex	407	0.09	
	<b>Non-renewable energy</b>	<b>37,150</b>	<b>8.31</b>	<b>14.08</b>
4,494,183	BP	13,741	3.07	
142,297	Cairn Energy	176	0.04	
22,609	Energean	122	0.03	
548,470	EnQuest	67	0.02	
32,704	Hunting	53	0.01	
153,896	John Wood	309	0.07	
75,272	Lamprell	14	0.00	
56,655	Petrofac	98	0.02	
57,952	Pharos Energy	8	0.00	
259,591	Premier Oil	74	0.02	
929,416	Royal Dutch Shell 'A'	11,939	2.67	
845,624	Royal Dutch Shell 'B'	10,471	2.34	
339,874	Tullow Oil	78	0.02	
	<b>Electricity</b>	<b>3,183</b>	<b>0.71</b>	<b>0.56</b>
105,432	Drax	222	0.05	
240,311	SSE	2,961	0.66	
	<b>Gas, water &amp; multi-utilities</b>	<b>11,538</b>	<b>2.58</b>	<b>2.00</b>
1,313,549	Centrica	480	0.11	
786,494	National Grid	7,284	1.63	
95,307	Pennon	1,086	0.24	
52,788	Severn Trent	1,289	0.29	
152,516	United Utilities	1,399	0.31	
	<b>Unquoted / unlisted <sup>[c]</sup></b>	<b>0</b>	<b>0.00</b>	<b>0.00</b>
10,204	Bioscience Investment Trust	0	0.00	
21,000	Dexion Equity Alternative	0	0.00	

## M&G Index Tracker Fund

# Authorised Corporate Director's Report

### Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>EQUITIES (continued)</b>			
	<b>Unquoted / unlisted (continued)</b>			
12,707	Electric & General Investment Trust	0	0.00	
19,068	NMC Health <sup>[c]</sup>	0	0.00	
	<b>EQUITY DERIVATIVES</b>	<b>2,065</b>	<b>0.46</b>	<b>(0.01)</b>
	<b>Equity futures contracts</b>	<b>2,065</b>	<b>0.46</b>	<b>(0.01)</b>
192	FTSE 100 Index Jun 2020	2,065	0.46	
<b>Portfolio of investments</b>		<b>441,377</b>	<b>98.76</b>	<b>99.09</b>
	<b>CASH EQUIVALENTS</b>	<b>8,626</b>	<b>1.93</b>	<b>1.58</b>
	<b>'AAA' rated money market funds <sup>[d]</sup></b>	<b>8,626</b>	<b>1.93</b>	<b>1.58</b>
8,626,000	Northern Trust Global Fund - Sterling	8,626	1.93	
<b>Total portfolio (notes 2c &amp; 2d on page 7)</b>		<b>450,003</b>	<b>100.69</b>	<b>100.67</b>
<b>Net other assets / (liabilities)</b>		<b>(3,096)</b>	<b>(0.69)</b>	<b>(0.67)</b>
<b>Net assets attributable to shareholders</b>		<b>446,907</b>	<b>100.00</b>	<b>100.00</b>

All securities are on an official stock exchange listing except where referenced.

<sup>[a]</sup> The comparative sector weightings have been re-analysed to reflect changes to the sector classifications.

<sup>[b]</sup> Related party.

<sup>[c]</sup> Unlisted / unquoted.

<sup>[d]</sup> Uncommitted surplus cash is placed into 'AAA' rated money market funds with the aim of reducing counterparty risk.

### Top ten portfolio transactions

<b>for the year to 31 May 2020</b>		
<b>Largest purchases</b>		<b>£'000</b>
Whitbread		1,382
Anglo American		1,103
Just Eat Takeaway.com		708
Flutter Entertainment		681
Network International		617
HSBC		561
Mondi		495
Trainline		486
Compass		410
AstraZeneca		296
Other purchases		6,067
<b>Total purchases</b>		<b>12,806</b>
<b>Largest sales</b>		<b>£'000</b>
Whitbread		2,044
Royal Dutch Shell 'A'		1,632
Cobham		900
RPC		788
Merlin Entertainment		759
BTG		738
Greene King		605
Inmarsat		589
Diageo		491
Entertainment One		450
Other sales		5,264
<b>Total sales</b>		<b>14,260</b>

Purchases and sales exclude the cost and proceeds of 'AAA' rated money market funds.

# M&G Index Tracker Fund

## Financial highlights

### Fund performance

Please note past performance is not a guide to future performance and the value of investments, and the income from them, will fluctuate. This will cause the fund price to fall as well as rise and you may not get back the original amount you invested.

The following chart and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be different. For more information on the different share classes in this fund please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

### Index tracking

The tracking difference between the fund's investment return and that of the FTSE All-Share Index for the 12 month period ending 31 May 2020 was +0.18% (31 May 2019: +0.02%). The investment returns are calculated gross of fees using end of day pricing in order to be comparable with the index.

The historic tracking error of the investment return of the fund relative to the FTSE All-Share Index for the period ending 31 May 2020 was +0.24% (31 May 2019: +0.12%), which falls within the predicted tracking error range of 0.00% to 0.30%. Historic tracking error is a measure of the monthly volatility of the investment returns relative to the index over a 36 month period.

The differences are due to the fund not fully replicating the FTSE All-Share Index.

### Fund level performance

#### Fund net asset value

as at 31 May	2020 £'000	2019 £'000	2018 £'000
Fund net asset value (NAV)	446,907	511,085	555,306

### Performance since launch

To give an indication of how the fund has performed since launch, the chart below shows total return of Sterling Class 'A' (Accumulation) shares.



To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period. Calculated on a price to price basis with income reinvested.

#### Long-term performance by share class

	One year 03.06.19 % <sup>[a]</sup>	Three years 01.06.17 % p.a.	Five years 01.06.15 % p.a.	Since launch % p.a.
Sterling <sup>[b]</sup>				
Class 'A'	-9.2	-2.7	+1.3	+4.1 <sup>[c]</sup>
Class 'C'	-9.0	-2.5	+1.6	+5.3 <sup>[d]</sup>
Class 'I'	n/a	n/a	n/a	-13.1 <sup>[e]</sup>

<sup>[a]</sup> Absolute basis.

<sup>[b]</sup> Price to price with income reinvested.

<sup>[c]</sup> 27 February 1998, the launch date of the predecessor unit trust.

<sup>[d]</sup> 16 February 2012, the launch date of the share class.

<sup>[e]</sup> 6 December 2019, the launch date of the share class. Not annualised.

# M&G Index Tracker Fund

## Financial highlights

### Operating charges and portfolio transaction costs

We explain below the payments made to meet the ongoing costs of investing and managing the fund, comprising operating charges and portfolio transaction costs.

#### Operating charges

Operating charges include payments made to M&G and to providers independent of M&G:

- **Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge.  
For every £1 billion of a fund's net asset value, a discount of 0.02% will be applied to that fund's annual charge (up to a maximum of 0.12%).
- **Extraordinary legal and tax expenses:** Costs that specifically relate to legal or tax claims that are both exceptional and unforeseeable. Such expenses are uncommon, and would not be expected in most years. Although they result in a short-term cost to the fund, generally they can deliver longer term benefits for investors.
- **Investment management:** Charge paid to M&G for investment management of the fund. From 1 August 2019 this charge forms part of the annual charge.
- **Administration:** Charge paid for administration services in addition to investment management – any surplus from this charge will be retained by M&G. From 1 August 2019 this charge is rolled into the annual charge.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit. From 1 August 2019 these charges will be paid by M&G and rolled into the annual charge.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated. From 1 August 2019 charges from underlying funds (excluding Investment Trust Companies and Real Estate Investment Trusts) will be rebated.

The operating charges paid by each share class of the fund are shown in the following performance tables. These charges do not include portfolio transaction costs or any entry and exit charges (also known as initial and redemption charges). The charging structures of share classes may differ, and therefore the operating charges may differ.

Once the annual charge has been operational for twelve months, operating charges will be in line with the ongoing charges shown in the Key Investor Information Document, other than where

there have been extraordinary legal or tax expenses, or an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

#### Portfolio transaction costs

Portfolio transaction costs are incurred by funds when buying and selling investments. These costs vary depending on the types of investment, their market capitalisation, country of exchange and method of execution. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission and taxes.
- **Indirect portfolio transaction costs:** 'Dealing spread' – the difference between the buying and selling prices of the fund's investments; some types of investment, such as fixed interest securities, have no direct transaction costs and only the dealing spread is paid.

Investments are bought or sold by a fund when changes are made to the investment portfolio and in response to net flows of money into or out of the fund from investors buying and selling shares in the fund.

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. The table below shows direct portfolio transaction costs paid by the fund before and after that part of the dilution adjustment relating to direct portfolio transaction costs. To give an indication of the indirect portfolio dealing costs the table also shows the average portfolio dealing spread.

Further information on this process is in the Prospectus, which is available free of charge on request either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

#### Portfolio transaction costs

for the year to 31 May	2020	2019	2018	Average <sup>[a]</sup>
<b>Direct portfolio transaction costs<sup>[b]</sup></b>	%	%	%	%
Broker commission	0.00	0.00	0.00	0.00
Taxes	0.01	0.02	0.01	0.01
Costs before dilution adjustments	0.01	0.02	0.01	0.01
Dilution adjustments <sup>[c]</sup>	(0.01)	(0.01)	(0.01)	(0.01)
<b>Total direct portfolio transaction costs</b>	<b>0.00</b>	<b>0.01</b>	<b>0.00</b>	<b>0.00</b>

as at 31 May	2020	2019	2018	Average <sup>[a]</sup>
<b>Indirect portfolio transaction costs</b>	%	%	%	%
Average portfolio dealing spread	0.14	0.08	0.08	0.10

<sup>[a]</sup> Average of first three columns.

<sup>[b]</sup> As a percentage of average net asset value.

<sup>[c]</sup> In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.



# M&G Index Tracker Fund

## Financial highlights

### Specific share class performance

The following tables show the performance of each share class. All 'Performance and charges' percentages represent an annual rate except for the 'Return after operating charges' which is calculated as a percentage of the opening net asset value per share (NAV). 'Dilution adjustments' are only in respect of direct portfolio transaction costs.

Historic yields for the current year are calculated as at 5 June 2020.

#### Sterling Class 'A' Income share performance

The share class was launched on 27 February 1998. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	72.02	78.32	76.82
Return before operating charges and after direct portfolio transaction costs	(6.80)	(2.79)	4.86
Operating charges	(0.32)	(0.39)	(0.39)
Return after operating charges	(7.12)	(3.18)	4.47
Distributions	(2.60)	(3.12)	(2.97)
Closing NAV	62.30	72.02	78.32
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.01	0.00
Operating charges <sup>[c]</sup>	0.45	0.53	0.51
Return after operating charges	-9.89	-4.06	+5.82
Historic yield	3.99	4.24	3.80
Effect on yield of charges offset against capital	0.45	0.45	0.45
Other information			
Closing NAV (£'000)	239,284	278,978	317,266
Closing NAV percentage of total fund NAV (%)	53.54	54.58	57.13
Number of shares	384,103,152	387,350,474	405,091,821
Highest share price (UK p)	78.38	79.63	81.43
Lowest share price (UK p)	50.57	66.58	71.48

#### Sterling Class 'A' Accumulation share performance

The share class was launched on 27 February 1998. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	135.04	140.68	132.78
Return before operating charges and after direct portfolio transaction costs	(13.19)	(4.93)	8.58
Operating charges	(0.61)	(0.71)	(0.68)
Return after operating charges	(13.80)	(5.64)	7.90
Distributions	(4.30)	(5.06)	(4.59)
Retained distributions	4.30	5.06	4.59
Closing NAV	121.24	135.04	140.68
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.02	0.02
Dilution adjustments <sup>[a]</sup>	(0.02)	(0.02)	(0.02)
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.01	0.00
Operating charges <sup>[c]</sup>	0.45	0.53	0.51
Return after operating charges	-10.22	-4.01	+5.95
Historic yield	3.40	3.66	3.26
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	147,691	188,380	187,084
Closing NAV percentage of total fund NAV (%)	33.05	36.86	33.69
Number of shares	121,815,006	139,499,585	132,985,401
Highest share price (UK p)	150.01	143.03	143.40
Lowest share price (UK p)	96.78	122.00	125.88

#### Sterling Class 'C' Income share performance

Sterling Class 'C' shares are not generally available to all investors. The share class was launched on 16 February 2012. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	72.92	79.05	77.30
Return before operating charges and after direct portfolio transaction costs	(6.93)	(2.80)	4.90
Operating charges	(0.02)	(0.17)	(0.16)
Return after operating charges	(6.95)	(2.97)	4.74
Distributions	(2.63)	(3.16)	(2.99)
Closing NAV	63.34	72.92	79.05
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.01	0.00
Operating charges <sup>[c]</sup>	0.03	0.23	0.21
Return after operating charges	-9.53	-3.76	+6.13
Historic yield	3.98	4.23	3.79
Effect on yield of charges offset against capital	0.03	0.15	0.15
Other information			
Closing NAV (£'000)	36,635	43,727	50,956
Closing NAV percentage of total fund NAV (%)	8.20	8.56	9.18
Number of shares	57,836,584	59,968,236	64,457,378
Highest share price (UK p)	79.56	80.42	82.19
Lowest share price (UK p)	51.37	67.32	72.11

# M&G Index Tracker Fund

## Financial highlights

### Specific share class performance

#### Sterling Class 'I' Accumulation share performance

The share class was launched on 6 December 2019.			
for the year to 31 May	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	100.00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	(13.61)	n/a	n/a
Operating charges	(0.08)	n/a	n/a
Return after operating charges	(13.69)	n/a	n/a
Distributions	(1.26)	n/a	n/a
Retained distributions	1.26	n/a	n/a
Closing NAV	86.31	n/a	n/a
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	n/a	n/a
Dilution adjustments <sup>[a]</sup>	0.00	n/a	n/a
Total direct portfolio transaction costs	0.00	n/a	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	n/a	n/a
Operating charges	0.20	n/a	n/a
Return after operating charges	-13.69	n/a	n/a
Historic yield	3.64	n/a	n/a
Effect on yield of charges offset against capital	0.00	n/a	n/a
Other information			
Closing NAV (£'000)	23,297	n/a	n/a
Closing NAV percentage of total fund NAV (%)	5.21	n/a	n/a
Number of shares	26,992,420	n/a	n/a
Highest share price (UK p)	106.69	n/a	n/a
Lowest share price (UK p)	68.85	n/a	n/a

<sup>[a]</sup> In respect of direct portfolio transaction costs.

<sup>[b]</sup> As a percentage of average net asset value.

<sup>[c]</sup> Following the change in charging structure, you may see variances between the comparative and current year figures.

# M&G Index Tracker Fund

## Financial statements and notes

### Financial statements

#### Statement of total return

		2020	2019
for the year to 31 May	Note	£'000	£'000
Income			
Net capital gains / (losses)	3	(66,617)	(42,145)
Revenue	5	18,543	22,292
Expenses	6	(2,064)	(2,267)
Net revenue / (expense) before taxation		16,479	20,025
Taxation	7	(182)	(165)
Net revenue / (expense) after taxation		16,297	19,860
<b>Total return before distributions</b>		<b>(50,320)</b>	<b>(22,285)</b>
Distributions	8	(17,533)	(21,259)
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>(67,853)</b>	<b>(43,544)</b>

#### Statement of change in net assets attributable to shareholders

	2020	2019
for the year to 31 May	£'000	£'000
<b>Opening net assets attributable to shareholders</b>	<b>511,085</b>	<b>555,306</b>
Amounts received on issue of shares	53,261	27,067
Amounts paid on cancellation of shares	(55,697)	(34,808)
	(2,436)	(7,741)
Dilution adjustments	115	92
Change in net assets attributable to shareholders from investment activities (see above)	(67,853)	(43,544)
Retained distributions on Accumulation shares	5,995	6,970
Unclaimed distributions	1	2
<b>Closing net assets attributable to shareholders</b>	<b>446,907</b>	<b>511,085</b>

## M&G Index Tracker Fund

# Financial statements and notes

### Financial statements (continued)

#### Balance sheet

as at 31 May	Note	2020 £'000	2019 £'000
<b>Assets</b>			
<b>Fixed assets</b>			
Investments		441,377	506,502
<b>Current assets</b>			
Debtors	9	2,225	3,450
Cash and bank balances	10	875	1,344
Cash equivalents		8,626	8,094
<b>Total assets</b>		<b>453,103</b>	<b>519,390</b>
<b>Liabilities</b>			
Investment liabilities		0	(69)
<b>Creditors</b>			
Overdrawn positions at futures clearing houses and collateral manager		(910)	0
Distribution payable		(4,658)	(7,475)
Other creditors	11	(628)	(761)
<b>Total liabilities</b>		<b>(6,196)</b>	<b>(8,305)</b>
<b>Net assets attributable to shareholders</b>		<b>446,907</b>	<b>511,085</b>

## M&G Index Tracker Fund

# Financial statements and notes

### Notes to the financial statements

#### 1 Accounting policies

The financial statements have been prepared in accordance with the 'Summary of significant accounting policies' set out on pages 7 and 8.

#### 2 Distribution policy

In determining the amount available for distribution to Income shares, the annual charge, annual management charge and administration charge are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

Marginal tax relief has not been taken into account in respect of expenses offset against capital.

#### 3 Net capital gains / (losses)

	2020 £'000	2019 £'000
<b>for the year to 31 May</b>		
Non-derivative securities	(65,678)	(41,976)
Derivative contracts	(918)	(90)
Currency gains / (losses)	(21)	(74)
Transaction charges	0	(5)
<b>Net capital gains / (losses)</b>	<b>(66,617)</b>	<b>(42,145)</b>

#### 4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 74.

	2020 £'000	% of transaction	2019 £'000	% of transaction
<b>for the year to 31 May</b>				
<b>a) Purchases</b>				
<b>Equities</b>				
Equities before transaction costs	11,400		17,850*	
Commissions	4	0.03	4*	0.02
Taxes	48	0.42	80*	0.45
<b>Equities after transaction costs</b>	<b>11,452</b>		<b>17,934*</b>	
<b>Collective investment schemes</b>				
Collective investment schemes before transaction costs	1,220		1,567*	
Commissions	0	0.00	1*	0.06
Taxes	2	0.19	4*	0.26
<b>Collective investment schemes</b>	<b>1,222</b>		<b>1,572*</b>	
<b>Other transaction types</b>				
Corporate actions	132		775	
<b>Total purchases after transaction costs</b>	<b>12,806</b>		<b>20,281</b>	
<b>b) Sales</b>				
<b>Equities</b>				
Equities before transaction costs	11,275		22,078*	
Commissions	(1)	0.01	(5)*	0.02
<b>Equities after transaction costs</b>	<b>11,274</b>		<b>22,073*</b>	
<b>Collective investment schemes</b>	<b>333</b>		<b>797*</b>	
<b>Other transaction types</b>				
Corporate actions	2,653		4,908	
<b>Total sales after transaction costs</b>	<b>14,260</b>		<b>27,778</b>	
<b>c) Direct portfolio transaction costs</b>	<b>2020 £'000</b>	<b>% of average NAV</b>	<b>2019 £'000</b>	<b>% of average NAV</b>
<b>Commissions paid</b>				
Equities	5	0.00	9*	0.00
Collective investment schemes	0	0.00	1*	0.00
Derivatives	1	0.00	1*	0.00
<b>Total commissions paid</b>	<b>6</b>	<b>0.00</b>	<b>11</b>	<b>0.00</b>
<b>Taxes paid</b>				
Equities	48	0.01	80*	0.02
Collective investment schemes	2	0.00	4*	0.00
Derivatives	1	0.00	1*	0.00
<b>Total taxes paid</b>	<b>51</b>	<b>0.01</b>	<b>85*</b>	<b>0.02</b>
<b>Total direct portfolio transaction costs <sup>[a]</sup></b>	<b>57</b>	<b>0.01</b>	<b>96*</b>	<b>0.02</b>
<b>d) Indirect portfolio transaction costs</b>		<b>%</b>		<b>%</b>
Portfolio dealing spread <sup>[b]</sup>		0.14		0.08

\* Restated.

<sup>[a]</sup> Costs before dilution adjustments. Please refer to the 'Financial highlights' section for the effect of dilution adjustments.

<sup>[b]</sup> Average portfolio dealing spread at the balance sheet date.

## M&G Index Tracker Fund

# Financial statements and notes

### Notes to the financial statements

#### 5 Revenue

	2020	2019
for the year to 31 May	£'000	£'000
Bank interest	0	2
Derivative revenue	1	0
Dividends from equity investments: non-taxable	17,352	20,383
Dividends from equity investments: taxable	355	423
Interest distributions	46	31
Rebate of ongoing charges from underlying funds	3	0
Stock dividends	785	1,449
Underwriting commission	1	4
<b>Total revenue</b>	<b>18,543</b>	<b>22,292</b>

#### 6 Expenses

	2020	2019
for the year to 31 May	£'000	£'000
<b>Payable to the ACD or associate</b>		
Annual charge	1,683	0
Annual management charge <sup>[a]</sup>	242	1,432
Administration charge <sup>[a]</sup>	132	787
	2,057	2,219
<b>Payable to the Depositary or associate</b>		
Depositary's charge (including VAT) <sup>[a]</sup>	6	36
<b>Other expenses</b>		
Audit fee (including VAT) <sup>[a]</sup> <sup>[b]</sup>	1	9
Interest payable	0	2
Safe custody charge <sup>[a]</sup>	0	1
	1	12
<b>Total expenses</b>	<b>2,064</b>	<b>2,267</b>

<sup>[a]</sup> The segregated charges shown above for annual management, administration, depositary, audit and safe custody are those paid by the fund up to and including 31 July 2019. As of 1 August 2019 these charges have been replaced by the single annual charge.

<sup>[b]</sup> Audit fees for the financial year ending 2020 were £9,000 (including VAT).

#### 7 Taxation

	2020	2019
for the year to 31 May	£'000	£'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	0
Withholding tax	179	164
Prior year adjustment	3	1
Deferred tax (note 7c)	0	0
<b>Total taxation</b>	<b>182</b>	<b>165</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue / (expense) before taxation	16,479	20,025
Corporation tax at 20%	3,296	4,005
Effects of:		
Dividends from equity investments: non-taxable	(3,471)	(4,076)
Stock dividends not taxable	(146)	(290)
Current year expenses not utilised	321	361
Withholding tax	179	164
Prior year adjustment	3	1
<b>Total tax charge (note 7a)</b>	<b>182</b>	<b>165</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The fund has not recognised a deferred tax asset of £5,439,000 (2019: £5,118,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

#### 8 Distributions

	2020		2019	
for the year to 31 May	Inc <sup>[a]</sup>	Acc <sup>[b]</sup>	Inc <sup>[a]</sup>	Acc <sup>[b]</sup>
	£'000	£'000	£'000	£'000
<b>Dividend distributions</b>				
Interim	6,823	3,569	6,675	3,132
Final	4,658	2,426	7,475	3,838
<b>Total net distributions</b>		17,476		21,120
Income deducted on cancellation of shares		283		342
Income received on issue of shares		(226)		(203)
<b>Distributions</b>		<b>17,533</b>		<b>21,259</b>
<b>Net revenue / (expense) per statement of total return</b>				
		16,297		19,860
Expenses offset against capital		1,236		1,399
<b>Distributions</b>		<b>17,533</b>		<b>21,259</b>

<sup>[a]</sup> Distributions payable on Income shares.

<sup>[b]</sup> Retained distributions on Accumulation shares.

#### 9 Debtors

	2020	2019
as at 31 May	£'000	£'000
Amounts receivable on issues of shares	565	0
Debt security interest receivable	2	3
Distributions receivable	3	4
Dividends receivable	1,475	3,162
Sales awaiting settlement	0	147
Tax recoverable	2	4
Withholding tax recoverable	178	130
<b>Total debtors</b>	<b>2,225</b>	<b>3,450</b>

## M&G Index Tracker Fund

# Financial statements and notes

### Notes to the financial statements

#### 10 Cash and bank balances

	2020 £'000	2019 £'000
as at 31 May		
Amounts held at futures clearing houses and collateral manager	0	503
Cash held as bank balances	875	841
<b>Total cash and bank balances</b>	<b>875</b>	<b>1,344</b>

#### 11 Other creditors

	2020 £'000	2019 £'000
as at 31 May		
ACD's annual management charge payable	0	43
Administration charge payable	0	24
Amounts payable on cancellation of shares	504	569
Annual charge payable	53	0
Expenses payable	11	13
Purchases awaiting settlement	60	112
<b>Total other creditors</b>	<b>628</b>	<b>761</b>

#### 12 Contingent assets, liabilities and outstanding commitments

At the balance sheet date, the fund had a contingent liability of £258,000 (2019: £nil).

£230,000 in respect of 15,347 Whitbread nil paid shares resulting from a rights issue whereby, one nil paid share was issued for every 2 ordinary shares held. The nil paid shares may be exercised on 10 June 2020 at £15.00 per share.

£28,000 in respect of 40,399 Hyve nil paid shares resulting from a rights issue whereby, 9 nil paid shares were issued for every 4 ordinary shares held. The nil paid shares may be exercised on 12 June 2020 at £0.69 per share.

#### 13 Shares in issue

The following table shows each class of share in issue during the year. Each share class has the same rights on winding up however they may have different charging structures as set out in note 14.

Share class	Opening 01.06.19	Movements		Closing 31.05.20
		Issued	Cancelled	
<b>Sterling</b>				
Class 'A' Income	387,350,474	17,339,960	(20,587,282)	384,103,152
Sterling Class 'A' Accumulation	139,499,585	6,620,675	(24,305,254)	121,815,006
Class 'C' Income	59,968,236	3,878,334	(6,009,986)	57,836,584
Class 'T' Accumulation	0	28,740,820	(1,748,400)	26,992,420

#### 14 Charging structure

The table below sets out the charging structure for each class of share. The charging structure is the same for both Income and Accumulation shares of each class.

Share class	Entry charge %	Exit charge %	Annual charge <sup>[a]</sup> %
Sterling			
Class 'A'	n/a	n/a	0.45
Class 'C'	n/a	n/a	0.00
Class 'T'	n/a	n/a	0.20

<sup>[a]</sup> The amounts shown are the maximum annual charge. M&G will apply a discount of 0.02% for every £1 billion of a fund's net asset value. This is assessed quarterly and implemented on a forward basis no later than 13 business days after quarter end.

#### 15 Related parties

M&G Securities Limited, as Authorised Corporate Director (ACD), is a related party and acts as principal on all the transactions of shares in the fund except with in specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to shareholders' and note 8. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 9 and 11 where applicable.

Amounts paid to M&G Securities Limited in respect of the annual charge, ACD's annual management charge and administration charge are disclosed in note 6. Amounts due at the year end in respect of the annual charge are disclosed in note 11.

During the year, there were transactions with related parties of M&G Securities Limited with a total value of £nil (2019: £191,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £866,000 (2019: £9,284,000).

At the balance sheet date, shareholders from within M&G plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 10.41% (2019: 10.74%) of the fund's shares.

#### 16 Events after the balance sheet date

There were no events after the balance sheet date to disclose.

#### 17 Fair value analysis

Financial instruments have been measured at their fair value and have been classified below using a hierarchy that reflects the significance of the inputs used in measuring their fair value:

##### Level 1: Unadjusted quoted price in an active market for an identical instrument

This includes instruments such as publicly traded equities, highly liquid bonds (e.g. Government bonds) and exchange traded derivatives (e.g. futures) for which quoted prices are readily and regularly available.



## M&G Index Tracker Fund

# Financial statements and notes

### Notes to the financial statements

#### 17 Fair value analysis (continued)

##### Level 2: Valuation technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

##### Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights.

as at 31 May	Assets	Liabilities	Assets	Liabilities
Basis of valuation	2020	2020	2019	2019
	£'000	£'000	£'000	£'000
Level 1	441,376	0	506,474	(69)
Level 2	0	0	27	0
Level 3	1	0	1	0
	441,377	0	506,502	(69)

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 13 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

#### 18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 9 to 10.

#### 19 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by £22,069,000 (2019: £25,322,000). A five per cent decrease would have an equal and opposite effect.

#### 20 Currency risk sensitivity and exposure

Currency risk is not considered significant for the fund and is therefore not disclosed.

#### 21 Interest rate risk sensitivity and exposure

As the majority of the fund's financial assets are non-interest bearing, the risk is not considered significant and is therefore not disclosed.

#### 22 Credit risk

The tables below show the exposure to counterparties. Collateral is posted daily, in the form of cash or high-quality government bonds, to minimise this exposure.

as at 31 May 2020	Futures £'000
Bank of America Merrill Lynch	2,065
<b>Total</b>	<b>2,065</b>

as at 31 May 2019	Futures £'000
Bank of America Merrill Lynch	(69)
<b>Total</b>	<b>(69)</b>

#### 23 Dividend distribution tables

This fund pays semi-annual ordinary distributions and the following table sets out the distribution periods.

##### Semi-annual distribution periods

	Start	End	Xd	Payment
Interim	01.06.19	30.11.19	02.12.19	31.01.20
Final	01.12.19	31.05.20	01.06.20	31.07.20

The following tables set out for each distribution the rates per share for both Group 1 and Group 2 shares.

Group 1 shares are those purchased prior to a distribution period and therefore their income rate is the same as the distribution rate.

Group 2 shares are those purchased during a distribution period and therefore their distribution rate is made up of income and equalisation. Equalisation is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the income and equalisation components.

##### Sterling Class 'A' Income shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
Interim	0.9601	0.5845	1.5446	1.4552
Final	0.5447	0.5070	1.0517	1.6685

##### Sterling Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
Interim	1.1508	1.4401	2.5909	2.3127
Final	0.6221	1.0905	1.7126	2.7510

## M&G Index Tracker Fund

# Financial statements and notes

### Notes to the financial statements

#### 23 Dividend distribution tables (continued)

##### Sterling Class 'C' Income shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2	
	Income	Equalisation	Distribution	
	2020	2020	2020	2019
	UK p	UK p	UK p	UK p
Interim	1.2580	0.3053	1.5633	1.4699
Final	0.6166	0.4534	1.0700	1.6883

##### Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2	
	Income	Equalisation	Distribution	
	2020	2020	2020	2019
	UK p	UK p	UK p	UK p
Interim	n/a	n/a	n/a	n/a
Final	0.4600	0.7988	1.2588	n/a

## M&G Short Dated Corporate Bond Fund

# Authorised Corporate Director's Report

### Investment objective up to 22 March 2020

The fund aims to provide a total return (the combination of capital growth and income).

### Investment objective from 23 March 2020

The fund aims to provide a higher total return (the combination of capital growth and income), net of the ongoing charge figure, than that of the Markit iBoxx EUR Corporates 1-3 year Index (GBP Hedged) over any five-year period.

### Investment policy up to 22 March 2020

At least 80% of the fund is invested in investment grade corporate bonds (including variable rate securities and fixed income securities). The fund invests in securities which on aggregate produce a low portfolio duration, in order to limit the effect of interest rate movements on the fund's capital value. These securities may be issued anywhere in the world. The fund aims to hedge any non-GBP assets to GBP.

Derivatives can be used to meet the fund's investment objective and for efficient portfolio management.

The fund may also invest in other debt securities (including government and public securities denominated in any currency), collective investment schemes, other transferable securities, cash, near cash, other money market securities, warrants, and other derivative instruments.

### Investment policy from 23 March 2020

At least 80% of the fund is invested, directly or indirectly through derivatives, in short-dated investment grade fixed and floating rate corporate debt securities and in Asset-Backed Securities. These securities can be issued by companies from anywhere in the world, including Emerging Markets. These securities can be denominated in any currency.

Other investments may include:

- below investment grade and unrated corporate debt securities; and
- other transferable securities, cash, and near cash, directly or via collective investment schemes (including funds managed by M&G).

The fund aims to hedge any non-Sterling assets back to Sterling.

Derivatives may be used for investment purposes, efficient portfolio management and hedging.

### Investment approach up to 22 March 2020

The fund manager combines a top-down assessment of macroeconomic factors with a bottom-up approach to individual stock selection.

Duration is a measure of a bond's or a bond fund's sensitivity to changes in interest rates. Consequently, having a low portfolio duration means that the fund will be less affected by changes in interest rates than a corporate bond fund with a higher portfolio duration.

An in-house team of credit analysts assists the fund manager with individual credit selection along with the monitoring of the companies that issue the bonds held by the fund.

### Investment approach from 23 March 2020

The fund is diversified across a range of investment grade debt securities from a variety of sectors and geographies. The fund's investment approach is based on the principle that returns from corporate bond markets are driven by a combination of macroeconomic, asset class, sector, geographic and stock-level factors. As different factors dominate returns at different stages of the economic cycle, the fund manager applies a flexible investment approach, changing the blend of duration and credit exposure in the portfolio to weight them appropriately. The fund manager also maintains a low duration profile through the fund's bias towards short-dated corporate bonds, in order to limit the effect of interest rate movements on the fund's capital value.

Individual credit selection is carried out with the assistance of an in-house team of credit analysts to complement the fund manager's views.

### Benchmark up to 22 March 2020

Benchmark: Markit iBoxx EUR Corporates 1-3 year Index (GBP Hedged)

The fund is actively managed. The benchmark is a comparator against which the fund's performance can be measured. The index has been chosen as the fund's comparator benchmark as it best reflects the scope of the fund's investment policy. The comparator benchmark does not constrain the fund's portfolio construction.

For unhedged Share Classes, the benchmark is shown in the Share Class currency.

For currency hedged Share Classes, the benchmark is hedged to the Share Class currency.

### Benchmark from 23 March 2020

Benchmark: Markit iBoxx EUR Corporates 1-3 year Index (GBP Hedged)

The benchmark is a target which the fund seeks to outperform. The index has been chosen as the fund's benchmark as it best reflects the scope of the fund's investment policy. The benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction.

The fund is actively managed.

## M&G Short Dated Corporate Bond Fund

# Authorised Corporate Director's Report

### Benchmark from 23 March 2020 (continued)

The fund manager has complete freedom in choosing which investments to buy, hold and sell in the fund. The fund's holdings may deviate significantly from the benchmark's constituents.

For unhedged Share Classes, the benchmark is shown in the Share Class currency. For currency hedged Share Classes, the benchmark is hedged to the Share Class currency.

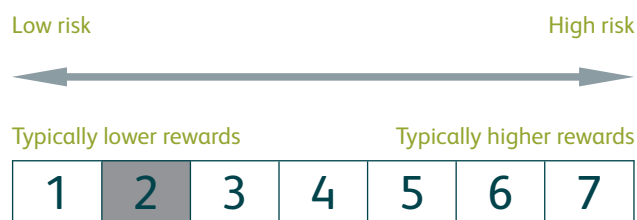
### Risk profile

The fund invests in a range of typically low-risk debt instruments, or bonds, that are typically repaid over three years. It is, therefore, subject to the price volatility of the global bond market as well as the performance of individual issuers. In addition, the fund is subject to fluctuations in currency exchange rates.

Debt securities with a short time until their final repayment date tend to be highly liquid, meaning that they can be easily bought or sold. The fund's exposure to debt securities may be gained through the use of derivatives. In association with the use of derivatives, including those instruments not traded through an exchange, collateral is deposited in order to mitigate the risk that a counterparty may default on its obligations or become insolvent.

Portfolio diversification is key in managing liquidity and default risks as well as reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

The following table shows the risk number associated with the fund and is based on Sterling Class 'A' shares.



The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has not changed during this period.

### Investment review

As at 1 June 2020, for the year ended 31 May 2020

#### Performance against objective

Between 3 June 2019 (the start of the review period) and 1 June 2020, the M&G Short Dated Corporate Bond Fund delivered a positive total return (the combination of income and growth of capital) across all share classes. The fund was ahead of its benchmark, the Markit iBoxx EUR Corporates 1-3 year Index (GBP Hedged), which returned 0.2% over the same period.

It is not possible to assess the fund's performance against its objective over five years as the Markit iBoxx EUR Corporates 1-3 year Index (GBP Hedged) was only introduced as the fund's benchmark on 13 March 2018.\*

\* For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Financial highlights' section of this report.

#### Investment performance

The start of the period under review saw a series of interest rate decisions from central banks in response to mounting uncertainties on the path of global economic growth. Both the Federal Reserve (Fed) and the European Central Bank (ECB) cut interest rates, while the Bank of England held rates (at 0.75%) although it did include 'lower for longer' language on the rising risk of a 'no deal' Brexit. Volatility continued too, driven by the prospect of the latter and, more significantly, concerns about the US economy. The US manufacturing sector showed signs of increasing weakness despite continued accommodative policy from the Fed. Oil prices spiked on rising tensions in the Middle East, which added to investor unease at the beginning of the period.

The final few months of 2019 were generally positive for investors more inclined to take positions in developing market equities and bonds and also lower-rated bonds issued by US companies. During the last quarter of 2019, investor appetite received a boost from strong signs of a resolution to US-China trade wars, Brexit on the cusp of clearing the final hurdle following a resounding victory for the pro-Brexit Conservative Party in December's UK general

## M&G Short Dated Corporate Bond Fund

# Authorised Corporate Director's Report

### Investment performance (continued)

election, and the Fed easing interest rates while announcing it would resume securities purchases to grow its balance sheet. The ECB resuming quantitative easing (in November) was an additional source of support for European credit.

Throughout the final quarter of last year, as risk-taking returned, government bond yields trended higher, while credit markets, especially US companies' bonds, rose. It was a more mixed period for European corporate bonds – loans taken out by companies in the form of securities – although emerging market bonds fared better, particularly in a strong October and December.

December was partly dominated by the UK general election, and most opinion polls indicated a comfortable win for the ruling Conservative Party and its pro-Brexit stance.

A promising start to 2020, with risky assets tracking strong growth and jobs data, had fallen away by the middle of January as investors retreated on the news of the coronavirus outbreak in China. By the end of January, traditional 'risk-off' favourites like government bonds, gold and the US dollar – the dollar index being one of the few assets in the currency space to deliver positive returns in the month – were seeing heavy inflows.

Expectations of a reduction in international travel and activity as a result of the virus outbreak resulted in oil prices suffering after they surged at the end of 2019 following increased tensions in the Middle East.

February began on a mildly positive note, as credit spreads – the difference between corporate bond yields and government bond yields – tightened. As the risk premium – the additional return investors require to hold assets considered to be riskier than traditionally safe ones like government bonds – attached to holding corporate bonds over government bonds was reduced, the market for bond issuance remained fairly active. But as the number of coronavirus cases increased across Europe, 'risk-off' sentiment returned to markets with a vengeance. With a significant widening in credit spreads, the last week of February was the worst for many markets since the global financial crisis.

Certain safe-haven assets rallied, such as the Japanese yen, US Treasuries, UK gilts and German bunds. Italian government bonds lost money, with Italy at the centre of the European outbreak.

March – especially – and April saw further confirmation that the coronavirus pandemic would lead to a severe stalling in economic activity worldwide, as governments imposed lockdowns to try to slow down the outbreak. Central banks cut interest rates and purchased debt issued by corporates in order to support the market. Many governments resorted to paying the wages of employees no longer able to work because of the lockdown, and by extending loans to businesses to bridge cashflow.

The fund's performance during the period under review was helped by holding shorter-dated corporate bonds issued by financial and industrial companies, while benefiting less from holding bonds issued by automobile companies. During this period, the fund preferred holding high-quality 'asset-backed securities' (ABS). ABS are bonds backed by assets including credit

card receivables, car loans or mortgages, whose creditworthiness is based on the underlying assets, rather than on the company that issued the bonds. Most ABS holdings are floating rate in nature and stand to benefit from rising interest rates through their variable rate coupons.

The fund is, by its very nature, less sensitive to changes in interest rates than those funds which invest in longer-dated corporate bonds (debt issues which are due to be repaid over relatively long periods). It therefore can typically perform well relative to funds which invest in longer-dated corporate bonds, while tending to benefit less than such funds from falling rates.

The fund's lack of sensitivity to interest rate changes was particularly supportive of performance in periods when we saw high levels of volatility, such as early 2020. It benefited less during more risk-friendly months in some of 2019.

### Investment activities

In order to ensure that the fund's value and ability to provide an income stream does not fluctuate significantly with changes in the economic cycle, we closely monitor the amount of interest rate risk and credit risk that we take.

Interest rate risk reflects the fact that when interest rates rise, the interest payments on conventional fixed rate bonds become less attractive to investors, causing their prices to fall. Bonds with less time until their maturity date (that is, short-dated bonds) tend to be less sensitive to changes in interest rates than longer-dated bonds because they have fewer interest payments ahead.

Credit risk refers to a borrower's creditworthiness, that is, the likelihood of a borrower failing to service a loan, or default. As with rising interest rates, if investors perceive that a bond issuer's credit risk has increased, this would also tend to weigh on corporate bond prices.

Broadly, we retain a positive outlook on corporate bonds. After corporate bonds experienced considerable weakness in the early stages of 2020, we started to see greater value in these assets once again, and looked to add credit risk back into the portfolio on an issuer-by-issuer basis. Holdings of investment grade corporate bonds represented close to 70% of total assets at the end of the period under review.

Throughout April and to the end of the period under review, we cautiously took advantage of some of the attractive valuations presented to us, while keeping liquidity and the defensive nature of the portfolio our paramount consideration. In this regard, portfolio holdings of 'risk-free' government bonds and cash ended the period at around 13% of total assets held.

We have also kept a sizeable exposure to ABS over the period, between 15-20% of the fund's net asset value. Most ABS holdings are floating rate in nature and stand to benefit from rising interest rates through their variable rate coupons.

Finally, the fund's global approach allows us to take advantage of further opportunities in primary and secondary bond markets.

## M&G Short Dated Corporate Bond Fund

# Authorised Corporate Director's Report

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### Outlook

The coronavirus pandemic has completely changed the global economic outlook in 2020, and makes the direction of travel hard to predict. Economies are likely to run at a fraction of their capacity for some time to come, but we have seen significant support from governments and central banks to help bridge the gap. Ultimately, the direction of bond markets depends mainly on shifting investor expectations of how long the world will take to return to normality. In this environment, we look to maintain a high-quality portfolio, while taking advantage of attractive asset prices where we believe we are overly compensated for the level of risk we are exposed to.

### Matthew Russell

#### Fund manager

An employee of M&G FA Limited (formerly M&G Limited) which is an associate of M&G Securities Limited.

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

# M&G Short Dated Corporate Bond Fund

## Authorised Corporate Director's Report

### Portfolio statement

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>FIXED INCOME</b>	<b>276,524</b>	<b>100.40</b>	<b>100.72</b>
	<b>Debt securities</b>	<b>276,356</b>	<b>100.34</b>	<b>100.74</b>
	<b>'AAA' credit rated bonds</b>	<b>43,437</b>	<b>15.77</b>	<b>13.68</b>
€12,824,968	Germany (Federal Republic of) 0% 08/10/2021	11,677	4.24	
€4,000,000	Holmes Master Issuer FRN 1.0977% 15/10/2054	3,983	1.45	
€1,146,840	Lanark Master Issuer FRN 1.0733% 22/12/2069	1,147	0.42	
€5,500,000	Permanent Master Issuer FRN 1.1077% 15/07/2058	5,485	1.99	
€2,457,015	Polaris 2019-1 FRN 1.3169% 27/04/2057	2,438	0.89	
€23,579	Precise Mortgage Funding 2015-1 FRN 1.4103% 12/03/2048	24	0.01	
€851,594	Precise Mortgage Funding 2020-1B FRN 0.9959% 16/10/2056	833	0.30	
€742,510	Residential Mortgage Securities No. 28 FRN 1.6368% 15/06/2046	742	0.27	
€592,267	Residential Mortgage Securities No. 30 FRN 1.3366% 20/03/2050	587	0.21	
€2,800,000	Santander FRN 0.6182% 12/02/2027	2,752	1.00	
€4,257,000	Silverstone Master Issuer FRN 1.01% 21/01/2070	4,236	1.54	
€1,109,488	THRONES 2015-1 FRN 1.7334% 18/03/2050	1,109	0.40	
€1,618,888	Towd Point Mortgage Funding 2019-Vantage2 FRN 1.4811% 20/02/2054	1,601	0.58	
€1,047,772	Trinity Square 2015-1 FRN 1.8178% 15/07/2051	1,046	0.38	
€2,255,000	Voya Euro CLO III FRN 0.92% 15/04/2033	1,969	0.71	
€3,809,004	Warwick Finance Residential Mortgages No. 2 FRN 2.0223% 21/09/2049	3,808	1.38	
	<b>'AA' credit rated bonds</b>	<b>40,970</b>	<b>14.88</b>	<b>15.77</b>
US\$3,000,000	Amazon.com 2.4% 22/02/2023	2,556	0.93	
US\$2,000,000	Apple 0.75% 11/05/2023	1,631	0.59	
US\$2,000,000	Apple 1.125% 11/05/2025	1,645	0.60	
€1,786,000	First Abu Dhabi Bank 1.375% 19/02/2023	1,766	0.64	
€4,257,000	Metropolitan Life Global Funding I 1.125% 15/12/2021	4,255	1.55	
€2,429,000	New York Life Global Funding 1.25% 17/12/2026	2,407	0.87	
€1,191,000	New York Life Global Funding 1.625% 15/12/2023	1,205	0.44	
€2,301,559	Paragon Mortgages No. 13 FRN 0.16% 15/01/2039	1,884	0.69	
US\$580,000	Shell International Finance 2.375% 06/04/2025	500	0.18	
€15,000,000	UK Treasury 0.125% 31/01/2023	15,046	5.46	
€8,000,000	UK Treasury 1.5% 22/01/2021	8,075	2.93	
	<b>'A' credit rated bonds</b>	<b>79,273</b>	<b>28.78</b>	<b>26.74</b>
€4,000,000	ABN AMRO Bank 1.375% 16/01/2025	3,986	1.45	
US\$3,406,000	Bank of America FRN 1.3109% 05/02/2026	2,663	0.97	
US\$5,109,000	Banque Fédérative du Crédit Mutuel 2.7% 20/07/2022	4,271	1.55	
€4,000,000	BMW International Investment 1.25% 11/07/2022	3,962	1.44	
US\$5,000,000	BNP Paribas 3.5% 01/03/2023	4,246	1.54	
€4,300,000	BPCE FRN 0.107% 23/03/2023	3,808	1.38	
US\$3,333,000	Bristol-Myers Squibb 2.55% 14/05/2021	2,761	1.00	
€3,058,000	CK Hutchison Group Telecom Finance 0.375% 17/10/2023	2,717	0.99	
US\$5,109,000	Comcast FRN 1.8734% 01/10/2021	4,157	1.51	
US\$1,703,000	Crédit Agricole FRN 2.0403% 24/04/2023	1,359	0.49	
€2,500,000	Dassault Systemes 0.01% 16/09/2022	2,239	0.81	
€6,000,000	Deutsche Pfandbriefbank 1.75% 21/11/2022	5,847	2.12	
€4,000,000	EssilorLuxottica 0.125% 27/05/2025	3,577	1.30	
€2,000,000	GlaxoSmithKline Capital FRN 0.207% 23/09/2021	1,804	0.66	
US\$1,622,000	Honeywell International 1.35% 01/06/2025	1,337	0.49	
US\$4,257,000	ING FRN 2.5246% 29/03/2022	3,450	1.25	
€4,000,000	International Business Machines 0.375% 31/01/2023	3,610	1.31	
US\$4,000,000	JPMorgan Chase Var. Rate 2.301% 15/10/2025	3,342	1.21	
US\$6,000,000	NatWest Markets 3.625% 29/09/2022	5,056	1.84	
US\$4,000,000	Oracle 2.5% 01/04/2025	3,456	1.25	
€1,303,000	PepsiCo 0.25% 06/05/2024	1,175	0.43	
€3,219,000	UBS FRN 0.292% 20/09/2022	2,884	1.05	
US\$5,000,000	US Bancorp 2.4% 30/07/2024	4,282	1.55	
US\$4,000,000	Wells Fargo Var. Rate 2.188% 30/04/2026	3,284	1.19	
	<b>'BBB' credit rated bonds</b>	<b>71,151</b>	<b>25.83</b>	<b>28.03</b>
€3,297,000	AA Bond 5.5% 31/07/2027	3,084	1.12	
€2,583,000	Altria 1% 15/02/2023	2,337	0.85	
€1,100,000	American International Var. Rate 1.241% 15/03/2037	814	0.30	
€2,500,000	Banco Bilbao Vizcaya Argentaria Var. Rate 1% 16/01/2030	2,078	0.75	
€4,600,000	Banco de Sabadell 0.875% 05/03/2023	3,988	1.45	
€2,750,000	Bank of America 5.5% 22/11/2021	2,896	1.05	
US\$4,000,000	Broadcom 3.15% 15/11/2025	3,346	1.21	
€2,129,000	Channel Link Enterprises Finance Var. Rate 1.761% 30/06/2050	1,899	0.69	



# M&G Short Dated Corporate Bond Fund

## Authorised Corporate Director's Report

### Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>FIXED INCOME (continued)</b>			
	<b>Debt securities (continued)</b>			
	<b>'BBB' credit rated bonds (continued)</b>			
£1,302,000	Citigroup 2.75% 24/01/2024	1,353	0.49	
US\$5,109,000	Credit Suisse Group Funding Guernsey 3.8% 15/09/2022	4,349	1.58	
US\$4,257,000	Daimler Finance North America 2.7% 03/08/2020	3,459	1.26	
US\$2,970,000	DuPont de Nemours 2.169% 01/05/2023	2,452	0.89	
£1,150,000	Fiserv 2.25% 01/07/2025	1,180	0.43	
€1,838,000	General Motors Financial 2.2% 01/04/2024	1,618	0.59	
US\$1,703,000	General Motors Financial FRN 2.8614% 14/01/2022	1,314	0.48	
€2,454,000	Goldman Sachs FRN 0.307% 21/04/2023	2,161	0.78	
€1,931,000	Harley-Davidson Financial Services 3.875% 19/05/2023	1,786	0.65	
£2,737,000	Hiscox 2% 14/12/2022	2,723	0.99	
£3,000,000	Imperial Brands Finance 9% 17/02/2022	3,347	1.21	
€1,222,000	Lloyds Banking Var. Rate 0.5% 12/11/2025	1,057	0.38	
£2,671,000	Lloyds Banking Var. Rate 1.875% 15/01/2026	2,633	0.96	
US\$5,000,000	Morgan Stanley FRN 0.7507% 20/01/2023	3,972	1.44	
US\$4,000,000	Nationwide Building Society Var. Rate 3.766% 08/03/2024	3,386	1.23	
€4,000,000	Signify 2% 11/05/2024	3,623	1.32	
US\$4,257,000	Société Générale 4.25% 14/09/2023	3,683	1.34	
£1,700,000	Tesco 6.125% 24/02/2022	1,831	0.66	
£568,000	Tesco Corporate Treasury Services 2.5% 02/05/2025	589	0.21	
£1,900,000	Volkswagen Financial Services 1.625% 30/11/2022	1,867	0.68	
£2,400,000	Volkswagen Financial Services 1.875% 03/12/2024	2,326	0.84	
	<b>'BB' credit rated bonds</b>	<b>7,087</b>	<b>2.57</b>	<b>2.87</b>
£2,000,000	Autostrade per l'Italia 6.25% 09/06/2022	2,020	0.73	
US\$2,899,000	Ford Motor 9% 22/04/2025	2,487	0.90	
£3,000,000	Ford Motor Credit 4.535% 06/03/2025	2,580	0.94	
	<b>Bonds with no credit rating</b>	<b>34,438</b>	<b>12.51</b>	<b>13.65</b>
US\$426,561	AASET Trust 2017-1 3.967% 16/05/2042	284	0.10	
£944,132	Albion No. 4 FRN 0.9735% 17/08/2062	941	0.34	
US\$2,213,000	Boubyan Sukuk 2.593% 18/02/2025	1,799	0.65	
£1,233,540	Brass No. 7 FRN 1.2715% 16/10/2059	1,228	0.45	
£1,021,968	Finsbury Square 2017-2 FRN 1.1403% 12/09/2065	1,020	0.37	
£1,413,309	Finsbury Square 2019-3 FRN 1.7215% 16/12/2069	1,399	0.51	
£1,756,225	Friary No. 6 FRN 0.9874% 21/11/2067	1,750	0.64	
£3,160,000	Gosforth Funding 2017-1 FRN 1.0804% 19/12/2059	3,134	1.14	
£3,427,611	Oat Hill No. 1 FRN 1.5449% 25/02/2046	3,394	1.23	
£1,953,000	PCL Funding II FRN 0.8901% 15/06/2022	1,952	0.71	
€5,500,000	Quadient 2.25% 03/02/2025	4,627	1.68	
US\$4,000,000	RIN II FRN 2.546% 10/09/2030	3,132	1.14	
£4,257,000	Skipton Building Society 1.75% 30/06/2022	4,260	1.55	
£2,171,320	Together Asset Backed Securitisation 2019-1 FRN 1.3533% 15/07/2061	2,152	0.78	
£1,861,072	Together Asset Backed Securitisation No. 1 FRN 1.3433% 12/03/2049	1,852	0.67	
£1,525,162	Tower Bridge Funding No. 3 FRN 1.7366% 20/12/2061	1,514	0.55	
	<b>Debt derivatives</b>	<b>168</b>	<b>0.06</b>	<b>(0.02)</b>
	<b>Credit default swaps</b>	<b>168</b>	<b>0.06</b>	<b>(0.02)</b>
US\$3,200,000	Ford Motor Jun 2025	(64)	(0.03)	
US\$(1,900,000)	Markit CDX North American High Yield Series 33 V3 4 Year Dec 2024	(35)	(0.01)	
€(10,000,000)	Markit iTraxx Europe Series 33 V1 5 Year Jun 2025	137	0.05	
€(3,400,000)	Markit iTraxx Europe Xover Series 32 V1 4 Year Dec 2024	130	0.05	
	<b>CURRENCY</b>	<b>(2,307)</b>	<b>(0.84)</b>	<b>(2.03)</b>
	<b>Forward currency contracts</b>	<b>(2,307)</b>	<b>(0.84)</b>	<b>(2.03)</b>
€(69,757,739)	Sold for £61,395,050 (expires 03.06.20)	(1,619)	(0.59)	
US\$6,606,594	Bought for £5,373,093 (expires 03.06.20)	(12)	0.00	
US\$(109,574,644)	Sold for £88,235,675 (expires 03.06.20)	(676)	(0.25)	
<b>Portfolio of investments</b>		<b>274,217</b>	<b>99.56</b>	<b>98.69</b>

## M&G Short Dated Corporate Bond Fund

# Authorised Corporate Director's Report

### Portfolio statement (continued)

as at 31 May		2020	2020	2019
Holding		£'000	%	%
	CASH EQUIVALENTS	1,572	0.57	3.77
	'AAA' rated money market funds <sup>[a]</sup>	1,572	0.57	3.77
1,572,000	Northern Trust Global Fund - Sterling	1,572	0.57	
Total portfolio (notes 2c & 2d on page 7)		275,789	100.13	102.46
Net other assets / (liabilities)		(357)	(0.13)	(2.46)
Net assets attributable to shareholders		275,432	100.00	100.00

All securities are on an official stock exchange listing except where referenced.

<sup>[a]</sup> Uncommitted surplus cash is placed into 'AAA' rated money market funds with the aim of reducing counterparty risk.

# M&G Short Dated Corporate Bond Fund

## Financial highlights

### Fund performance

Please note past performance is not a guide to future performance and the value of investments, and the income from them, will fluctuate. This will cause the fund price to fall as well as rise and you may not get back the original amount you invested.

The following charts and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Income) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be different. For more information on the different share classes in this fund please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

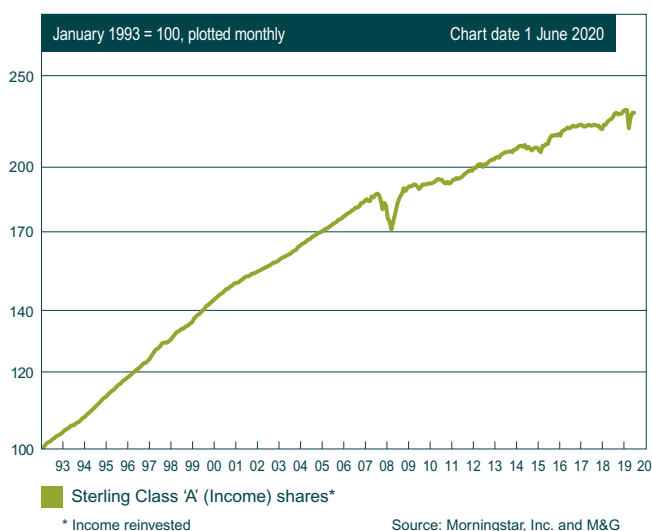
### Fund level performance

#### Fund net asset value

	2020	2019	2018
as at 31 May	£'000	£'000	£'000
Fund net asset value (NAV)	275,432	323,156	472,648

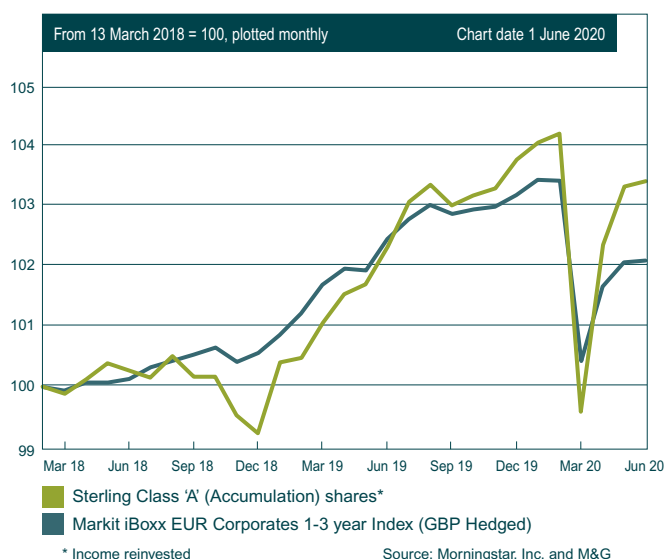
### Performance since launch

To give an indication of how the fund has performed since launch, the chart below shows total return of Sterling Class 'A' (Income) shares.



### Fund performance against the comparator benchmark

We are unable to show the fund's performance against the comparator benchmark from inception, as the fund was previously managed against a different comparator benchmark. Therefore, the graph below shows the performance of the fund from the period where the fund was managed against the Markit iBoxx EUR Corporates 1-3 year Index (GBP Hedged).



Please note, the comparator benchmark was introduced on 13 March 2018. Before this date, the fund was not managed with reference to the Markit iBoxx EUR Corporates 1-3 year Index (GBP Hedged).

To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period. Calculated on a price to price basis with income reinvested.

#### Long-term performance by share class

	One year 03.06.19 % <sup>[a]</sup>	Three years 01.06.17 % p.a.	Five years 01.06.15 % p.a.	Since launch % p.a.
Sterling <sup>[b]</sup>				
Class 'A'	+1.6	+1.3	+1.6	+3.1 <sup>[c]</sup>
Class 'I'	+1.7	+1.4	+1.7	+2.0 <sup>[d]</sup>
Class 'PP'	+1.9	n/a	n/a	+1.8 <sup>[e]</sup>

<sup>[a]</sup> Absolute basis.

<sup>[b]</sup> Price to price with income reinvested.

<sup>[c]</sup> 29 January 1993, the end of the initial offer period of the predecessor unit trust.

<sup>[d]</sup> 9 November 2012, the launch date of the share class.

<sup>[e]</sup> 8 April 2019, the launch date of the share class.

# M&G Short Dated Corporate Bond Fund

## Financial highlights

### Operating charges and portfolio transaction costs

We explain below the payments made to meet the ongoing costs of investing and managing the fund, comprising operating charges and portfolio transaction costs.

#### Operating charges

Operating charges include payments made to M&G and to providers independent of M&G:

- **Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge.  
For every £1 billion of a fund's net asset value, a discount of 0.02% will be applied to that fund's annual charge (up to a maximum of 0.12%).
- **Extraordinary legal and tax expenses:** Costs that specifically relate to legal or tax claims that are both exceptional and unforeseeable. Such expenses are uncommon, and would not be expected in most years. Although they result in a short-term cost to the fund, generally they can deliver longer term benefits for investors.
- **Investment management:** Charge paid to M&G for investment management of the fund. From 1 August 2019 this charge forms part of the annual charge.
- **Administration:** Charge paid for administration services in addition to investment management – any surplus from this charge will be retained by M&G. From 1 August 2019 this charge is rolled into the annual charge.
- **Share class hedging:** Charge paid to M&G for currency hedging services to minimise exchange rate risk for the share class. From 1 August 2019 this charge is rolled into the annual charge.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit. From 1 August 2019 these charges will be paid by M&G and rolled into the annual charge.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated. From 1 August 2019 charges from underlying funds (excluding Investment Trust Companies and Real Estate Investment Trusts) will be rebated.

The operating charges paid by each share class of the fund are shown in the following performance tables. These charges do not include portfolio transaction costs or any entry and exit charges (also known as initial and redemption charges). The charging structures of share classes may differ, and therefore the operating charges may differ.

Once the annual charge has been operational for twelve months, operating charges will be in line with the ongoing charges shown in the Key Investor Information Document, other than where there have been extraordinary legal or tax expenses, or an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

#### Portfolio transaction costs

Portfolio transaction costs are incurred by funds when buying and selling investments. These costs vary depending on the types of investment, their market capitalisation, country of exchange and method of execution. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission and taxes.
- **Indirect portfolio transaction costs:** 'Dealing spread' – the difference between the buying and selling prices of the fund's investments; some types of investment, such as fixed interest securities, have no direct transaction costs and only the dealing spread is paid.

Investments are bought or sold by a fund when changes are made to the investment portfolio and in response to net flows of money into or out of the fund from investors buying and selling shares in the fund.

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. As the fund invests mainly in fixed interest securities, the direct transaction costs paid on other investments are too small to be reflected in the table below. To give an indication of the indirect portfolio dealing costs the table shows the average portfolio dealing spread.

Further information on this process is in the Prospectus, which is available free of charge on request either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

#### Portfolio transaction costs

as at 31 May	2020	2019	2018	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.51	0.32	0.31	0.38

[a] Average of first three columns.

# M&G Short Dated Corporate Bond Fund

## Financial highlights

### Specific share class performance

The following tables show the performance of each share class. All 'Performance and charges' percentages represent an annual rate except for the 'Return after operating charges' which is calculated as a percentage of the opening net asset value per share (NAV). 'Dilution adjustments' are only in respect of direct portfolio transaction costs.

#### Sterling Class 'A' Income share performance

The share class was launched on 29 January 1993. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	25.47	25.63	25.86
Return before operating charges and after direct portfolio transaction costs	0.55	0.53	0.35
Operating charges	(0.13)	(0.13)	(0.16)
Return after operating charges	0.42	0.40	0.19
Distributions	(0.50)	(0.56)	(0.42)
Closing NAV	25.39	25.47	25.63
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	0.50	0.51	0.64
Return after operating charges	+1.65	+1.56	+0.73
Distribution yield	1.84	2.26	1.86
Effect on yield of charges offset against capital	0.50	0.50	0.62
Other information			
Closing NAV (£'000)	54,948	60,701	100,587
Closing NAV percentage of total fund NAV (%)	19.95	18.78	21.28
Number of shares	216,407,298	238,287,578	392,452,306
Highest share price (UK p)	25.91	25.78	26.07
Lowest share price (UK p)	24.40	25.13	25.67

#### Sterling Class 'I' Income share performance

The share class was launched on 9 November 2012. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	1,024.06	1,029.30	1,037.56
Return before operating charges and after direct portfolio transaction costs	21.80	21.69	13.99
Operating charges	(4.12)	(4.27)	(5.53)
Return after operating charges	17.68	17.42	8.46
Distributions	(19.98)	(22.66)	(16.72)
Closing NAV	1,021.76	1,024.06	1,029.30
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges <sup>[c]</sup>	0.40	0.42	0.53
Return after operating charges	+1.73	+1.69	+0.82
Distribution yield	1.84	2.26	1.86
Effect on yield of charges offset against capital	0.40	0.40	0.52
Other information			
Closing NAV (£'000)	220,240	262,435	273,833
Closing NAV percentage of total fund NAV (%)	79.96	81.21	57.94
Number of shares	21,554,835	25,626,979	26,603,691
Highest share price (UK p)	1,042.55	1,035.47	1,046.19
Lowest share price (UK p)	981.80	1,009.67	1,030.88

#### Sterling Class 'I' Accumulation share performance

The share class was launched on 15 May 2020. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	100.00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	0.37	n/a	n/a
Operating charges	(0.02)	n/a	n/a
Return after operating charges	0.35	n/a	n/a
Distributions	(0.05)	n/a	n/a
Retained distributions	0.05	n/a	n/a
Closing NAV	100.35	n/a	n/a
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	n/a	n/a
Dilution adjustments <sup>[a]</sup>	0.00	n/a	n/a
Total direct portfolio transaction costs	0.00	n/a	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	n/a	n/a
Operating charges	0.40	n/a	n/a
Return after operating charges	+0.35	n/a	n/a
Distribution yield	0.00	n/a	n/a
Effect on yield of charges offset against capital	0.00	n/a	n/a
Other information			
Closing NAV (£'000)	20	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0.01	n/a	n/a
Number of shares	20,000	n/a	n/a
Highest share price (UK p)	100.79	n/a	n/a
Lowest share price (UK p)	100.00	n/a	n/a

# M&G Short Dated Corporate Bond Fund

## Financial highlights

### Specific share class performance

#### Sterling Class 'PP' Income share performance

The share class was launched on 5 August 2019. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	100.00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	0.87	n/a	n/a
Operating charges	(0.25)	n/a	n/a
Return after operating charges	0.62	n/a	n/a
Distributions	(1.91)	n/a	n/a
Closing NAV	98.71	n/a	n/a
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	n/a	n/a
Dilution adjustments <sup>[a]</sup>	0.00	n/a	n/a
Total direct portfolio transaction costs	0.00	n/a	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	n/a	n/a
Operating charges	0.30	n/a	n/a
Return after operating charges	+0.62	n/a	n/a
Distribution yield	1.84	n/a	n/a
Effect on yield of charges offset against capital	0.30	n/a	n/a
Other information			
Closing NAV (£'000)	187	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0.07	n/a	n/a
Number of shares	188,978	n/a	n/a
Highest share price (UK p)	100.69	n/a	n/a
Lowest share price (UK p)	94.84	n/a	n/a

#### Sterling Class 'PP' Accumulation share performance

The share class was launched on 8 April 2019. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	100.13	100.00	n/a
Return before operating charges and after direct portfolio transaction costs	2.13	0.18	n/a
Operating charges	(0.30)	(0.05)	n/a
Return after operating charges	1.83	0.13	n/a
Distributions	(1.67)	(0.57)	n/a
Retained distributions	1.67	0.57	n/a
Closing NAV	101.96	100.13	n/a
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.04	0.00	n/a
Dilution adjustments <sup>[a]</sup>	0.00	0.00	n/a
Total direct portfolio transaction costs	0.04	0.00	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	n/a
Operating charges <sup>[c]</sup>	0.30	0.30	n/a
Return after operating charges	+1.83	+0.13	n/a
Distribution yield	1.54	1.95	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV (£'000)	37	20	n/a
Closing NAV percentage of total fund NAV (%)	0.01	0.01	n/a
Number of shares	36,359	20,000	n/a
Highest share price (UK p)	103.16	100.36	n/a
Lowest share price (UK p)	97.48	99.67	n/a

<sup>[a]</sup> In respect of direct portfolio transaction costs.

<sup>[b]</sup> As a percentage of average net asset value.

<sup>[c]</sup> Following the change in charging structure, you may see variances between the comparative and current year figures.

# M&G Short Dated Corporate Bond Fund

## Financial statements and notes

### Financial statements

#### Statement of total return

		2020		2019	
for the year to 31 May	Note	£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		(112)		(320)
Revenue	5	5,922		8,573	
Expenses	6	(1,282)		(1,797)	
Net revenue / (expense) before taxation		4,640		6,776	
Taxation	7	0		(5)	
Net revenue / (expense) after taxation			4,640		6,771
<b>Total return before distributions</b>			<b>4,528</b>		<b>6,451</b>
Distributions	8		(5,907)		(8,267)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(1,379)</b>		<b>(1,816)</b>

#### Statement of change in net assets attributable to shareholders

		2020		2019	
for the year to 31 May		£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>			<b>323,156</b>		<b>472,648</b>
Amounts received on issue of shares	45,612			50,221	
Amounts paid on cancellation of shares	(92,182)			(136,495)	
Transfer to M&G (Lux) Short Dated Corporate Bond Fund	0			(62,094)	
			(46,570)		(148,368)
Dilution adjustments			223		249
Change in net assets attributable to shareholders from investment activities (see above)			(1,379)		(1,816)
Retained distributions on Accumulation shares			0		441
Unclaimed distributions			2		2
<b>Closing net assets attributable to shareholders</b>			<b>275,432</b>		<b>323,156</b>



## M&G Short Dated Corporate Bond Fund

# Financial statements and notes

### Financial statements (continued)

#### Balance sheet

as at 31 May	Note	2020 £'000	2019 £'000
<b>Assets</b>			
<b>Fixed assets</b>			
Investments		276,623	325,957
<b>Current assets</b>			
Debtors	9	1,419	1,773
Cash and bank balances	10	508	157
Cash equivalents		1,572	12,190
<b>Total assets</b>		<b>280,122</b>	<b>340,077</b>
<b>Liabilities</b>			
Investment liabilities		(2,406)	(7,037)
<b>Creditors</b>			
Bank overdrafts		0	(7,295)
Overdrawn positions at futures clearing houses and collateral manager		(68)	0
Distribution payable		(1,341)	(1,986)
Other creditors	11	(875)	(603)
<b>Total liabilities</b>		<b>(4,690)</b>	<b>(16,921)</b>
<b>Net assets attributable to shareholders</b>		<b>275,432</b>	<b>323,156</b>

# M&G Short Dated Corporate Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 1 Accounting policies

The financial statements have been prepared in accordance with the 'Summary of significant accounting policies' set out on pages 7 and 8.

#### 2 Distribution policy

In determining the amount available for distribution to Income shares, the annual charge, annual management charge, administration charge and share class hedging are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

Marginal tax relief has not been taken into account in respect of expenses offset against capital.

#### 3 Net capital gains / (losses)

	2020	2019
for the year to 31 May	£'000	£'000
Non-derivative securities	3,131	7,956
Derivative contracts	(504)	(8,578)
Currency gains / (losses)	(2,738)	306
Transaction charges	(1)	(4)
<b>Net capital gains / (losses)</b>	<b>(112)</b>	<b>(320)</b>

#### 4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 92.

	2020	2019
for the year to 31 May	£'000	£'000
<b>a) Purchases</b>		
Debt securities <sup>[a]</sup>	254,235	190,272
<b>b) Sales</b>		
Debt securities <sup>[a]</sup>	301,862	341,298
<b>Other transaction types</b>		
Corporate actions	4,122	3,636
<b>Total sales after transaction costs</b>	<b>305,984</b>	<b>344,934</b>
<b>c) Indirect portfolio transaction costs</b>	<b>%</b>	<b>%</b>
Portfolio dealing spread <sup>[b]</sup>	0.51	0.32

<sup>[a]</sup> These transaction types do not attract direct portfolio transaction costs.

<sup>[b]</sup> Average portfolio dealing spread at the balance sheet date.

#### 5 Revenue

	2020	2019
for the year to 31 May	£'000	£'000
Bank interest	3	8
Derivative revenue	225	254
Interest distributions	34	53
Interest on debt securities	5,657	8,258
Rebate of ongoing charges from underlying funds	3	0
<b>Total revenue</b>	<b>5,922</b>	<b>8,573</b>

#### 6 Expenses

	2020	2019
for the year to 31 May	£'000	£'000
<b>Payable to the ACD or associate</b>		
Annual charge	1,044	0
Annual management charge <sup>[a]</sup>	143	1,148
Administration charge <sup>[a]</sup>	80	584
Share class hedging charge <sup>[a]</sup>	0	7
	1,267	1,739
<b>Payable to the Depositary or associate</b>		
Depositary's charge (including VAT) <sup>[a]</sup>	4	28
<b>Other expenses</b>		
Audit fee (including VAT) <sup>[a] [b]</sup>	2	11
Interest payable	8	4
Safe custody charge <sup>[a]</sup>	1	15
	11	30
<b>Total expenses</b>	<b>1,282</b>	<b>1,797</b>

<sup>[a]</sup> The segregated charges shown above for annual management, administration, share class hedging, depositary, audit and safe custody are those paid by the fund up to and including 31 July 2019. As of 1 August 2019 these charges have been replaced by the single annual charge.

<sup>[b]</sup> Audit fees for the financial year ending 2020 were £11,000 (including VAT).

#### 7 Taxation

	2020	2019
for the year to 31 May	£'000	£'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	0
Withholding tax	0	5
Deferred tax (note 7c)	0	0
<b>Total taxation</b>	<b>0</b>	<b>5</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue / (expense) before taxation	4,640	6,776
Corporation tax at 20%	928	1,355
<b>Effects of:</b>		
Interest distributions	(928)	(1,355)
Withholding tax	0	5
<b>Total tax charge (note 7a)</b>	<b>0</b>	<b>5</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The fund has not recognised a deferred tax asset in the current financial year (2019: same).

# M&G Short Dated Corporate Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 8 Distributions

for the year to 31 May	2020		2019	
	Inc <sup>[a]</sup>	Acc <sup>[b]</sup>	Inc <sup>[a]</sup>	Acc <sup>[b]</sup>
Interest distributions	£'000	£'000	£'000	£'000
First interim	1,646	0 <sup>[c]</sup>	1,759	322
Second interim	1,379	0 <sup>[c]</sup>	1,917	119
Third interim	1,392	0 <sup>[c]</sup>	1,878	0 <sup>[c]</sup>
Final	1,341	0 <sup>[c]</sup>	1,986	0 <sup>[c]</sup>
Total net distributions		5,758		7,981
Income deducted on cancellation of shares		251		366
Income received on issue of shares		(102)		(80)
<b>Distributions</b>		<b>5,907</b>		<b>8,267</b>
Net revenue / (expense) per statement of total return		4,640		6,771
Expenses offset against capital		1,267		1,496
<b>Distributions</b>		<b>5,907</b>		<b>8,267</b>

<sup>[a]</sup> Distributions payable on Income shares.

<sup>[b]</sup> Retained distributions on Accumulation shares.

<sup>[c]</sup> Distribution is less than £1,000.

#### 9 Debtors

	2020	2019
as at 31 May	£'000	£'000
Debt security interest receivable	1,356	1,694
Derivative revenue receivable	62	62
Distributions receivable	1	4
Sales awaiting settlement	0	13
<b>Total debtors</b>	<b>1,419</b>	<b>1,773</b>

#### 10 Cash and bank balances

	2020	2019
as at 31 May	£'000	£'000
Amounts held at futures clearing houses and collateral manager	68	0
Cash held as bank balances	440	157
<b>Total cash and bank balances</b>	<b>508</b>	<b>157</b>

#### 11 Other creditors

	2020	2019
as at 31 May	£'000	£'000
ACD's annual management charge payable	0	27
Administration charge payable	0	15
Amounts payable on cancellation of shares	828	542
Annual charge payable	35	0
Expenses payable	12	19
<b>Total other creditors</b>	<b>875</b>	<b>603</b>

#### 12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2019: same).

#### 13 Shares in issue

The following table shows each class of share in issue during the year. Each share class has the same rights on winding up however they may have different charging structures as set out in note 14.

Share class	Opening 01.06.19	Movements		Closing 31.05.20
		Issued	Cancelled	
<b>Sterling</b>				
Class 'A' Income	238,287,578	13,403,381	(35,283,661)	216,407,298
Class 'T' Income	25,626,979	4,059,104	(8,131,248)	21,554,835
Class 'T' Accumulation	0	20,000	0	20,000
Class 'PP' Income	0	214,242	(25,264)	188,978
Class 'PP' Accumulation	20,000	16,359	0	36,359

#### 14 Charging structure

The table below sets out the charging structure for each class of share. The charging structure is the same for both Income and Accumulation shares of each class.

Share class	Entry charge %	Exit charge %	Annual charge <sup>[a]</sup> %
<b>Sterling</b>			
Class 'A'	n/a	n/a	0.50
Class 'T'	n/a	n/a	0.40
Class 'PP'	n/a	n/a	0.30

<sup>[a]</sup> The amounts shown are the maximum annual charge. M&G will apply a discount of 0.02% for every £1 billion of a fund's net asset value. This is assessed quarterly and implemented on a forward basis no later than 13 business days after quarter end.

#### 15 Related parties

M&G Securities Limited, as Authorised Corporate Director (ACD), is a related party and acts as principal on all the transactions of shares in the fund except with in specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to shareholders' and note 8. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 9 and 11 where applicable.

Amounts paid to M&G Securities Limited in respect of the annual charge, ACD's annual management charge, administration charge and share class hedging charge are disclosed in note 6. Amounts due at the year end from the annual charge are disclosed in note 11.

At the balance sheet date, shareholders from within M&G plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 20.27% (2019: 18.57%) of the fund's shares.

#### 16 Events after the balance sheet date

There were no events after the balance sheet date to disclose.

# M&G Short Dated Corporate Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 17 Fair value analysis

Financial instruments have been measured at their fair value and have been classified below using a hierarchy that reflects the significance of the inputs used in measuring their fair value:

##### Level 1: Unadjusted quoted price in an active market for an identical instrument

This includes instruments such as publicly traded equities, highly liquid bonds (e.g. Government bonds) and exchange traded derivatives (e.g. futures) for which quoted prices are readily and regularly available.

##### Level 2: Valuation technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

##### Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

as at 31 May	Assets 2020	Liabilities 2020	Assets 2019	Liabilities 2019
Basis of valuation	£'000	£'000	£'000	£'000
Level 1	34,798	0	25,785	0
Level 2	241,825	(2,406)	300,172	(7,037)
Level 3	0	0	0	0
	276,623	(2,406)	325,957	(7,037)

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 13 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

#### 18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 9 to 10.

#### 19 Market risk sensitivity and exposure

VaR is the risk measurement methodology used to assess the fund's leverage and market risk volatility. When VaR is calculated as a percentage of the net asset value it may not be greater than the VaR limit set for the fund.

The VaR limit set during the financial year to 31 May 2020 was 11% (2019: 3%).

The lowest, highest and average VaR, as well as utilisation of VaR with reference to the limit above, are calculated during the financial years ended 31 May 2020 and 31 May 2019.

	2020 % of VaR	2020 Utilisation of VaR [a]	2019 % of VaR	2019 Utilisation of VaR [a]
for the year to 31 May		11%		3%
Lowest	0.33	3.00	0.37	12.37
Highest	4.23	38.45	0.61	20.31
Average	4.44	40.39	0.46	15.33

[a] The VaR on the fund has been divided by its maximum limit.

#### 20 Credit risk

The fund is exposed to credit risk both through the credit quality of the investments it holds and through the derivative positions with counterparties. The table below shows the credit quality of the investments held in the portfolio.

	2020 £'000	2019 £'000
as at 31 May		
Investment grade securities	234,831	272,182
Below investment grade securities	7,087	9,265
Unrated securities	34,438	44,101
Other investments	(2,139)	(6,628)
Total	274,217	318,920

The tables below show the exposure to counterparties. Collateral is posted daily, in the form of cash or high-quality government bonds, to minimise this exposure.

	Swaps £'000	Forward currency contracts £'000
as at 31 May 2020		
Bank of America Merrill Lynch	0	(18)
Barclays Bank	0	(123)
BNP Paribas	137	0
Citigroup	0	6
Goldman Sachs	(64)	0
HSBC	0	(676)
JPMorgan	95	(36)
National Australia Bank	0	(3)
Standard Chartered Bank	0	(30)
State Street Bank	0	(1,427)
Total	168	(2,307)

# M&G Short Dated Corporate Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 20 Credit risk (continued)

as at 31 May 2019	Swaps £'000	Forward currency contracts £'000
Barclays Bank	96	(10)
BNP Paribas	(372)	(204)
Goldman Sachs	19	0
HSBC	0	(2,228)
JPMorgan	183	(4,147)
State Street Bank	0	35
<b>Total</b>	<b>(74)</b>	<b>(6,554)</b>

#### 21 Leverage risk

Funds using VaR approaches are required to disclose the level of leverage employed during the financial reporting period.

Derivatives can be used by the fund to generate market exposure to investments exceeding the net asset value. As a result of this exposure, the size of any positive or negative movement in markets may have a more significant effect on the net asset value of the fund.

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 31 May 2020 and 31 May 2019 are disclosed in the table below.

	2020 <sup>[a]</sup> £'000	2020 <sup>[a]</sup> % <sup>[b]</sup>	2019 <sup>[a]</sup> £'000	2019 <sup>[a]</sup> % <sup>[b]</sup>
<b>for the year to 31 May</b>				
Lowest	159,315	50.60	194,433	58.00
Highest	578,571	185.20	860,911	186.00
Average	232,351	76.60	278,471	72.00

<sup>[a]</sup> Leverage has been calculated using the Gross Sum of Notional Approach for derivative positions only (including forward currency contracts) and excludes all physical holdings.

<sup>[b]</sup> Expressed as a percentage over fund valuation.

#### 22 Interest distribution tables

This fund pays quarterly interest distributions and the following table sets out the distribution periods.

##### Quarterly distribution periods

	Start	End	Xd	Payment
First interim	01.06.19	31.08.19	02.09.19	31.10.19
Second interim	01.09.19	30.11.19	02.12.19	31.01.20
Third interim	01.12.19	29.02.20	02.03.20	30.04.20
Final	01.03.20	31.05.20	01.06.20	31.07.20

The following tables set out for each distribution the rates per share for both Group 1 and Group 2 shares.

Group 1 shares are those purchased prior to a distribution period and therefore their income rate is the same as the distribution rate.

Group 2 shares are those purchased during a distribution period and therefore their distribution rate is made up of income and equalisation. Equalisation is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital.

Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the income and equalisation components.

##### Sterling Class 'A' Income shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	0.0517	0.0830	0.1347	0.1250
Second interim	0.0557	0.0664	0.1221	0.1379
Third interim	0.0556	0.0608	0.1164	0.1442
Final	0.0612	0.0625	0.1237	0.1567

##### Sterling Class 'I' Income shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	2.0096	3.4044	5.4140	5.0249
Second interim	2.3785	2.5236	4.9021	5.5386
Third interim	2.2637	2.4264	4.6901	5.8014
Final	3.2022	1.7746	4.9768	6.2944

##### Sterling Class 'I' Accumulation shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	n/a	n/a	n/a	n/a
Second interim	n/a	n/a	n/a	n/a
Third interim	n/a	n/a	n/a	n/a
Final	0.0259	0.0266	0.0525	n/a

##### Sterling Class 'PP' Income shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	0.0278	0.4786	0.5064	n/a
Second interim	0.1895	0.2839	0.4734	n/a
Third interim	0.3324	0.1200	0.4524	n/a
Final	0.1535	0.3276	0.4811	n/a

##### Sterling Class 'PP' Accumulation shares

Interest distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	0.0044	0.4557	0.4601	n/a
Second interim	0.2712	0.1349	0.4061	n/a
Third interim	0.0219	0.3653	0.3872	n/a
Final	0.1251	0.2918	0.4169	0.5700

## M&G UK Income Distribution Fund

# Authorised Corporate Director's Report

### Investment objective

The fund aims to increase income distributions over time and targets a yield greater than that of the FTSE All-Share Index. Although income will be the primary consideration, the investment manager will also aim for capital growth.

### Investment policy

At least 70% of the fund will be invested in UK equities. Exposure to UK equities may be gained by investing in other collective investment schemes.

The fund focuses on good-quality but undervalued stocks that offer a higher income than the FTSE All-Share Index by identifying those companies that exhibit the following qualities: strong business operations, good cash flows and attractive dividend growth prospects.

The fund may also invest in sterling-denominated fixed income securities.

Cash and near cash may be held for ancillary purposes and derivatives may be used for efficient portfolio management and hedging purposes.

### Investment approach

The M&G UK Income Distribution Fund is managed to provide investors with a high income through a portfolio of UK equities and high quality corporate bonds (in order to aid income generation). The fund targets a yield that is higher than that of the FTSE All-Share Index. Although this gives the fund a bias towards the higher yielding sectors of the market, it aims to have a broadly diversified portfolio within these yield constraints.

The equity component of the fund has a bias towards good value, out of favour stocks. Good quality investments are selected from the available universe of higher yielding equities by identifying those companies that exhibit the following qualities: strong business franchise, good cashflow characteristics and attractive dividend growth prospects.

Stocks will generally be sold if these criteria no longer apply, but the specific sell discipline is triggered by over-valuation, falling yield or better opportunities elsewhere.

The fixed income exposure will be comprised of issues chosen for high quality and broad diversification. Corporate bonds are typically favoured versus the risk-free rate (as proxied by gilts in the long term) in pursuit of income.

### Benchmark

The target benchmark and comparator benchmark do not constrain the fund's portfolio construction.

- Target:

Yield: FTSE All-Share Index

The benchmark is a target which the fund seeks to outperform. The target yield has been chosen as it is an achievable target given the fund's investment policy.

- Comparator:

Total return: 70% FTSE All-Share Index, 30% FTSE Actuaries UK Conventional Gilts All Stocks Index

The benchmark is a comparator against which the fund's performance can be measured. The composite index has been chosen as the fund's benchmark as it best reflects the scope of the fund's investment policy.

The fund is actively managed.

The fund manager has complete freedom in choosing which assets to buy, hold and sell in the fund within the constraints set by the objective and investment policy.

The fund's holdings may deviate significantly from the benchmark's constituents.

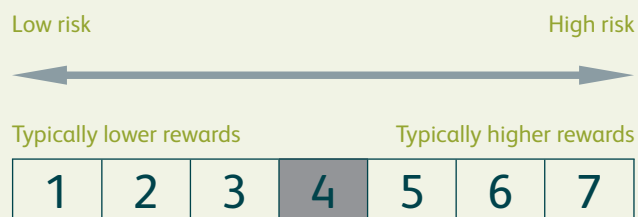
For unhedged Share Classes, the benchmark is shown in the Share Class currency.

### Risk profile

The fund invests mainly in the shares of UK-listed companies. It is also invested in high-quality, sterling-denominated fixed income securities, or bonds. The fund is, therefore, subject to the price volatility of the global bond and stockmarkets as well as the performance of individual companies. The fund is also subject to fluctuations in currency exchange rates. The fund has a bias towards the higher yielding sectors of the market, although it seeks to have a broadly diversified portfolio at the same time. Income distributions from the fund's holdings, however, are not guaranteed and may vary.

Diversification across industries and company sizes is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

The following table shows the risk number associated with the fund and is based on Sterling Class 'A' shares.



The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has not changed during this period.

## M&G UK Income Distribution Fund

# Authorised Corporate Director's Report

### Investment review

As at 1 June 2020, for the year ended 31 May 2020

#### Performance against objective

The fund did not achieve the objective of growing its income over the 12-month review period. However, as at 1 June 2020, the 5.14% yield on the fund's Sterling Class 'A' (Income) shares\* was 9.8% above the broad market FTSE All-Share Index yield of 4.68%, meeting the fund's target to exceed the index yield.

Two quarterly distributions of 6.60p per Sterling Class 'A' (Income) share were declared in respect of the first half of the review period, followed by a third quarterly distribution of 6.60p, and a final quarterly distribution of 13.09p in respect of the second half of the review period. The fund's total distribution over the year of 32.89p represents a decrease of 11.4% on the corresponding period last year. This compares with a 15.3% decline in the average dividend growth of the FTSE All-Share Index over the same period. The latest annual inflation rate, as measured by the Retail Prices Index (RPI), was 1% in May, while on the Consumer Prices Index (CPI) measure it was 0.5%.

Between 3 June 2019 (the start of the review period) and 1 June 2020, the fund registered a negative total return of around -8.0% (the combination of income and growth of capital) across all of its share classes.\* The fund's performance reflected the overall trend in UK markets (shares declined, but bonds recorded solid progress over the period), ending the 12-months behind the negative return of -3.3% by its benchmark, a composite index that comprises two-thirds the FTSE All-Share Index and one third the FTSE Actuaries UK Conventional Gilts All Stocks Index.

\* For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Financial highlights' section of this report.

#### Investment performance

Like other global markets, the UK stockmarket experienced a painful 12 months as COVID-19 extended its spread worldwide, leading to a significant slowdown in economic activity and the onset of a recession.

The first half of the reporting period had seen global equity markets mostly make solid progress. They were encouraged by interest rate cuts and the commencement of quantitative easing programmes in the US and Europe in response to market volatility and worries about slowing growth. There was also increased optimism about a US-China trade deal and some improvement in global economic data. As a result, many global equity indices were near or at all-time records at the end of 2019, led by the US. UK equities lagged, however, as Brexit and political uncertainty weighed on sterling, deterring investors in the domestic market. However, the market and the currency started to recover some risk appetite from October 2019 after new prime minister Boris Johnson secured an exit deal with the European Union (EU) and went on to win a decisive victory for the Conservative Party in the December general election. This was followed by the UK's departure from the EU at the end of January 2020, albeit abiding by EU rules until the end of 2020.

The outbreak of the coronavirus in China in late 2019 initially made little impact on markets. But, by February 2020, COVID-19 had spread beyond China, swiftly reaching most countries, including the UK. By late March, the FTSE All-Share Index had fallen 35% from its January highs. Authorities around the world started adopting far-reaching measures, aimed at containing the virus and reducing its impact on the global economy. In March in the UK, these steps included two cuts in interest rates to 0.1%, extensive stimulus and support packages, as well as a population lockdown and temporary closure of non-essential businesses. Remarkably, despite a troubling macroeconomic picture, equity markets experienced a resurgence after the March nadir, with the FTSE All-Share Index up 25% by 1 June 2020. Similarly, sterling staged a sharp recovery in the currency markets, rising over 5% against the US dollar from almost par in March. The combination of massive stimulus and emerging green shoots of economic optimism as countries eased their respective lockdowns re-energised financial markets.

Larger companies underperformed in the UK stockmarket sell-off. This was reflected in a weak performance from the FTSE 350 Higher Yield Index, which ended the 12-month period down almost 20%, affected by dividend cuts, especially within banks, insurers, oil companies and telecoms firms. Banks and insurers came under pressure from the regulators to stop their payouts, whereas energy companies and Royal Dutch Shell in particular were hit by a collapse in oil prices to historic lows in March as a result of oversupply and falling demand. Meanwhile, medium-sized companies, and to a greater extent smaller companies, were hit by concerns about their exposure to the domestic economy lockdown, and affected sectors such as travel, media, retailers, financials and industrials. The more resilient sectors were, unsurprisingly given the circumstances, healthcare, utilities and consumer staples.

In the UK sterling bond, or fixed income market, the FTSE Actuaries UK Conventional Gilts All Stocks Index returned 12.0%, while the Merrill Lynch £ Non-Gilts Index returned 6.4%. Pandemic-driven risk aversion, interest rate cuts and concerns about the UK economy supported the sterling government bond, or gilt, market. Longer dated gilts significantly outperformed their shorter dated counterparts as they responded to declining inflationary pressure and ongoing support from investors with long-term liabilities to match, such as pension funds and insurance companies. Corporate bonds, or credit, lagged gilts, reflecting the erosion in risk appetite in February and March.

Accordingly, the fund underperformed its benchmark over the 12 months as a result of holding a larger weighting in UK company shares than the composite index, at 73%, as these underperformed the sterling bond market. In addition, the equity segment of the portfolio underperformed the FTSE All-Share Index. The fund's defensive portfolio would normally be expected to outperform in weak markets, but its income element was overwhelmed by the widespread interruption to dividend payments from UK plc.



## M&G UK Income Distribution Fund

# Authorised Corporate Director's Report

### Investment performance (continued)

In addition, the return from the fund's fixed income segment, representing 26% of the portfolio, lagged the FTSE Actuaries UK Conventional Gilts All Stocks Index. This reflected a defensive stance against a fall in prices from already very high valuations, as some parts of the gilt market now have a negative yield, as well as the fund's corporate bond exposure, although the latter began to outperform from April onwards as risk appetite improved.

Within the equity segment, value was lost primarily within the fund's larger company holdings and to a lesser extent within medium-sized companies. Sector allocation also affected the fund's performance, mainly through a lack of exposure to food retailers and an above-market position in energy companies. However, this was mitigated to some extent through above-market weightings in pharmaceutical and utility companies.

The main individual detractors from performance were largely the result of market reactions to the pandemic-driven lockdown, with cuts to dividends a common denominator. These included software firm Micro Focus which also issued a couple of profit warnings before the sell-off, property company NewRiver REIT (real estate investment trust), insurer Aviva, coach operator National Express, cinema chain Cineworld and brewer plus pub operator Marston's. Exceptionally, oil major BP, which succumbed to the collapse in oil prices, held its latest quarterly dividend payment, the last in the fund's financial year.

Conversely, the main individual contributors to performance included three utility companies, Pennon, United Utilities and National Grid, which benefited from their reliable earnings streams. Pennon was also lifted by the sale of its Viridor waste management arm to private equity firm KKR. In addition, notably, retailer Games Workshop, known most widely for its Warhammer brand, and Ladbrokes Coral owner GVC both performed better than expected during the lockdown.

### Investment activities

The focus of activity during the 12 months under review changed as the period progressed from the normal concentration on managing the fund's income growth to mitigating the impact of dividend cuts in 2020 and increasing the exposure to companies with higher dividend yields as far as possible, without damaging the portfolio's total return credentials.

We seek to strike the right balance between companies with a good chance of maintaining their dividend, those that we believe present valuation opportunities and those which, in our opinion, will recover post the crisis and, once their dividends are reinstated, deliver attractive yields given the current share prices. Accordingly, cruise port operator Global Ports Holding was sold in view of the problems facing the consumer sectors, along with a small holding in Wagamama and Frankie & Benny's owner Restaurant Group, which had already cut its dividend. Two holdings exited the portfolio at healthy premiums as a result of takeovers before the COVID-19 crisis: Hull-based telecoms operator KCOM, plus brewer and pub operator Greene King.

Elsewhere, fund positions started to be reduced in companies that we felt were most affected by lockdowns and where future prospects were less assured than other corporates. This category included housebuilder Vistry and events business Informa. In addition, to raise cash, profits were realised in water company Pennon, drugmaker AstraZeneca, asset manager Ashmore, electronic parts distributor Electrocomponents and miners BHP plus Rio Tinto. Meanwhile, the biggest dividend payer in the UK market, Royal Dutch Shell, was also reduced after the oil major cut its dividend by 66% for the first time since WWII, owing to the dramatic fall in oil prices. Funds raised were switched into rival BP.

Conversely, amongst new positions established were housebuilder Persimmon, UK energy company Drax, US-based energy company Diversified Gas & Oil, and auto insurer Admiral. Persimmon is one of the stronger housebuilders and represented a long-term opportunity for the fund. Drax offered an attractive yield and it is switching from coal-fired power stations to cleaner energy in the form of sustainable biomass. Diversified Gas & Oil was part of the switch out of Royal Dutch Shell and is a high-yielding business, focused on managing cost savings and economies of scale from existing gas fields. Admiral also offered an attractive yield and is benefiting from a reduction in claims due to the lockdown.

In other activity, advantage was taken of cheaper valuations to add to the fund's positions in telecoms groups BT and Vodafone, the world's largest advertising agency, WPP, insurers Aviva, Direct Line and Phoenix, plus the software firm Micro Focus.

The fixed income portion of the fund remains defensively positioned. Before the COVID-19 crisis, the fund had participated in several new issues in the sterling primary bond market, adding to high-quality corporate bonds (credit) issued by Groupe BPCE and Leeds Building Society, as well as to asset-backed securities issued by Bavarian Sky SA. A position in John Lewis bonds was reduced which, up to that point, had performed strongly; but given the challenges around the UK retail sector, this was subsequently closed out in late January. When the COVID-19 crisis struck, some of the cash in the fund was initially invested into high-quality credit issued by BASF, Henkel and Johnson & Johnson, taking advantage of very attractive valuations versus government bonds. However, as the sell-off continued, cash was raised in order to transfer it into the equity portfolio to maintain the required minimum 70% exposure to UK equities. This proved to be a challenging task, given the lack of liquidity in credit markets in March. However, several short-dated high-quality bonds were ultimately sold issued by EDF, Toyota and New York Life. A few mortgage-backed securities were also sold that were referencing sterling LIBOR in order to avoid any LIBOR transition risk well in advance of the end of 2021, when LIBOR is expected to cease as a reference rate.

### Outlook

Policymakers globally have responded to the pandemic and have shown they are prepared to take unprecedented action to mitigate the global growth slowdown, but a recession is now evident. In the UK, the government has pledged vast sums to support individuals, jobs and the economy. However, recent data



## M&G UK Income Distribution Fund

# Authorised Corporate Director's Report

### Outlook (continued)

on the economy has indicated the impact of the domestic population lockdown, with gross domestic product contracting by 5.8% in March and a further 20% in April. Meanwhile, fiscal and monetary policies are providing a buffer against the economic fallout, and risk assets have staged a sharp recovery, albeit the UK market is still back at levels last visited after the 2016 referendum.

To complicate matters, the UK only has until the end of this year to secure a trade deal with the EU or face the prospect of a 'no-deal' scenario. Negotiations are ongoing and businesses will welcome greater clarity regarding future trade relations over the coming months.

Confronted with the pandemic, many companies have announced the omission, cancellation or suspension of dividend payments. This has been another factor undermining the domestic market, as dividends form a major component of returns from UK equities, as well as a basis for valuing them.

On a more positive note, the current situation differs from previous market setbacks as the sharp economic deterioration has been caused by governments shutting down their economies, and not more typically by rising interest rates, corporate failure, a geopolitical event or an oil price rise shock. Indeed, although the latter has risen off historic lows, it is hovering around US\$40 per barrel which should provide a boost to most of the global economy, although since March the oil price has been a negative force on the FTSE 100 due to concerns about its impact on the oil majors' dividends. Global authorities are beginning to take the view that the worst of the pandemic is behind and are starting to switch their economies back on again. The bounce back could be fairly swift, albeit to a lower rate of growth than before. In some countries, such as China and South Korea, this is already starting to occur. The worry remains of a secondary rise in infections if lockdowns are lifted too early. One thing is for certain, the wave of capital raisings is likely to continue as companies seek to repair their balance sheets and return to paying dividends.

In this environment, the main strength of the fund's investment portfolio is its broad structure, with its emphasis on equities offering above-average income based on sustainable dividends, together with a substantial weighting in good-quality corporate bonds and a small exposure to government bonds. At current valuation levels, though, the bond portfolio's static contribution to the income stream is below what might be expected over the longer term. However, the bond element continues to provide a degree of stability when equity markets suffer from risk aversion.

### Distribution prospects

The fund ended the 12 months under review with a 9.8% premium to the average yield of the benchmark FTSE All-Share Index. The fund is expected to retain a yield premium advantage as its income generation is managed going forward.

The fund had been banking dividend income for nine months ahead of the start of the COVID-19 crisis, which meant it had three remaining months to generate income in a market where there was an increasingly narrow base of dividend-paying

companies. As a result of the omission of dividends across the UK market in 2020, therefore, the fund has had to cut its yearly distribution for 2019/20. The fund's total distribution of 32.89p represents a decrease of 11.4% on the corresponding period last year. This compares with a 15.3% decline in the average dividend growth of the FTSE All-Share Index over the same period.

As we consider the outlook for the rest of 2020 and 2021, it is clear that the spectrum of potential outcomes is still very wide. It is entirely possible that many companies simply refrain from paying dividends for much of the rest of calendar year 2020 and possibly beyond, although there might end up being a situation where companies not only pay the dividends due in the second half of 2020, but also make additional payments to compensate for dividends passed at this stage of the crisis.

Despite the uncertainty around the coming year, the most likely outcome is that the fund experiences a longer period of exposure to companies paying lower dividends than in the financial year just completed. At this stage, the fall in dividends for the UK market in calendar year 2020 is expected to be in the region of 35-45%. Against this backdrop, we are anticipating a further decline in the fund's income in 2021. We will maintain the fund's premium yield and we will seek to mitigate the impact of the underlying decline in company dividends through active management of the fund's income stream, while protecting its total return characteristics.

We are still convinced of the longer term opportunity presented by higher yielding equities. What will be crucial in the next few months is to strike the right balance between companies with a good chance of maintaining their dividend, those whose lower share prices present valuation opportunities today, but may have cut their dividend, and those that will recover after the crisis and offer an exceptional income yield given their dividend-paying capacity. While the widespread cancellation of dividends has affected the share prices and income from many of the fund's holdings, the sell-off has created value opportunities for long-term investors.

### Michael Stiasny

#### Fund manager

An employee of M&G FA Limited (formerly M&G Limited) which is an associate of M&G Securities Limited.

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

# M&G UK Income Distribution Fund

## Authorised Corporate Director's Report

### Portfolio statement

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>EQUITIES</b>	<b>364,968</b>	<b>74.58</b>	<b>76.48</b>
	<b>Software &amp; computer services</b>	<b>3,372</b>	<b>0.69</b>	<b>1.66</b>
810,000	Micro Focus International	3,372	0.69	
	<b>Telecommunications service providers</b>	<b>19,201</b>	<b>3.92</b>	<b>4.14</b>
4,000,000	BT	4,708	0.96	
10,814,311	Vodafone	14,493	2.96	
	<b>Pharmaceuticals &amp; biotechnology</b>	<b>46,650</b>	<b>9.53</b>	<b>6.48</b>
260,000	AstraZeneca	23,192	4.74	
1,400,000	GlaxoSmithKline	23,458	4.79	
	<b>Banks</b>	<b>15,659</b>	<b>3.20</b>	<b>5.47</b>
380,000	Close Brothers	4,172	0.85	
2,330,000	HSBC	8,724	1.78	
9,000,000	Lloyds Banking	2,763	0.57	
	<b>Investment banking &amp; brokerage services</b>	<b>10,943</b>	<b>2.24</b>	<b>2.80</b>
500,000	Ashmore	2,164	0.44	
655,821	Brewin Dolphin	1,839	0.38	
451,127	Duke Royalty	131	0.03	
396,429	EF Realisation <sup>[a]</sup>	47	0.01	
250,000	Jupiter Fund Management	624	0.13	
2,350,000	Standard Life Aberdeen	6,138	1.25	
	<b>Equity investment instruments</b>	<b>3,060</b>	<b>0.63</b>	<b>0.53</b>
1,110,000	Ecofin Global Utilities and Infrastructure Trust	1,737	0.36	
1,750,000	Middlefield Canadian Income Trust	1,323	0.27	
	<b>Life insurance</b>	<b>28,190</b>	<b>5.76</b>	<b>5.92</b>
2,450,000	Aviva	6,113	1.25	
1,550,000	Chesnara	4,914	1.00	
3,250,000	Legal & General	6,532	1.34	
950,000	Phoenix	5,966	1.22	
500,000	St. James's Place	4,665	0.95	
	<b>Non-life insurance</b>	<b>10,367</b>	<b>2.12</b>	<b>1.05</b>
134,986	Admiral	3,129	0.64	
2,000,000	Direct Line Insurance	5,382	1.10	
1,000,000	Hastings	1,856	0.38	
	<b>Real estate investment &amp; services</b>	<b>3,867</b>	<b>0.79</b>	<b>0.57</b>
2,200,000	Channel Islands Property Fund	2,046	0.42	
3,350,000	Grit Real Estate Income	1,821	0.37	
	<b>Real estate investment trusts</b>	<b>11,296</b>	<b>2.31</b>	<b>2.81</b>
202,127	British Land	822	0.17	
304,687	Land Securities	1,831	0.37	
400,000	LondonMetric Property	835	0.17	
1,010,000	McKay Securities	1,833	0.38	
1,974,217	NewRiver	1,092	0.22	
1,200,000	Regional	953	0.20	
2,300,000	Standard Life Investment Property Income Trust	1,578	0.32	
2,063,624	Warehouse REIT	2,352	0.48	
687,874	Warehouse REIT (Subscription shares) <sup>[a]</sup>	0	0.00	
	<b>Household goods &amp; home construction</b>	<b>7,260</b>	<b>1.48</b>	<b>1.20</b>
105,000	Bellway	2,703	0.55	
400,000	Bovis Homes	3,046	0.62	
66,000	Persimmon	1,511	0.31	
	<b>Leisure goods</b>	<b>6,605</b>	<b>1.35</b>	<b>0.76</b>
85,000	Games Workshop	6,605	1.35	
	<b>Personal goods</b>	<b>4,350</b>	<b>0.89</b>	<b>2.05</b>
100,000	Unilever	4,350	0.89	
	<b>Media</b>	<b>14,411</b>	<b>2.95</b>	<b>3.80</b>
350,000	Informa	1,665	0.34	
4,125,000	ITV	3,386	0.69	
575,000	Moneysupermarket.com	1,977	0.41	
3,120,000	Reach	2,512	0.51	
787,500	WPP	4,871	1.00	
	<b>Retailers</b>	<b>3,163</b>	<b>0.65</b>	<b>0.69</b>
644,991	DFS Furniture	1,078	0.22	

# M&G UK Income Distribution Fund

## Authorised Corporate Director's Report

### Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>Equities (continued)</b>			
	<b>Retailers (continued)</b>			
684,897	ScS	997	0.21	
98,192	WH Smith	1,088	0.22	
	<b>Travel &amp; leisure</b>	<b>17,529</b>	<b>3.58</b>	<b>3.77</b>
53,711	Cineworld	48	0.01	
253,000	Go-Ahead	2,785	0.57	
1,000,000	GVC	8,064	1.65	
2,000,000	Marston's	1,284	0.26	
1,379,957	National Express	2,981	0.61	
1,750,000	William Hill	2,367	0.48	
	<b>Food producers</b>	<b>1,882</b>	<b>0.38</b>	<b>0.46</b>
275,000	Tate & Lyle	1,882	0.38	
	<b>Tobacco</b>	<b>27,246</b>	<b>5.57</b>	<b>4.03</b>
500,000	British American Tobacco	16,272	3.33	
745,000	Imperial Brands	10,974	2.24	
	<b>Construction &amp; materials</b>	<b>407</b>	<b>0.08</b>	<b>0.24</b>
500,000	Kier	407	0.08	
	<b>Electronic &amp; electrical equipment</b>	<b>4,221</b>	<b>0.86</b>	<b>0.77</b>
495,000	discoverIE	2,623	0.53	
750,000	Morgan Advanced Materials	1,598	0.33	
	<b>General industrials</b>	<b>2,536</b>	<b>0.52</b>	<b>0.39</b>
731,818	DS Smith	2,536	0.52	
	<b>Industrial engineering</b>	<b>723</b>	<b>0.15</b>	<b>0.14</b>
80,000	IMI	723	0.15	
	<b>Industrial support services</b>	<b>4,072</b>	<b>0.83</b>	<b>0.89</b>
1,385,000	Connect	243	0.05	
220,000	Electrocomponents	1,411	0.29	
325,000	PayPoint	2,418	0.49	
	<b>Industrial transportation</b>	<b>0</b>	<b>0.00</b>	<b>0.10</b>
	<b>Industrial metals &amp; mining</b>	<b>24,329</b>	<b>4.97</b>	<b>5.03</b>
375,000	BHP	5,927	1.21	
425,000	Rio Tinto	18,402	3.76	
	<b>Chemicals</b>	<b>3,990</b>	<b>0.82</b>	<b>0.65</b>
350,000	Synthomer	1,098	0.23	
140,000	Victrex	2,892	0.59	
	<b>Non-renewable energy</b>	<b>36,564</b>	<b>7.47</b>	<b>11.29</b>
7,000,000	BP	21,402	4.37	
2,295,212	Diversified Gas & Oil	2,470	0.51	
1,025,000	Royal Dutch Shell	12,692	2.59	
	<b>Electricity</b>	<b>5,496</b>	<b>1.12</b>	<b>0.64</b>
269,858	Drax	568	0.11	
400,000	SSE	4,928	1.01	
	<b>Gas, water &amp; multi-utilities</b>	<b>25,262</b>	<b>5.16</b>	<b>4.06</b>
1,250,000	National Grid	11,578	2.37	
525,000	Penron	5,980	1.22	
840,000	United Utilities	7,704	1.57	
	<b>Non-convertible preference shares</b>	<b>22,317</b>	<b>4.56</b>	<b>4.09</b>
1,500,000	Aviva 8.375% Cum. Irrd. Pref.	1,965	0.40	
3,800,000	General Accident 7.875% Cum. Irrd. Pref.	4,560	0.93	
2,000,000	General Accident 8.875% Cum. Irrd. Pref.	2,780	0.57	
7,725,000	Lloyds Banking 9.25% Non-cum. Irrd. Pref.	10,197	2.09	
6,250	Nationwide Building Society 10.25% CCD Non-cum. Irrd. Pref.	943	0.19	
1,600,000	Standard Chartered 8.25% Non-cum. Irrd. Pref.	1,872	0.38	
	<b>FIXED INCOME</b>	<b>125,772</b>	<b>25.70</b>	<b>24.10</b>
	<b>Debt securities</b>	<b>125,772</b>	<b>25.70</b>	<b>24.10</b>
	<b>'AAA' credit rated bonds</b>	<b>9,498</b>	<b>1.94</b>	<b>3.34</b>
£1,186,000	Barclays Bank FRN 0.487% 09/01/2023	1,182	0.24	
£1,029,000	Bavarian Sky UK 3 FRN 0.6861% 20/04/2028	1,012	0.21	
£1,872,195	Dukinfield FRN 1.7866% 20/12/2052	1,863	0.38	
£1,000,000	Johnson & Johnson 5.5% 06/11/2024	1,201	0.25	

# M&G UK Income Distribution Fund

## Authorised Corporate Director's Report

### Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>FIXED INCOME (continued)</b>			
	<b>Debt securities (continued)</b>			
	<b>'AAA' credit rated bonds (continued)</b>			
£1,000,000	Nationwide Building Society FRN 0.4977% 02/08/2022	999	0.20	
£528,000	Nationwide Building Society FRN 0.6171% 10/01/2025	527	0.11	
£368,552	Polaris 2019-1 FRN 1.3169% 27/04/2057	366	0.08	
£168,936	Precise Mortgage Funding 2020-1B FRN 0.9959% 16/10/2056	165	0.03	
£52,395	Residential Mortgage Securities No. 28 FRN 1.6368% 15/06/2046	52	0.01	
£1,742,000	Santander UK FRN 0.507% 16/11/2022	1,731	0.35	
£404,487	Towd Point Mortgage Funding 2019-Vantage2 FRN 1.4811% 20/02/2054	400	0.08	
	<b>'AA' credit rated bonds</b>	<b>19,155</b>	<b>3.91</b>	<b>3.61</b>
£647,000	Commonwealth Bank of Australia FRN 0.6177% 16/01/2025	642	0.13	
£382,000	Euroclear Bank 1.25% 30/09/2024	384	0.08	
£1,306,000	Land Securities Capital Markets 1.974% 08/02/2024	1,333	0.27	
£933,000	MassMutual Global Funding II 1.375% 15/12/2026	934	0.19	
£2,442,000	Metropolitan Life Global Funding I 1.125% 15/12/2021	2,441	0.50	
£510,000	Metropolitan Life Global Funding I 2.625% 05/12/2022	526	0.11	
£607,000	New York Life Global Funding 1.25% 17/12/2026	602	0.12	
£3,000,000	Procter & Gamble 1.375% 03/05/2025	3,095	0.63	
£905,000	Royal Bank of Canada FRN 0.6472% 03/10/2024	900	0.18	
£315,000	SLM Student Loan Trust FRN 1.0103% 15/12/2039	292	0.06	
£2,490,000	UK Treasury 4% 07/03/2022	2,667	0.55	
£3,360,000	UK Treasury IL 1.875% 22/11/2022	5,339	1.09	
	<b>'A' credit rated bonds</b>	<b>38,512</b>	<b>7.87</b>	<b>7.82</b>
£800,000	ABN AMRO Bank 1% 30/06/2020	800	0.16	
£1,100,000	ABN AMRO Bank 1.375% 07/06/2022	1,102	0.23	
£1,750,000	Amgen 5.5% 07/12/2026	2,190	0.45	
£1,500,000	Banco Santander 1.375% 31/07/2024	1,480	0.30	
£2,400,000	Banque Fédérative du Crédit Mutuel 0.875% 08/06/2020	2,399	0.49	
£1,200,000	Banque Fédérative du Crédit Mutuel 1.375% 20/12/2021	1,204	0.25	
£812,000	BASF 1.375% 21/06/2022	816	0.17	
£1,174,000	BMW International Investment 1.25% 11/07/2022	1,163	0.24	
£2,000,000	BNP Paribas 1.125% 16/08/2022	2,004	0.41	
£500,000	BNP Paribas 1.875% 14/12/2027	492	0.10	
£800,000	BP Capital Markets 1.177% 12/08/2023	794	0.16	
£700,000	BPCE 1.375% 23/12/2026	696	0.14	
£3,000,000	BPCE 2.125% 16/12/2022	3,079	0.63	
£1,500,000	Canadian Imperial Bank of Commerce FRN 1.0958% 10/01/2022	1,499	0.31	
£430,000	CK Hutchison Group Telecom Finance 2% 17/10/2027	426	0.09	
£800,000	Deutsche Pfandbriefbank 1.75% 21/11/2022	780	0.16	
£250,000	EDF 6.125% 02/06/2034	359	0.07	
£485,000	Experian Finance 2.125% 27/09/2024	502	0.10	
£1,100,000	Henkel 1.25% 30/09/2026	1,117	0.23	
£2,000,000	HSBC Var. Rate 2.256% 13/11/2026	2,010	0.41	
£421,000	HSBC Var. Rate 3% 22/07/2028	439	0.09	
£500,000	HSBC Var. Rate 3% 29/05/2030	520	0.11	
£1,300,000	ING 3% 18/02/2026	1,387	0.28	
£1,000,000	Munich Re Finance Var. Rate 6.625% 26/05/2042	1,083	0.22	
£918,000	Notting Hill Genesis 3.25% 12/10/2048	1,051	0.21	
£1,503,000	Total Capital International 1.75% 07/07/2025	1,542	0.31	
£1,043,000	Wells Fargo 1.375% 30/06/2022	1,039	0.21	
£1,950,000	Wells Fargo Bank 5.25% 01/08/2023	2,150	0.44	
£2,530,000	Westfield America Management 2.125% 30/03/2025	2,388	0.49	
£1,750,000	Yorkshire Water Finance 6.5876% 21/02/2023	2,001	0.41	
	<b>'BBB' credit rated bonds</b>	<b>38,681</b>	<b>7.91</b>	<b>5.54</b>
£794,000	Akelius Residential Property 2.375% 15/08/2025	800	0.16	
£1,150,000	Anheuser-Busch InBev 9.75% 30/07/2024	1,543	0.31	
£793,000	Annington Funding 2.646% 12/07/2025	822	0.17	
£664,000	Aroundtown 3% 16/10/2029	644	0.13	
£2,000,000	Aviva Var. Rate 6.625% 03/06/2041	2,083	0.43	
£1,500,000	Bank of America 5.5% 22/11/2021	1,580	0.32	
£1,000,000	Barclays 3.125% 17/01/2024	1,029	0.21	
£1,026,000	Barclays Var. Rate 2.375% 06/10/2023	1,030	0.21	
£874,000	Canadian Imperial Bank of Commerce 1.625% 25/09/2025	865	0.18	
£846,000	Channel Link Enterprises Finance Var. Rate 3.043% 30/06/2050	878	0.18	

# M&G UK Income Distribution Fund

## Authorised Corporate Director's Report

### Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 %
	<b>FIXED INCOME (continued)</b>			
	<b>Debt securities (continued)</b>			
	<b>'BBB' credit rated bonds (continued)</b>			
£976,000	Citigroup 2.75% 24/01/2024	1,014	0.21	
£965,000	Clydesdale Bank FRN 0.7738% 22/03/2024	968	0.20	
£1,171,000	Credit Suisse Var. Rate 2.125% 12/09/2025	1,186	0.24	
£2,320,000	Daimler International Finance 1.5% 13/01/2022	2,295	0.47	
£208,000	Deutsche Telekom 3.125% 06/02/2034	236	0.05	
£1,152,000	Deutsche Telekom International Finance 2.5% 10/10/2025	1,218	0.25	
£178,000	Digital Stout 2.75% 19/07/2024	185	0.04	
£322,000	Fidelity National Information Services 2.602% 21/05/2025	335	0.07	
£300,000	FirstGroup 6.875% 18/09/2024	320	0.06	
£800,000	Goldman Sachs 3.125% 25/07/2029	874	0.18	
£1,000,000	Goldman Sachs 5.5% 12/10/2021	1,046	0.21	
£1,473,000	Heathrow Funding 5.225% 15/02/2023	1,554	0.32	
£878,000	Imperial Brands Finance 8.125% 15/03/2024	1,056	0.22	
£1,250,000	Imperial Brands Finance 9% 17/02/2022	1,395	0.28	
£357,000	Informa 3.125% 05/07/2026	357	0.07	
£1,750,000	InterContinental Hotels 3.875% 28/11/2022	1,746	0.36	
£426,000	LafargeHolcim Sterling Finance (Netherlands) 3% 12/05/2032	433	0.09	
£795,000	Legal & General Var. Rate 10% 23/07/2041	866	0.18	
£454,000	Liberty Living Finance 2.625% 28/11/2024	456	0.09	
£700,000	Lloyds Bank 9.625% 06/04/2023	836	0.17	
£234,000	Logicor Financing 2.75% 15/01/2030	218	0.04	
£369,000	Mckesson 3.125% 17/02/2029	378	0.08	
£205,000	Next 3% 26/08/2025	199	0.04	
£619,000	Royal Bank of Scotland Var. Rate 3.125% 28/03/2027	641	0.13	
£272,000	SP Transmission 2% 13/11/2031	280	0.06	
£241,000	Student Finance 2.6663% 30/09/2024	244	0.05	
£1,000,000	Telefónica Emisiones 5.375% 02/02/2026	1,194	0.24	
£277,000	Tesco 6.125% 24/02/2022	298	0.06	
£101,000	Tesco Corporate Treasury Services 2.5% 02/05/2025	105	0.02	
£422,000	Thames Water Utilities Finance 1.875% 24/01/2024	426	0.09	
£505,000	UNITE 3.5% 15/10/2028	518	0.11	
£1,320,000	United Utilities Water Finance 2% 14/02/2025	1,367	0.28	
£698,000	Virgin Money Var. Rate 3.375% 24/04/2026	674	0.14	
£2,500,000	Volkswagen Financial Services 1.5% 12/04/2021	2,489	0.51	
	<b>'BB' credit rated bonds</b>	<b>1,873</b>	<b>0.38</b>	<b>0.10</b>
£734,000	Ford Motor Credit 4.535% 06/03/2025	631	0.13	
£1,390,000	Rolls-Royce 3.375% 18/06/2026	1,242	0.25	
	<b>Bonds with no credit rating</b>	<b>18,053</b>	<b>3.69</b>	<b>3.69</b>
£824,000	Coventry Building Society 1.5% 23/01/2023	828	0.17	
£2,000,000	Coventry Building Society 1.875% 24/10/2023	2,029	0.42	
£222,000	Coventry Building Society FRN 0.5872% 15/01/2025	221	0.05	
£513,000	DP World 4.25% 25/09/2030	464	0.10	
£112,247	Feldspar 2016-1 FRN 1.1868% 15/09/2045	111	0.02	
£363,769	Finsbury Square 2018-1 FRN 1.1103% 12/09/2065	361	0.07	
£2,000,000	Hammerson 3.5% 27/10/2025	1,679	0.34	
£500,000	Landesbank Baden-Wuerttemberg 1.5% 03/02/2025	490	0.10	
£295,000	Leeds Building Society FRN 0.6072% 15/01/2025	294	0.06	
£1,525,000	London Merchant Securities 6.5% 16/03/2026	1,940	0.40	
£1,000,000	National Express 2.5% 11/11/2023	976	0.20	
£1,997,000	Nordea Eiendoms-kreditt FRN 0.8634% 18/06/2023	1,976	0.40	
£1,207,756	Oat Hill No. 1 FRN 1.5449% 25/02/2046	1,196	0.24	
£688,000	PCL Funding II FRN 0.8901% 15/06/2022	688	0.14	
£572,000	PCL Funding III FRN 0.7923% 15/06/2023	564	0.12	
£1,071,000	Shaftesbury Chinatown 2.348% 30/09/2027	1,048	0.21	
£463,000	Skipton Building Society 1.75% 30/06/2022	463	0.10	
£750,000	Toronto-Dominion Bank FRN 0.5423% 24/06/2022	749	0.15	
£149,000	Wm Morrison Supermarkets 3.5% 27/07/2026	164	0.03	
£1,500,000	Yorkshire Building Society 3.5% 21/04/2026	1,651	0.34	
£157,000	Yorkshire Building Society Var. Rate 3% 18/04/2025	161	0.03	
<b>Portfolio of investments</b>		<b>490,740</b>	<b>100.28</b>	<b>100.58</b>

# M&G UK Income Distribution Fund

## Authorised Corporate Director's Report

### Portfolio statement (continued)

as at 31 May		2020	2020	2019
Holding		£'000	%	%
	CASH EQUIVALENTS	2,777	0.57	0.61
	'AAA' rated money market funds <sup>[b]</sup>	2,777	0.57	0.61
2,777,000	Northern Trust Global Fund - Sterling	2,777	0.57	
Total portfolio (notes 2c & 2d on page 7)		493,517	100.85	101.19
Net other assets / (liabilities)		(4,177)	(0.85)	(1.19)
Net assets attributable to shareholders		489,340	100.00	100.00

All securities are on an official stock exchange listing except where referenced.

[a] Unlisted / unquoted.

[b] Uncommitted surplus cash is placed into 'AAA' rated money market funds with the aim of reducing counterparty risk.

### Top ten portfolio transactions

for the year to 31 May 2020		£'000
Largest purchases		
GVC		6,185
ITV		5,155
Imperial Brands		4,666
Micro Focus International		4,356
NewRiver		3,676
Cineworld		3,559
St. James's Place		3,298
Admiral		3,266
WPP		2,773
GlaxoSmithKline		2,499
Other purchases		54,467
Total purchases		93,900
Largest sales		£'000
Unilever		7,356
Greene King		6,319
European Investment Bank FRN 1.0399% 17/02/2020		6,030
Informa		5,675
Royal Dutch Shell		5,657
AstraZeneca		4,861
RELX		4,825
Sage		4,420
LondonMetric Property		4,245
HSBC		4,138
Other sales		71,098
Total sales		124,624

Purchases and sales exclude the cost and proceeds of 'AAA' rated money market funds.

# M&G UK Income Distribution Fund

## Financial highlights

### Fund performance

Please note past performance is not a guide to future performance and the value of investments, and the income from them, will fluctuate. This will cause the fund price to fall as well as rise and you may not get back the original amount you invested.

The following charts and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be different. For more information on the different share classes in this fund please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

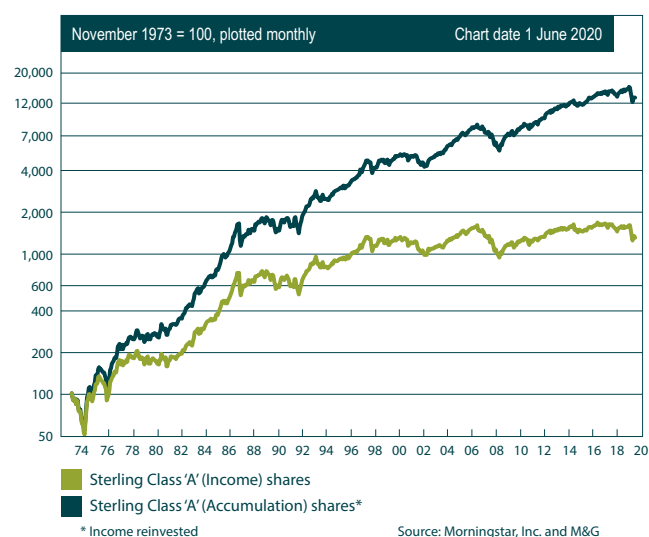
### Fund level performance

#### Fund net asset value

	2020	2019	2018
as at 31 May	£'000	£'000	£'000
Fund net asset value (NAV)	489,340	585,811	632,249

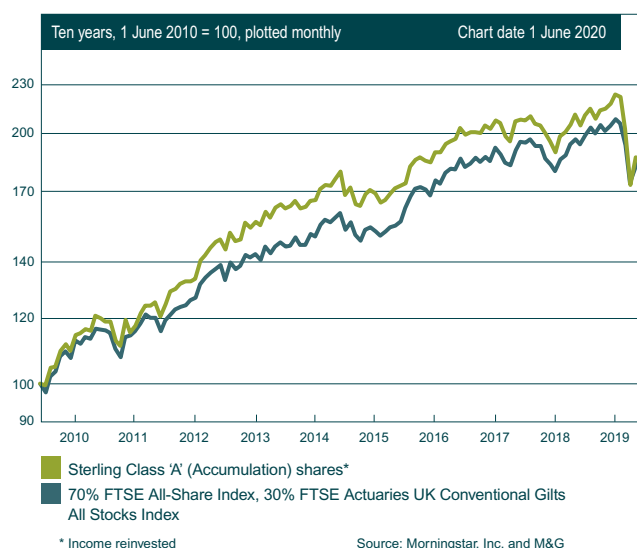
### Share class performance since launch

To give an indication of how the fund has performed since launch, the chart below shows performance of Sterling Class 'A' (Accumulation) shares and Sterling Class 'A' (Income) shares. With Accumulation shares, income received from an investment is reinvested, while with Income shares, the income is paid out to shareholders.



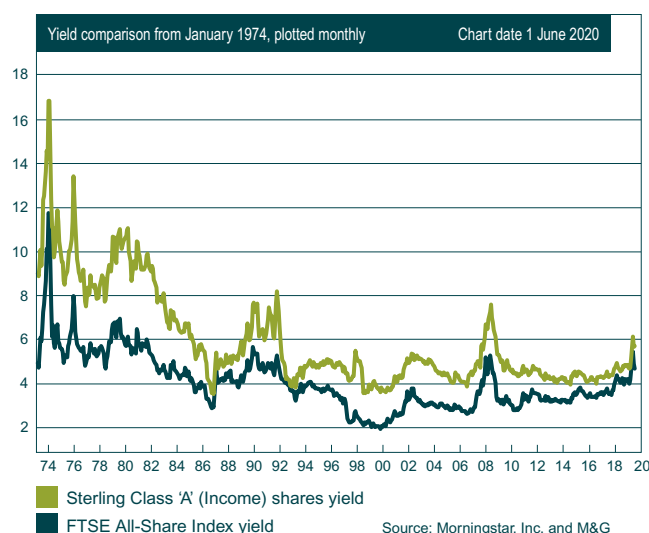
### Ten-year performance

The fund's comparator benchmark changed from the FTSE All-Share Index to a composite index (which comprises 70% FTSE All-Share Index and 30% FTSE Actuaries UK Conventional Gilts All Stocks Index) in June 2000 to reflect the change in the fund's holdings. Given that we are unable to show the fund's performance against the composite comparator benchmark from inception, please find below a ten-year chart for comparison.



### Historic yield

The chart below shows the historic yield of Sterling Class 'A' (Income) shares against that of the fund's target benchmark.



**Historic Yield:** The historic yield reflects distributions declared over the past twelve months as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions.

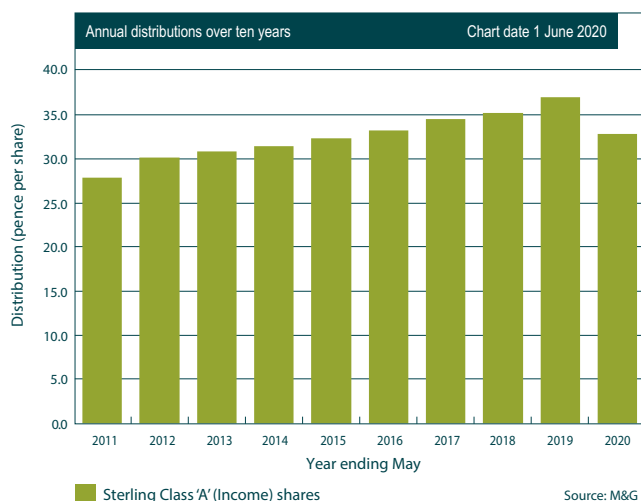


# M&G UK Income Distribution Fund

## Financial highlights

### Distribution over ten years

The chart below shows the annual distribution of Sterling Class 'A' (Income) shares over ten years.



To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period. Calculated on a price to price basis with income reinvested.

### Long-term performance by share class

	One year 03.06.19 % [a]	Three years 01.06.17 % p.a.	Five years 01.06.15 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	-8.3	-2.8	+0.9	+11.1 [c]
Class 'C'	-7.3	-1.7	+2.0	+5.8 [d]
Class 'I'	-7.8	-2.2	+1.5	+5.4 [e]
Class 'R'	-8.0	-2.5	+1.2	+5.1 [e]
Class 'X'	-8.2	-2.8	+0.9	+6.5 [f]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 19 November 1973, the end of the initial offer period of the predecessor unit trust.

[d] 1 December 2005, the launch date of the share class.

[e] 3 August 2012, the launch date of the share class.

[f] 1 October 2002, the launch date of the share class.

### Operating charges

Operating charges include payments made to M&G and to providers independent of M&G:

- Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge.  
 For every £1 billion of a fund's net asset value, a discount of 0.02% will be applied to that fund's annual charge (up to a maximum of 0.12%).
- Extraordinary legal and tax expenses:** Costs that specifically relate to legal or tax claims that are both exceptional and unforeseeable. Such expenses are uncommon, and would not be expected in most years. Although they result in a short-term cost to the fund, generally they can deliver longer term benefits for investors.
- Investment management:** Charge paid to M&G for investment management of the fund. From 1 August 2019 this charge forms part of the annual charge.
- Administration:** Charge paid for administration services in addition to investment management – any surplus from this charge will be retained by M&G. From 1 August 2019 this charge is rolled into the annual charge.
- Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit. From 1 August 2019 these charges will be paid by M&G and rolled into the annual charge.
- Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated. From 1 August 2019 charges from underlying funds (excluding Investment Trust Companies and Real Estate Investment Trusts) will be rebated.

The operating charges paid by each share class of the fund are shown in the following performance tables. These charges do not include portfolio transaction costs or any entry and exit charges (also known as initial and redemption charges). The charging structures of share classes may differ, and therefore the operating charges may differ.

### Operating charges and portfolio transaction costs

We explain below the payments made to meet the ongoing costs of investing and managing the fund, comprising operating charges and portfolio transaction costs.



# M&G UK Income Distribution Fund

## Financial highlights

Once the annual charge has been operational for twelve months, operating charges will be in line with the ongoing charges shown in the Key Investor Information Document, other than where there have been extraordinary legal or tax expenses, or an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

### Portfolio transaction costs

Portfolio transaction costs are incurred by funds when buying and selling investments. These costs vary depending on the types of investment, their market capitalisation, country of exchange and method of execution. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission and taxes.
- **Indirect portfolio transaction costs:** 'Dealing spread' – the difference between the buying and selling prices of the fund's investments; some types of investment, such as fixed interest securities, have no direct transaction costs and only the dealing spread is paid.

Investments are bought or sold by a fund when changes are made to the investment portfolio and in response to net flows of money into or out of the fund from investors buying and selling shares in the fund.

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. The table below shows direct portfolio transaction costs paid by the fund before and after that part of the dilution adjustment relating to direct portfolio transaction costs. To give an indication of the indirect portfolio dealing costs the table also shows the average portfolio dealing spread.

Further information on this process is in the Prospectus, which is available free of charge on request either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

### Portfolio transaction costs

for the year to 31 May	2020	2019	2018	Average <sup>[a]</sup>
Direct portfolio transaction costs <sup>[b]</sup>	%	%	%	%
Broker commission	0.01	0.01	0.01	0.01
Taxes	0.05	0.02	0.03	0.03
Costs before dilution adjustments	0.06	0.03	0.04	0.04
Dilution adjustments <sup>[c]</sup>	(0.01)	(0.01)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.05	0.02	0.03	0.03

as at 31 May	2020	2019	2018	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.55	0.26	0.26	0.36

<sup>[a]</sup> Average of first three columns.

<sup>[b]</sup> As a percentage of average net asset value.

<sup>[c]</sup> In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

### Specific share class performance

The following tables show the performance of each share class. All 'Performance and charges' percentages represent an annual rate except for the 'Return after operating charges' which is calculated as a percentage of the opening net asset value per share (NAV). 'Dilution adjustments' are only in respect of direct portfolio transaction costs.

Historic yields for the current year are calculated as at 5 June 2020.

### Sterling Class 'A' Income share performance

The share class was launched on 19 November 1973.			
for the year to 31 May	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	734.51	785.86	802.90
Return before operating charges and after direct portfolio transaction costs	(53.24)	(3.35)	29.43
Operating charges	(9.00)	(10.89)	(11.19)
Return after operating charges	(62.24)	(14.24)	18.24
Distributions	(32.89)	(37.11)	(35.28)
Closing NAV	639.38	734.51	785.86
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.41	0.24	0.28
Dilution adjustments <sup>[a]</sup>	(0.07)	(0.11)	(0.09)
Total direct portfolio transaction costs	0.34	0.13	0.19
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.05	0.02	0.03
Operating charges <sup>[c]</sup>	1.24	1.44	1.42
Return after operating charges	-8.47	-1.81	+2.27
Historic yield	4.96	4.96	4.49
Effect on yield of charges offset against capital	1.24	1.41	1.41
Other information			
Closing NAV (£'000)	120,944	143,765	163,142
Closing NAV percentage of total fund NAV (%)	24.72	24.54	25.80
Number of shares	18,915,718	19,572,985	20,759,599
Highest share price (UK p)	801.25	795.71	813.76
Lowest share price (UK p)	552.52	696.78	741.62

# M&G UK Income Distribution Fund

## Financial highlights

### Specific share class performance

#### Sterling Class 'A' Accumulation share performance

The share class was launched on 19 November 1973. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	7,169.40	7,300.31	7,131.83
Return before operating charges and after direct portfolio transaction costs	(538.91)	(28.55)	269.04
Operating charges	(88.93)	(102.36)	(100.56)
Return after operating charges	(627.84)	(130.91)	168.48
Distributions	(238.86)	(251.75)	(219.55)
Retained distributions	238.86	251.75	219.55
Closing NAV	6,541.56	7,169.40	7,300.31
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	4.01	2.24	2.55
Dilution adjustments <sup>[a]</sup>	(0.74)	(1.05)	(0.78)
Total direct portfolio transaction costs	3.27	1.19	1.77
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.05	0.02	0.03
Operating charges <sup>[c]</sup>	1.24	1.44	1.42
Return after operating charges	-8.76	-1.79	+2.36
Historic yield	3.52	3.45	3.01
Effect on yield of charges offset against capital	0.00	0.01	0.01
Other information			
Closing NAV (£'000)	17,256	20,174	22,610
Closing NAV percentage of total fund NAV (%)	3.53	3.44	3.58
Number of shares	263,787	281,385	309,708
Highest share price (UK p)	7,958.52	7,403.78	7,397.19
Lowest share price (UK p)	5,539.42	6,582.75	6,747.37

#### Sterling Class 'C' Income share performance

Sterling Class 'C' shares are not generally available to all investors. The share class was launched on 1 December 2005. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	849.58	897.80	905.98
Return before operating charges and after direct portfolio transaction costs	(63.93)	(4.74)	32.63
Operating charges	(0.24)	(1.67)	(1.52)
Return after operating charges	(64.17)	(6.41)	31.11
Distributions	(37.04)	(41.81)	(39.29)
Closing NAV	748.37	849.58	897.80
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.47	0.27	0.32
Dilution adjustments <sup>[a]</sup>	(0.09)	(0.13)	(0.10)
Total direct portfolio transaction costs	0.38	0.14	0.22
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.05	0.02	0.03
Operating charges <sup>[c]</sup>	0.03	0.19	0.17
Return after operating charges	-7.55	-0.71	+3.43
Historic yield	4.77	4.83	4.37
Effect on yield of charges offset against capital	0.03	0.16	0.16
Other information			
Closing NAV (£'000)	56,008	67,285	74,902
Closing NAV percentage of total fund NAV (%)	11.44	11.49	11.85
Number of shares	7,483,938	7,919,730	8,342,838
Highest share price (UK p)	933.23	910.97	927.92
Lowest share price (UK p)	644.94	801.46	844.84

#### Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	1,207.33	1,283.58	1,303.10
Return before operating charges and after direct portfolio transaction costs	(88.47)	(5.63)	47.82
Operating charges	(8.51)	(9.80)	(9.89)
Return after operating charges	(96.98)	(15.43)	37.93
Distributions	(54.19)	(60.82)	(57.45)
Closing NAV	1,056.16	1,207.33	1,283.58
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.67	0.39	0.46
Dilution adjustments <sup>[a]</sup>	(0.12)	(0.18)	(0.14)
Total direct portfolio transaction costs	0.55	0.21	0.32
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.05	0.02	0.03
Operating charges <sup>[c]</sup>	0.71	0.79	0.77
Return after operating charges	-8.03	-1.20	+2.91
Historic yield	4.95	4.94	4.47
Effect on yield of charges offset against capital	0.71	0.76	0.76
Other information			
Closing NAV (£'000)	68,687	79,074	73,043
Closing NAV percentage of total fund NAV (%)	14.04	13.50	11.55
Number of shares	6,503,445	6,549,484	5,690,580
Highest share price (UK p)	1,321.25	1,301.21	1,328.00
Lowest share price (UK p)	911.81	1,142.16	1,210.10

#### Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	1,643.50	1,663.07	1,614.52
Return before operating charges and after direct portfolio transaction costs	(124.85)	(6.69)	60.96
Operating charges	(11.76)	(12.88)	(12.41)
Return after operating charges	(136.61)	(19.57)	48.55
Distributions	(62.97)	(67.69)	(59.97)
Retained distributions	62.97	67.69	59.97
Closing NAV	1,506.89	1,643.50	1,663.07
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.92	0.51	0.58
Dilution adjustments <sup>[a]</sup>	(0.17)	(0.24)	(0.18)
Total direct portfolio transaction costs	0.75	0.27	0.40
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.05	0.02	0.03
Operating charges <sup>[c]</sup>	0.71	0.79	0.77
Return after operating charges	-8.31	-1.18	+3.01
Historic yield	4.03	4.04	3.60
Effect on yield of charges offset against capital	0.00	0.01	0.01
Other information			
Closing NAV (£'000)	26,370	35,417	32,754
Closing NAV percentage of total fund NAV (%)	5.39	6.05	5.18
Number of shares	1,749,987	2,154,969	1,969,502
Highest share price (UK p)	1,830.17	1,696.15	1,684.84
Lowest share price (UK p)	1,274.93	1,505.00	1,535.26

# M&G UK Income Distribution Fund

## Financial highlights

### Specific share class performance

#### Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	118.72	126.54	128.79
Return before operating charges and after direct portfolio transaction costs	(8.67)	(0.56)	4.71
Operating charges	(1.13)	(1.27)	(1.29)
Return after operating charges	(9.80)	(1.83)	3.42
Distributions	(5.32)	(5.99)	(5.67)
Closing NAV	103.60	118.72	126.54
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.07	0.04	0.05
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.02)	(0.01)
Total direct portfolio transaction costs	0.06	0.02	0.04
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.05	0.02	0.03
Operating charges <sup>[c]</sup>	0.96	1.04	1.02
Return after operating charges	-8.25	-1.45	+2.66
Historic yield	4.95	4.95	4.48
Effect on yield of charges offset against capital	0.96	1.01	1.01
Other information			
Closing NAV (£'000)	163,939	197,766	220,024
Closing NAV percentage of total fund NAV (%)	33.50	33.76	34.80
Number of shares	158,235,292	166,576,488	173,879,841
Highest share price (UK p)	129.72	128.22	130.91
Lowest share price (UK p)	89.49	112.44	119.33

#### Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	161.75	164.08	159.68
Return before operating charges and after direct portfolio transaction costs	(12.25)	(0.66)	6.05
Operating charges	(1.56)	(1.67)	(1.65)
Return after operating charges	(13.81)	(2.33)	4.40
Distributions	(5.79)	(6.27)	(5.53)
Retained distributions	5.79	6.27	5.53
Closing NAV	147.94	161.75	164.08
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.09	0.05	0.06
Dilution adjustments <sup>[a]</sup>	(0.02)	(0.02)	(0.02)
Total direct portfolio transaction costs	0.07	0.03	0.04
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.05	0.02	0.03
Operating charges <sup>[c]</sup>	0.96	1.04	1.02
Return after operating charges	-8.54	-1.42	+2.76
Historic yield	3.77	3.81	3.37
Effect on yield of charges offset against capital	0.00	0.01	0.01
Other information			
Closing NAV (£'000)	16,721	17,692	15,673
Closing NAV percentage of total fund NAV (%)	3.42	3.02	2.48
Number of shares	11,302,689	10,938,290	9,552,132
Highest share price (UK p)	179.84	166.97	166.24
Lowest share price (UK p)	125.22	148.27	151.54

#### Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	740.52	792.26	809.43
Return before operating charges and after direct portfolio transaction costs	(53.63)	(3.35)	29.68
Operating charges	(9.08)	(10.98)	(11.28)
Return after operating charges	(62.71)	(14.33)	18.40
Distributions	(33.16)	(37.41)	(35.57)
Closing NAV	644.65	740.52	792.26
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.41	0.24	0.29
Dilution adjustments <sup>[a]</sup>	(0.08)	(0.11)	(0.09)
Total direct portfolio transaction costs	0.33	0.13	0.20
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.05	0.02	0.03
Operating charges <sup>[c]</sup>	1.24	1.44	1.42
Return after operating charges	-8.47	-1.81	+2.27
Historic yield	4.96	4.96	4.49
Effect on yield of charges offset against capital	1.24	1.41	1.41
Other information			
Closing NAV (£'000)	16,515	20,739	24,973
Closing NAV percentage of total fund NAV (%)	3.37	3.53	3.95
Number of shares	2,561,909	2,800,614	3,152,075
Highest share price (UK p)	807.84	802.19	820.48
Lowest share price (UK p)	557.07	702.48	747.80

# M&G UK Income Distribution Fund

## Financial highlights

### Specific share class performance

#### Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 31 May	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	7,087.69	7,216.95	7,050.45
Return before operating charges and after direct portfolio transaction costs	(531.96)	(28.12)	265.83
Operating charges	(88.17)	(101.14)	(99.33)
Return after operating charges	(620.13)	(129.26)	166.50
Distributions	(236.74)	(249.04)	(216.97)
Retained distributions	236.74	249.04	216.97
Closing NAV	6,467.56	7,087.69	7,216.95
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	3.96	2.21	2.52
Dilution adjustments <sup>[a]</sup>	(0.73)	(1.04)	(0.77)
Total direct portfolio transaction costs	3.23	1.17	1.75
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.05	0.02	0.03
Operating charges <sup>[c]</sup>	1.24	1.44	1.42
Return after operating charges	-8.75	-1.79	+2.36
Historic yield	3.53	3.45	3.01
Effect on yield of charges offset against capital	0.00	0.01	0.01
Other information			
Closing NAV (£'000)	2,900	3,899	5,128
Closing NAV percentage of total fund NAV (%)	0.59	0.67	0.81
Number of shares	44,838	55,012	71,061
Highest share price (UK p)	7,868.24	7,319.37	7,312.74
Lowest share price (UK p)	5,476.69	6,507.65	6,670.33

<sup>[a]</sup> In respect of direct portfolio transaction costs.

<sup>[b]</sup> As a percentage of average net asset value.

<sup>[c]</sup> Following the change in charging structure, you may see variances between the comparative and current year figures.

# M&G UK Income Distribution Fund

## Financial statements and notes

### Financial statements

#### Statement of total return

for the year to 31 May	Note	2020		2019	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		(66,865)		(33,578)
Revenue	5	25,786		29,826	
Expenses	6	(5,075)		(6,017)	
Net revenue / (expense) before taxation		20,711		23,809	
Taxation	7	(10)		0	
Net revenue / (expense) after taxation			20,701		23,809
<b>Total return before distributions</b>			<b>(46,164)</b>		<b>(9,769)</b>
Distributions	8		(24,951)		(28,844)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(71,115)</b>		<b>(38,613)</b>

#### Statement of change in net assets attributable to shareholders

for the year to 31 May	£'000	2020		2019	
		£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>			<b>585,811</b>		<b>632,249</b>
Amounts received on issue of shares	22,004			39,192	
Amounts paid on cancellation of shares	(50,106)			(50,159)	
			(28,102)		(10,967)
Dilution adjustments			135		180
Change in net assets attributable to shareholders from investment activities (see above)			(71,115)		(38,613)
Retained distributions on Accumulation shares			2,567		2,910
Unclaimed distributions			44		52
<b>Closing net assets attributable to shareholders</b>			<b>489,340</b>		<b>585,811</b>

## M&G UK Income Distribution Fund

# Financial statements and notes

### Financial statements (continued)

#### Balance sheet

as at 31 May	Note	2020 £'000	2019 £'000
<b>Assets</b>			
<b>Fixed assets</b>			
Investments		490,740	589,185
<b>Current assets</b>			
Debtors	9	4,422	5,005
Cash and bank balances	10	517	1,224
Cash equivalents		2,777	3,593
<b>Total assets</b>		<b>498,456</b>	<b>599,007</b>
<b>Liabilities</b>			
<b>Creditors</b>			
Distribution payable		(8,671)	(12,365)
Other creditors	11	(445)	(831)
<b>Total liabilities</b>		<b>(9,116)</b>	<b>(13,196)</b>
<b>Net assets attributable to shareholders</b>		<b>489,340</b>	<b>585,811</b>

# M&G UK Income Distribution Fund

## Financial statements and notes

### Notes to the financial statements

#### 1 Accounting policies

The financial statements have been prepared in accordance with the 'Summary of significant accounting policies' set out on pages 7 and 8.

#### 2 Distribution policy

In determining the amount available for reinvestment to Accumulation shares, all expenses with the exception of the annual charge, annual management charge, administration charge and overdraft interest are offset against capital, increasing the amount available for reinvestment whilst restraining capital performance to an equivalent extent. In determining the amount available for distribution to Income shares, all expenses with the exception of overdraft interest are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

In determining the amount available for distribution, a transfer has been made between revenue and capital to disregard the change in the Retail Prices Index during the period in respect of interest from index-linked gilt-edged securities. This is to contribute to the preservation of the share value in real terms.

Marginal tax relief has not been taken into account in respect of expenses offset against capital.

#### 3 Net capital gains / (losses)

	2020 £'000	2019 £'000
<b>for the year to 31 May</b>		
Non-derivative securities	(66,917)	(33,568)
Currency gains / (losses)	53	(8)
Transaction charges	(1)	(2)
<b>Net capital gains / (losses)</b>	<b>(66,865)</b>	<b>(33,578)</b>

#### 4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 112.

	2020 £'000	% of transaction	2019 £'000	% of transaction
<b>for the year to 31 May</b>				
<b>a) Purchases</b>				
<b>Equities</b>				
Equities before transaction costs	68,072		67,632	
Commissions	27	0.04	14	0.02
Taxes	255	0.37	149	0.22
<b>Equities after transaction costs</b>	<b>68,354</b>		<b>67,795</b>	
<b>Debt securities <sup>[a]</sup></b>	<b>25,366</b>		<b>17,201</b>	
<b>Other transaction types</b>				
Corporate actions	180		1,274	
<b>Total purchases after transaction costs</b>	<b>93,900</b>		<b>86,270</b>	
<b>b) Sales</b>				
<b>Equities</b>				
Equities before transaction costs	85,764		90,128	
Commissions	(34)	0.04	(26)	0.03
<b>Equities after transaction costs</b>	<b>85,730</b>		<b>90,102</b>	
<b>Debt securities <sup>[a]</sup></b>	<b>38,894</b>		<b>8,353</b>	
<b>Other transaction types</b>				
Corporate actions	0		1,910	
<b>Total sales after transaction costs</b>	<b>124,624</b>		<b>100,365</b>	
	2020 £'000	% of average NAV	2019 £'000	% of average NAV
<b>c) Direct portfolio transaction costs</b>				
Commissions paid				
Equities	61	0.01	40	0.01
Taxes paid				
Equities	255	0.05	149	0.02
<b>Total direct portfolio transaction costs <sup>[b]</sup></b>	<b>316</b>	<b>0.06</b>	<b>189</b>	<b>0.03</b>
<b>d) Indirect portfolio transaction costs</b>		%		%
Portfolio dealing spread <sup>[c]</sup>		0.55		0.26

<sup>[a]</sup> These transaction types do not attract direct portfolio transaction costs.

<sup>[b]</sup> Costs before dilution adjustments. Please refer to the 'Financial highlights' section for the effect of dilution adjustments.

<sup>[c]</sup> Average portfolio dealing spread at the balance sheet date.

#### 5 Revenue

	2020 £'000	2019 £'000
<b>for the year to 31 May</b>		
Bank interest	1	2
Dividends from equity investments: non-taxable	21,098	25,295
Dividends from equity investments: taxable	968	681
Interest distributions	16	20
Interest on debt securities	3,271	3,450
Rebate of ongoing charges from underlying funds	1	0
Stock dividends	428	363
Underwriting commission	3	15
<b>Total revenue</b>	<b>25,786</b>	<b>29,826</b>

# M&G UK Income Distribution Fund

## Financial statements and notes

### Notes to the financial statements

#### 6 Expenses

	2020	2019
for the year to 31 May	£'000	£'000
<b>Payable to the ACD or associate</b>		
Annual charge	4,074	0
Annual management charge <sup>[a]</sup>	833	5,054
Administration charge <sup>[a]</sup>	150	905
	5,057	5,959
<b>Payable to the Depositary or associate</b>		
Depositary's charge (including VAT) <sup>[a]</sup>	7	41
<b>Other expenses</b>		
Audit fee (including VAT) <sup>[a]</sup> <sup>[b]</sup>	2	9
Interest payable	8	2
Safe custody charge <sup>[a]</sup>	1	6
	11	17
<b>Total expenses</b>	<b>5,075</b>	<b>6,017</b>

<sup>[a]</sup> The segregated charges shown above for annual management, administration, depositary, audit and safe custody are those paid by the fund up to and including 31 July 2019. As of 1 August 2019 these charges have been replaced by the single annual charge.

<sup>[b]</sup> Audit fees for the financial year ending 2020 were £9,000 (including VAT).

#### 7 Taxation

	2020	2019
for the year to 31 May	£'000	£'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	0
Withholding tax	10	0
Deferred tax (note 7c)	0	0
<b>Total taxation</b>	<b>10</b>	<b>0</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue / (expense) before taxation	20,711	23,809
Corporation tax at 20%	4,142	4,762
<b>Effects of:</b>		
Dividends from equity investments: non-taxable	(4,220)	(5,059)
Stock dividends not taxable	(86)	(73)
Current year expenses not utilised	175	402
Withholding tax	10	0
Relief for indexation on UK gilts	(11)	(32)
<b>Total tax charge (note 7a)</b>	<b>10</b>	<b>0</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The fund has not recognised a deferred tax asset of £2,184,000 (2019: £2,009,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

#### 8 Distributions

	2020		2019	
for the year to 31 May	Inc <sup>[a]</sup>	Acc <sup>[b]</sup>	Inc <sup>[a]</sup>	Acc <sup>[b]</sup>
	£'000	£'000	£'000	£'000
<b>Dividend distributions</b>				
First interim	4,531	573	4,538	507
Second interim	4,467	509	4,498	470
Third interim	4,438	491	4,445	451
Final	8,671	994	12,365	1,482
<b>Total net distributions</b>		<b>24,674</b>		<b>28,756</b>
Income deducted on cancellation of shares		472		508
Income received on issue of shares		(195)		(420)
<b>Distributions</b>		<b>24,951</b>		<b>28,844</b>
Net revenue / (expense) per statement of total return		20,701		23,809
Expenses offset against capital		4,388		5,261
Sharing of relief between classes		(82)		(63)
Effective yield adjustment not distributed		(56)		(163)
<b>Distributions</b>		<b>24,951</b>		<b>28,844</b>

<sup>[a]</sup> Distributions payable on Income shares.

<sup>[b]</sup> Retained distributions on Accumulation shares.

#### 9 Debtors

	2020	2019
as at 31 May	£'000	£'000
Amounts receivable on issues of shares	67	57
Debt security interest receivable	1,348	1,590
Distributions receivable	0	3
Dividends receivable	2,363	3,311
Sales awaiting settlement	644	41
Withholding tax recoverable	0	3
<b>Total debtors</b>	<b>4,422</b>	<b>5,005</b>

#### 10 Cash and bank balances

	2020	2019
as at 31 May	£'000	£'000
Cash held as bank balances	517	1,224
<b>Total cash and bank balances</b>	<b>517</b>	<b>1,224</b>

#### 11 Other creditors

	2020	2019
as at 31 May	£'000	£'000
ACD's annual management charge payable	0	152
Administration charge payable	0	27
Amounts payable on cancellation of shares	307	638
Annual charge payable	128	0
Expenses payable	10	14
<b>Total other creditors</b>	<b>445</b>	<b>831</b>

#### 12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2019: same).



# M&G UK Income Distribution Fund

## Financial statements and notes

### Notes to the financial statements

#### 13 Shares in issue

The following table shows each class of share in issue during the year. Each share class has the same rights on winding up however they may have different charging structures as set out in note 14.

Share class	Opening 01.06.19	Movements		Closing 31.05.20
		Issued	Cancelled	
<b>Sterling</b>				
Class 'A' Income	19,572,985	452,698	(1,109,965)	18,915,718
Class 'A' Accumulation	281,385	3,943	(21,541)	263,787
Class 'C' Income	7,919,730	272,849	(708,641)	7,483,938
Class 'I' Income	6,549,484	399,559	(445,598)	6,503,445
Class 'I' Accumulation	2,154,969	137,642	(542,624)	1,749,987
Class 'R' Income	166,576,488	5,229,780	(13,570,976)	158,235,292
Class 'R' Accumulation	10,938,290	1,352,017	(987,618)	11,302,689
Class 'X' Income	2,800,614	33,693	(272,398)	2,561,909
Class 'X' Accumulation	55,012	1,466	(11,640)	44,838

#### 14 Charging structure

The table below sets out the charging structure for each class of share. The charging structure is the same for both Income and Accumulation shares of each class.

Share class	Entry charge %	Exit charge %	Annual charge <sup>[a]</sup> %
<b>Sterling</b>			
Class 'A'	n/a	n/a	1.20
Class 'C'	n/a	n/a	nil
Class 'I'	n/a	n/a	0.70
Class 'R'	n/a	n/a	0.95
Class 'X'	n/a	n/a	1.20

<sup>[a]</sup> The amounts shown are the maximum annual charge. M&G will apply a discount of 0.02% for every £1 billion of a fund's net asset value. This is assessed quarterly and implemented on a forward basis no later than 13 business days after quarter end.

#### 15 Related parties

M&G Securities Limited, as Authorised Corporate Director (ACD), is a related party and acts as principal on all the transactions of shares in the fund except with in specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to shareholders' and note 8. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 9 and 11 where applicable.

Amounts paid to M&G Securities Limited in respect of the annual charge, ACD's annual management charge and administration charge are disclosed in note 6. Amounts due at the year end in respect of the annual charge are disclosed in note 11.

During the year, there were transactions with related parties of M&G Securities Limited with a total value of £2,403,000 (2019: £4,612,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £nil (2019: £2,373,000).

At the balance sheet date, shareholders from within M&G plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 3.65% (2019: 3.68%) of the fund's shares.

#### 16 Events after the balance sheet date

There were no events after the balance sheet date to disclose.

#### 17 Fair value analysis

Financial instruments have been measured at their fair value and have been classified below using a hierarchy that reflects the significance of the inputs used in measuring their fair value:

##### Level 1: Unadjusted quoted price in an active market for an identical instrument

This includes instruments such as publicly traded equities, highly liquid bonds (e.g. Government bonds) and exchange traded derivatives (e.g. futures) for which quoted prices are readily and regularly available.

##### Level 2: Valuation technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

##### Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights.

	Assets 2020	Liabilities 2020	Assets 2019	Liabilities 2019
as at 31 May	£'000	£'000	£'000	£'000
<b>Basis of valuation</b>				
Level 1	372,927	0	457,740	0
Level 2	117,766	0	131,398	0
Level 3	47	0	47	0
	<b>490,740</b>	<b>0</b>	<b>589,185</b>	<b>0</b>

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 13 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

#### 18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 9 to 10.

# M&G UK Income Distribution Fund

## Financial statements and notes

### Notes to the financial statements

#### 19 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by £24,537,000 (2019: £29,459,000). A five per cent decrease would have an equal and opposite effect.

#### 20 Currency risk sensitivity and exposure

Currency risk is not considered significant for the fund and is therefore not disclosed.

#### 21 Interest rate risk sensitivity and exposure

Changes in interest rates or changes in expectations of future interest rates may result in an increase or decrease in the market value of the investments held. A one per cent increase in interest rates (based on current parameters used by the Manager's Investment Risk department) would have the effect of decreasing the return and net assets by £(6,576,473), (2019: £(7,707,114)). A one per cent decrease would have the effect of increasing the return and net assets by £7,555,302 (2019: £9,179,698). The table below sets out the fund's exposure to interest rate risk.

	2020	2019
for the year to 31 May	£'000	£'000
Investments with fixed interest rates	95,444	101,490
Investments with variable interest rates	30,329	39,613
Non-interest bearing investments	364,967	448,082
<b>Total</b>	<b>490,740</b>	<b>589,185</b>

#### 22 Credit risk

The fund is exposed to credit risk both through the credit quality of the investments it holds and through the derivative positions with counterparties. The table below shows the credit quality of the investments held in the portfolio.

	2020	2019
as at 31 May	£'000	£'000
Investment grade securities	105,846	118,909
Below investment grade securities	1,873	608
Unrated securities	18,053	21,586
Other investments	364,968	448,082
<b>Total</b>	<b>490,740</b>	<b>589,185</b>

#### 23 Dividend distribution tables

This fund pays quarterly ordinary distributions and the following table sets out the distribution periods.

##### Quarterly distribution periods

	Start	End	Xd	Payment
First interim	01.06.19	31.08.19	02.09.19	31.10.19
Second interim	01.09.19	30.11.19	02.12.19	31.01.20
Third interim	01.12.19	29.02.20	02.03.20	30.04.20
Final	01.03.20	31.05.20	01.06.20	31.07.20

The following tables set out for each distribution the rates per share for both Group 1 and Group 2 shares.

Group 1 shares are those purchased prior to a distribution period and therefore their income rate is the same as the distribution rate.

Group 2 shares are those purchased during a distribution period and therefore their distribution rate is made up of income and equalisation. Equalisation is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the income and equalisation components.

##### Sterling Class 'A' Income shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	2.6639	3.9361	6.6000	6.4000
Second interim	0.0000	6.6000	6.6000	6.4000
Third interim	0.0000	6.6000	6.6000	6.4000
Final	2.5255	10.5666	13.0921	17.9096

##### Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	29.3447	19.9053	49.2500	45.0000
Second interim	0.0000	48.1000	48.1000	41.5000
Third interim	0.0000	46.2500	46.2500	39.5000
Final	22.9361	72.3193	95.2554	125.7520

##### Sterling Class 'C' Income shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	3.2043	4.2957	7.5000	7.2000
Second interim	0.0000	7.4000	7.4000	7.2000
Third interim	0.0000	7.4000	7.4000	7.1500
Final	4.8277	9.9107	14.7384	20.2565

# M&G UK Income Distribution Fund

## Financial statements and notes

### Notes to the financial statements

#### 23 Dividend distribution tables (continued)

##### Sterling Class 'I' Income shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	4.8038	6.0462	10.8500	10.5000
Second interim	0.0000	10.8500	10.8500	10.5000
Third interim	0.0000	10.9499	10.9499	10.5000
Final	4.9967	16.5481	21.5448	29.3213

##### Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	7.0383	5.8117	12.8500	11.7500
Second interim	0.0000	12.6000	12.6000	11.2500
Third interim	0.0000	12.3499	12.3499	11.2500
Final	5.1066	20.0613	25.1679	33.4440

##### Sterling Class 'R' Income shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	0.3936	0.6739	1.0675	1.0300
Second interim	0.0000	1.0675	1.0675	1.0300
Third interim	0.0000	1.0700	1.0700	1.0300
Final	0.3696	1.7487	2.1183	2.8990

##### Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	0.3212	0.8788	1.2000	1.1000
Second interim	0.0000	1.1600	1.1600	1.0500
Third interim	0.0000	1.1250	1.1250	1.0200
Final	0.2654	2.0385	2.3039	3.1028

##### Sterling Class 'X' Income shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	3.0712	3.5788	6.6500	6.4500
Second interim	0.0000	6.6500	6.6500	6.4500
Third interim	0.0000	6.6499	6.6499	6.4500
Final	2.4189	10.7932	13.2121	18.0594

##### Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	2020 UK p	2020 UK p	2020 UK p	2019 UK p
First interim	33.8997	14.8003	48.7000	44.5000
Second interim	7.0017	40.9983	48.0000	41.0000
Third interim	0.0000	45.7500	45.7500	39.0000
Final	23.8312	70.4637	94.2949	124.5367

## M&G UK Select Fund

# Authorised Corporate Director's Report

### Investment objective

The fund aims to provide a higher total return (the combination of capital growth and income), net of the ongoing charge figure, than that of the FTSE All-Share Index over any five-year period.

### Investment policy

At least 80% of the fund is invested directly in equity securities and equity-related securities of companies across any sectors and market capitalisations, that are incorporated, domiciled, listed or do most of their business in the United Kingdom.

The fund usually holds a concentrated portfolio of fewer than 50 companies.

The fund may also invest in other transferable securities directly and via collective investment schemes (including funds managed by M&G).

The fund may also hold cash and near cash for liquidity purposes. Derivatives may be used for efficient portfolio management and hedging.

### Investment approach

The fund employs a disciplined approach to investment which concentrates on the analysis and selection of individual companies.

The investment approach seeks to identify UK companies that have sustainable competitive advantages leading to high return on invested capital. Each company's strategy around capital allocation is central to the investment process.

The fund manager focuses on companies which recognise the importance of dividends, which in turn instils capital discipline and ensures that the highest returning growth projects are prioritised.

Rising cashflow, and over time, rising dividends, for the fund's holdings are expected to drive the long-term total return of the fund.

### Benchmark up to 22 March 2020

Benchmark: FTSE All-Share Index

The fund is actively managed. The benchmark is a target which the fund seeks to outperform. The index has been chosen as the fund's target benchmark as it best reflects the scope of the fund's investment policy. The target benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction.

For unhedged Share Classes, the benchmark is shown in the Share Class currency.

### Benchmark from 23 March 2020

Benchmark: FTSE All-Share Index

The benchmark is a target which the fund seeks to outperform. The index has been chosen as the fund's benchmark as it best reflects the scope of the fund's investment policy. The benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction.

The fund is actively managed.

The fund manager has complete freedom in choosing which investments to buy, hold and sell in the fund. The fund's holdings may deviate significantly from the benchmark's constituents.

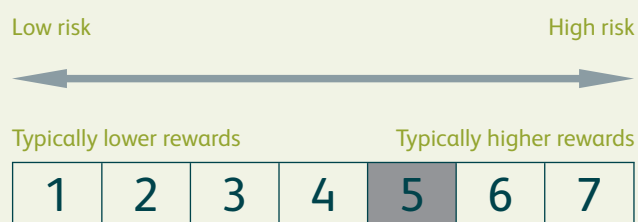
For unhedged Share Classes, the benchmark is shown in the Share Class currency.

### Risk profile

The fund invests in the shares of UK-listed companies and is, therefore, subject to the price volatility of the UK stockmarket and the performance of individual companies. The fund typically holds around 50 stocks and this relatively concentrated profile requires the fund manager to have strong conviction in each and every holding. However, the fund is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease.

Diversification is key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

The following table shows the risk number associated with the fund and is based on Sterling Class 'A' shares.



The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has not changed during this period.

### Investment review

As at 1 June 2020, for the year ended 31 May 2020

#### Performance against objective

Between 3 June 2019 (the start of the review period) and 1 June 2020, the fund delivered a negative total return (the combination of income and growth of capital) across all share classes but outperformed the benchmark FTSE All-Share Index, which fell by -10.0% in sterling, and -10.6% in euros.\*

## M&G UK Select Fund

# Authorised Corporate Director's Report

### Performance against objective (continued)

On 1 March 2019 the fund's objective changed to aiming to provide a higher total return (the combination of capital growth and income), net of the Ongoing Charge Figure, than that of the FTSE All-Share Index over any five-year period. The fund's performance against its new objective over five years was mixed. Fund returns were broadly in line with the FTSE All-Share Index which returned 1.7% p.a. in sterling and -2.7% p.a. in euros.\*

\* For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Financial highlights' section of this report.

### Investment performance

The year to June 2020 has been one of the most extreme and volatile in financial market history. Ultimately, the net return for the FTSE All-Share Index over the 12 months was -10%. However, behind the headline number were a couple of significant events.

The first of these was Boris Johnson's landslide victory in the UK election. Ever since the 2016 referendum, a deep fog of uncertainty has evolved around Brexit, causing the FTSE All-Share to materially underperform its global counterparts. As the prime minister first secured his exit deal with the European Union (EU), and then went on to dominate the election, sentiment inflected rapidly towards a more positive outlook. The markets' response was unequivocal, with the dramatic bounce of both sterling and the FTSE All-Share demonstrating the constrained power that can be unleashed when uncertainty unwinds. From 3 June 2019 to the calendar year end, the FTSE All-Share had returned a positive 9.4%.

We entered 2020 with many global equity indices nearing or hitting all-time records. However, the market can't price what it cannot see, and it was blissfully unaware of the impending coronavirus pandemic. As cases rapidly spread globally, most notably in Italy and South Korea, it became evident that a systematic shutting down of the global economy would be required to bring the pandemic under control. Over a matter of weeks, the FTSE All-Share would fall 35% from its January highs. In response, central banks and governments unleashed a tsunami of measures such as unlimited quantitative easing – purchases of financial assets from the markets – interest rates slashed to near-zero, and trillions of US dollars in stimulus and support packages. Never before have we witnessed such a threat to a globalised society and world order, and not since WWII have we seen such radical countermeasures.

Incredibly, despite a troubling macroeconomic picture, equity markets experienced somewhat of a resurgence after the March nadir, with the FTSE All-Share up 25% by 1 June 2020. The combination of massive stimulus and emerging green shoots of economic optimism as countries eased their respective lockdowns re-energised financial markets.

Of course, we never like to see negative returns for investors however, compared to the market as a whole, in our view the M&G UK Select Fund has been a relative bastion of safety during the

market volatility. Although the extreme volatility has often felt indiscriminate, it is abundantly clear that high-quality companies with less indebtedness and robust business models have been rewarded.

Two of the top contributors to the fund's performance were the subject of takeover approaches in the second half of 2019, when the combination of a weak pound and relatively cheap valuations of UK equities attracted international buyers to the market. Last year, bids for cyber security firm Sophos, which succeeded, and the London Stock Exchange, which ultimately failed, boosted their share prices considerably.

Other notable contributions included Fevertree, the premium alcoholic mixer producer, which rebounded strongly from its oversold March levels. As expected, two of our most defensive healthcare companies, AstraZeneca and ConvaTec, proved their worth as stable performers during the market volatility. Meanwhile, pork and poultry producer Cranswick benefited enormously from the shift to off-trade consumption during lockdown as well as from surging Chinese demand for pork due to the African Swine Flu that has crippled their domestic herd.

The main negative contributors at the stock level were Burford Capital, an AIM (Alternative Investment Market)-listed company providing specialised finance to the legal world, IQE, a Welsh-based manufacturer of innovative compound semiconductors that go into high-end technology applications, On the Beach, an online travel agent, WH Smith, the high street and transport hub retailer, and Standard Chartered, the emerging market-focused banking group.

Burford was subject to an attack by a specialist US short-seller, Muddy Waters. We used the drastic share price reaction to increase the fund's position. IQE suffered from end-market weakness in smartphones, as well as the US-China trade spats; however, we believe that these will pass at some point. On the Beach and WH Smith were affected by the collapse in travel and the high street shutdown. Meanwhile, Standard Chartered was under pressure from low interest rates and cancelled dividends, as well as rising tensions over China's plans to curtail Hong Kong's autonomy.

### Investment activities

Although we like to invest in high-quality businesses that tend to trade at a premium to the market, we are big believers in quality and intrinsic value being mutually inclusive. Market volatility often provides us the opening to marry the two. Over the past 12 months we have made 11 new investments.

Through 2019 this was orientated towards UK domestic cyclical companies that had underperformed whilst the market was punishing UK equities. FDM, Close Brothers and Watkin Jones were all bought at what we thought were unfairly discounted valuations. We also used the noise surrounding the US/China trade dispute to start a position in AIA, the Hong Kong listed life insurer.

Coming into 2020, the fund had been carrying a healthy level of cash. This proved invaluable as the market rapidly deteriorated throughout the first quarter, with some investments that we had



## M&G UK Select Fund

# Authorised Corporate Director's Report

### Investment activities (continued)

long idolised coming into our valuation cross-hairs. As a consequence we initiated positions in Ashtead, Games Workshop, Coats, Fevertree, ASOS, UDG and Total. We felt at the time, and still do now, that the collapse in share prices provided a once-in-a-decade opportunity to significantly enhance the portfolio by adding positions that will fuel the next 5-10 years of performance.

Coats is a market leader in manufacturing fabrics into numerous end markets, the most significant of which is the apparel and footwear industry. This industry has long been characterised by commoditisation and a race to the bottom on price. However, technology, material innovations and the push to sustainable supply is causing the whole value chain to professionalise. Coats is pioneering that trend. We think it is greatly underappreciated for its quality attributes and long-term potential. Coats was an early victim of coronavirus due to its Asian manufacturing footprint. This gave us a unique chance to step in and buy the shares.

Fevertree is a well-known brand among premium G&T drinkers. Fevertree's savvy founders created a whole new category of premium mixers for alcoholic drinks. These premium mixers then provided the catalyst for a gin revolution. Fevertree went from zero to nearly 45% of the tonic category, whilst gin consumption doubled. 2019, however, proved to be a bit of a hangover year. Gin consumption started to peak and Fevertree's share gain matured. Furthermore, excitement over their US business deflated when they announced a price cut to stimulate the market. The shares fell from £40 to £10 in just over a year. We felt that £10 offered exceptional value and used the opportunity to build a position.

Over the last decade or so, ASOS has created an unassailable position as the online department store for fashion-conscious 15 to 35-year olds. In order to build out their distribution leadership in the UK, Europe and the US, ASOS has spent an incredible amount of capital (capex) on automated distribution centres. We believe the company is now through its capex peak, and although that proved a hard pill to swallow, we think it extends their competitive position beyond comprehension. As the high street continues its slow death, ASOS' profitability and cash generation should, in our view, skyrocket. Coronavirus will only perpetuate that trend.

UDG is an outsourcer to the pharmaceutical industry. Its Ashfield business acts as a PR, communications and sales agency to big pharma. Its Sharp division is a very well regarded contract manufacturer of pharma products. The healthcare end market is one we particularly like due to ever-increasing healthcare needs from ageing populations and a shift towards big-pharma outsourcing. This company should be able to provide robust and long-term sustainable growth, solid cash generation and healthy returns on capital. Besides, its dividend discipline dates back to 1987.

Games Workshop is a branded manufacturer of small fantasy figurines, known most widely for its Warhammer brand. It is often wrongly characterised as a pure retailer, whilst we think it should be considered more for its enormous unlocked brand value. In recent years it has done a great job internationalising the

business, using wholesale and online channels to sell products, and also exploring monetising the brand through TV, film and games partnerships. We still think the company is in the foothills of the journey to unleash the Warhammer brand potential. A glance toward Lego, Marvel, DC Comics, Star Wars etc, shows what can be done with popular and enduring brand franchises.

Ashtead is a leading rental equipment company with a significant exposure to the US market. The rental industry has historically struggled in difficult economic conditions as players slashed prices and sold equipment to raise cash. Since the financial crisis of 2008/9, the industry has consolidated considerably. Technology and scale are becoming ever more important, squeezing out the tail of 'mom & pop' (small, family-owned or independent businesses) operators. We believe that irrational pricing pressure in this crisis will be far less extreme. We don't think the market understands the structural improvement in the industry, and therefore Ashtead's ability to create value across the economic cycle.

The energy market has been under enormous pressure amidst the coronavirus pandemic due to capitulating demand and excess supply, a problem exacerbated by disagreements between the OPEC+ members. Longer term, we remain deeply sceptical about how the oil majors will cope with the energy transition towards 'net zero' emissions. However, the collapse in share prices across the sector was disproportionate to the medium-term outlook, as demand recovers and underinvestment in new production begins to taper supply. Given this backdrop, we felt it was the right thing to do to diversify our exposure in the sector by adding Total and reducing our positions in BP and Royal Dutch Shell.

As part of the continued portfolio transition under the new fund manager, a number of positions were exited during the 12-month period. These included Hiscox, Sage, Next Fifteen Communications, Methanex, DS Smith, Essentra, Burberry, Dechra, Liontrust, Lloyds Banking Group, Prudential and AG Barr.

### Outlook

The big question on everyone's mind is whether the recent resurgence in equity markets is the start of something sustainable or a bear market rally.

Bulls will point towards near-unlimited quantitative easing flooding financial markets with investable liquidity, green shoots of economic activity as lockdowns ease and the potential for a vaccine to be discovered. On the flip side, we are still being held in an artificially benign economic comatose state, with unfettered government funding providing the life support. Only when that life support is removed will we see the true long-term damage caused and the underlying level of bankruptcies, debt defaults and unemployment. In a socially distanced world, great swathes of industries and companies will struggle to operate profitably when capacity utilisation is forcibly limited. There also exists the distinct risk of a second wave of infections leading to subsequent restrictions.

Specific to the UK market, Brexit narrative will return to the forefront of people's attention. The Conservative government remains committed to avoiding an extension in negotiating the

## M&G UK Select Fund

# Authorised Corporate Director's Report

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### Outlook (continued)

future trade deal. Negotiations have begun on rocky grounds, with massive distance between both sides on the subjects of ongoing governance, sovereignty and a level playing field on goods and services. Expect the rhetoric from each side to sour as both the UK and EU stubbornly hold firm. No doubt this will again go down to the wire. Whatever deal gets struck will likely be quite bare bones, whilst the risk of no deal is a material possibility. As in 2019, the closer we get to a resolution, the more likely the UK's valuation discount to other markets will start to unwind, but the process of getting there could be painful.

Ultimately, we still think the overall outlook remains clouded with uncertainty despite the rebound in equity markets suggesting a V-shaped recovery is the consensus. In light of this, looking ahead, to survive this potentially extended period of limited economic activity it is obvious that businesses with more resilient balance sheets and revenue models have a better chance of surviving and then thriving. When the coronavirus clouds part, companies that come out the other side relatively unscathed will be in an even more advantageous position versus the competition. We should be clear in saying that not every one of the M&G UK Select Fund's holdings has avoided or will avoid seeking governmental aid, cutting dividends or issuing new equity. However, we believe that as a collective, the portfolio should endure any turbulent economic conditions more comfortably than the market as a whole.

With the M&G UK Select Fund, we try to build a concentrated portfolio of compelling investments without taking macroeconomic views. We like our companies to do the talking, buying what we believe to be good-quality businesses that can generate shareholder value over the long term. We leave tactical short-termism to the traders and focus our attention on finding great investment opportunities no matter the noise coming from the macroeconomic backdrop.

### Rory Alexander

#### Fund manager

An employee of M&G FA Limited (formerly M&G Limited) which is an associate of M&G Securities Limited.

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

## M&amp;G UK Select Fund

## Authorised Corporate Director's Report

## Portfolio statement

as at 31 May Holding		2020 £'000	2020 %	2019 <sup>[a]</sup> %
	<b>EQUITIES</b>	<b>503,663</b>	<b>94.09</b>	<b>96.44</b>
	<b>Software &amp; computer services</b>	<b>10,122</b>	<b>1.89</b>	<b>5.30</b>
799,729	FDM	6,990	1.31	
470,318	GB	3,132	0.58	
	<b>Technology hardware &amp; equipment</b>	<b>5,667</b>	<b>1.06</b>	<b>0.40</b>
14,599,505	IQE	5,667	1.06	
	<b>Medical equipment &amp; services</b>	<b>30,562</b>	<b>5.71</b>	<b>3.53</b>
2,799,470	ConvaTec	5,750	1.07	
911,316	Smith & Nephew	15,028	2.81	
1,346,769	UDG Healthcare	9,784	1.83	
	<b>Pharmaceuticals &amp; biotechnology</b>	<b>54,310</b>	<b>10.15</b>	<b>6.11</b>
492,400	AstraZeneca	43,922	8.21	
603,579	Hutchison China MedTech ADR	10,388	1.94	
	<b>Banks</b>	<b>25,439</b>	<b>4.75</b>	<b>9.07</b>
622,850	Close Brothers	6,839	1.28	
2,713,400	HSBC	10,159	1.90	
2,233,040	Standard Chartered	8,441	1.57	
	<b>Finance &amp; credit services</b>	<b>15,119</b>	<b>2.82</b>	<b>4.31 <sup>[a]</sup></b>
185,372	London Stock Exchange	15,119	2.82	
	<b>Investment banking &amp; brokerage services</b>	<b>41,227</b>	<b>7.70</b>	<b>8.44 <sup>[a]</sup></b>
2,075,196	AJ Bell	8,176	1.53	
2,348,619	Burford Capital	10,343	1.93	
2,349,329	IntegraFin	12,311	2.30	
7,187,458	Man	10,397	1.94	
	<b>Life insurance</b>	<b>14,765</b>	<b>2.76</b>	<b>4.37</b>
927,800	AIA	6,102	1.14	
928,534	St. James's Place	8,663	1.62	
	<b>Non-life insurance</b>	<b>0</b>	<b>0.00</b>	<b>2.31</b>
	<b>Household goods &amp; home construction</b>	<b>40,576</b>	<b>7.58</b>	<b>5.66</b>
2,850,713	Countryside Properties	8,159	1.53	
363,422	Reckitt Benckiser	25,919	4.84	
3,858,760	Watkin Jones	6,498	1.21	
	<b>Leisure goods</b>	<b>13,446</b>	<b>2.51</b>	<b>0.00</b>
173,047	Games Workshop	13,446	2.51	
	<b>Personal goods</b>	<b>24,790</b>	<b>4.63</b>	<b>6.83</b>
569,881	Unilever	24,790	4.63	
	<b>Media</b>	<b>21,420</b>	<b>4.00</b>	<b>4.33</b>
3,123,155	Ascential	8,645	1.61	
3,715,829	Moneysupermarket.com	12,775	2.39	
	<b>Retailers</b>	<b>19,434</b>	<b>3.63</b>	<b>3.76</b>
375,407	ASOS	11,229	2.10	
740,546	WH Smith	8,205	1.53	
	<b>Travel &amp; leisure</b>	<b>5,440</b>	<b>1.02</b>	<b>1.85</b>
1,813,231	On the Beach	5,440	1.02	
	<b>Beverages</b>	<b>13,590</b>	<b>2.54</b>	<b>0.82</b>
665,881	Fevertree Drinks	13,590	2.54	
	<b>Food producers</b>	<b>13,734</b>	<b>2.57</b>	<b>3.02</b>
377,942	Cranswick	13,734	2.57	
	<b>Tobacco</b>	<b>20,829</b>	<b>3.89</b>	<b>3.07</b>
640,000	British American Tobacco	20,829	3.89	
	<b>Construction &amp; materials</b>	<b>9,263</b>	<b>1.73</b>	<b>0.40</b>
2,146,841	Polypipe	9,263	1.73	
	<b>General industrials</b>	<b>19,338</b>	<b>3.61</b>	<b>3.39</b>
16,871,185	Coats	8,942	1.67	
784,911	Smiths	10,396	1.94	
	<b>Industrial engineering</b>	<b>17,398</b>	<b>3.25</b>	<b>4.38</b>
128,046	Kone	7,074	1.32	
3,837,889	Rotork	10,324	1.93	



## M&amp;G UK Select Fund

## Authorised Corporate Director's Report

## Portfolio statement (continued)

as at 31 May Holding		2020 £'000	2020 %	2019 <sup>[a]</sup> %
	<b>EQUITIES (continued)</b>			
	<b>Industrial support services</b>	<b>38,046</b>	<b>7.11</b>	<b>4.65</b>
346,889	Ashtead	8,530	1.60	
619,528	Experian	17,737	3.31	
210,411	Intertek	11,779	2.20	
	<b>Industrial transportation</b>	<b>9,647</b>	<b>1.80</b>	<b>0.48</b>
425,902	Clarkson	9,647	1.80	
	<b>Chemicals</b>	<b>8,059</b>	<b>1.51</b>	<b>3.03</b>
390,065	Victrex	8,059	1.51	
	<b>Non-renewable energy</b>	<b>31,442</b>	<b>5.87</b>	<b>6.93</b>
3,264,744	BP	9,982	1.86	
825,143	Royal Dutch Shell	10,217	1.91	
368,782	Total	11,243	2.10	
	<b>Unquoted / unlisted</b>	<b>0</b>	<b>0.00</b>	<b>0.00</b>
770,825	Izodia <sup>[b]</sup>	0	0.00	
<b>Portfolio of investments</b>		<b>503,663</b>	<b>94.09</b>	<b>96.44</b>
	<b>CASH EQUIVALENTS</b>	<b>34,911</b>	<b>6.52</b>	<b>7.75</b>
	<b>'AAA' rated money market funds <sup>[c]</sup></b>	<b>34,911</b>	<b>6.52</b>	<b>7.75</b>
34,911,168	Northern Trust Global Fund - Sterling	34,911	6.52	
<b>Total portfolio (notes 2c &amp; 2d on page 7)</b>		<b>538,574</b>	<b>100.61</b>	<b>104.19</b>
<b>Net other assets / (liabilities)</b>		<b>(3,251)</b>	<b>(0.61)</b>	<b>(4.19)</b>
<b>Net assets attributable to shareholders</b>		<b>535,323</b>	<b>100.00</b>	<b>100.00</b>

All securities are on an official stock exchange listing except where referenced.

<sup>[a]</sup> The comparative sector weightings have been re-analysed to reflect changes to the sector classifications.

<sup>[b]</sup> Suspended.

<sup>[c]</sup> Uncommitted surplus cash is placed into 'AAA' rated money market funds with the aim of reducing counterparty risk.

## M&G UK Select Fund

# Authorised Corporate Director's Report

### Top ten portfolio transactions

for the year to 31 May 2020	
Largest purchases	£'000
Royal Dutch Shell	29,648
Hutchison China MedTech ADR	14,197
Polypipe	11,983
Coats	11,538
Burford Capital	11,245
Watkin Jones	11,161
Total	10,522
IQE	9,898
Clarkson	9,698
Prudential	9,446
Other purchases	116,821
<b>Total purchases</b>	<b>246,157</b>
Largest sales	£'000
Lloyds Banking	19,568
BP	18,665
London Stock Exchange	18,019
Prudential	17,545
Sophos	17,368
Unilever	13,533
Hiscox	12,332
ConvaTec	10,661
St. James's Place	10,381
WH Smith	10,055
Other sales	129,705
<b>Total sales</b>	<b>277,832</b>

Purchases and sales exclude the cost and proceeds of 'AAA' rated money market funds.

## M&G UK Select Fund

# Financial highlights

### Fund performance

Please note past performance is not a guide to future performance and the value of investments, and the income from them, will fluctuate. This will cause the fund price to fall as well as rise and you may not get back the original amount you invested.

The following charts and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be different. For more information on the different share classes in this fund please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

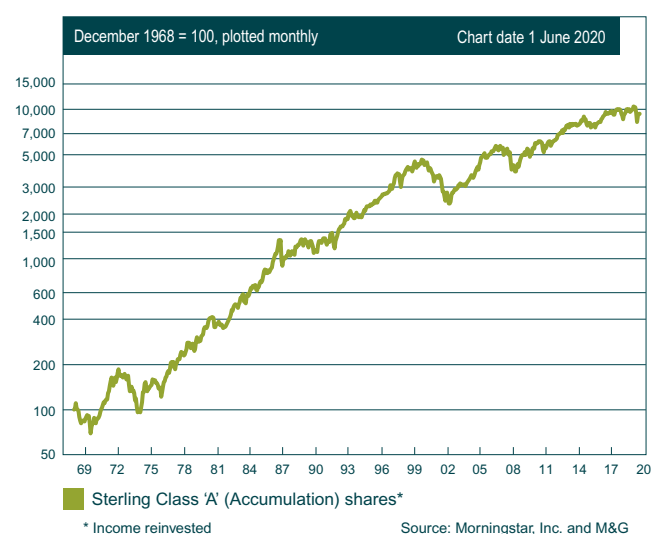
### Fund level performance

#### Fund net asset value

	2020	2019	2018
as at 31 May	£'000	£'000	£'000
Fund net asset value (NAV)	535,323	581,167	601,265

### Performance since launch

To give an indication of how the fund has performed since launch, the chart below shows total return of Sterling Class 'A' (Accumulation) shares.



### Ten-year performance

Please note that comparator benchmark data is not available from fund launch. Therefore a ten-year comparable performance chart is shown below.



To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period. Calculated on a price to price basis with income reinvested.

#### Long-term performance by share class

	One year 03.06.19 % <sup>[a]</sup>	Three years 01.06.17 % p.a.	Five years 01.06.15 % p.a.	Since launch % p.a.
<b>Euro<sup>[b]</sup></b>				
Class 'A'	-4.7	-1.6	-3.3	+2.2 <sup>[c]</sup>
Class 'C'	-3.9	-0.8	-2.5	+3.0 <sup>[c]</sup>
<b>Sterling<sup>[d]</sup></b>				
Class 'A'	-3.0	-0.6	+1.2	+9.2 <sup>[e]</sup>
Class 'C'	-1.8	+0.8	+2.7	+5.8 <sup>[f]</sup>
Class 'I'	-2.5	+0.1	+1.9	+6.6 <sup>[g]</sup>
Class 'R'	-2.7	-0.2	+1.7	+6.3 <sup>[g]</sup>
Class 'X'	-3.0	-0.6	+1.2	+7.8 <sup>[h]</sup>

<sup>[a]</sup> Absolute basis.

<sup>[b]</sup> Price to price with net income reinvested.

<sup>[c]</sup> 31 August 2007, the launch date of the share class.

<sup>[d]</sup> Price to price with income reinvested.

<sup>[e]</sup> 17 December 1968, the end of the initial offer period of the predecessor unit trust.

<sup>[f]</sup> 13 March 2013, the launch date of the share class.

<sup>[g]</sup> 3 August 2012, the launch date of the share class.

<sup>[h]</sup> 1 October 2002, the launch date of the share class.

## M&G UK Select Fund

# Financial highlights

### Operating charges and portfolio transaction costs

We explain below the payments made to meet the ongoing costs of investing and managing the fund, comprising operating charges and portfolio transaction costs.

#### Operating charges

Operating charges include payments made to M&G and to providers independent of M&G:

- **Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge.  
For every £1 billion of a fund's net asset value, a discount of 0.02% will be applied to that fund's annual charge (up to a maximum of 0.12%).
- **Extraordinary legal and tax expenses:** Costs that specifically relate to legal or tax claims that are both exceptional and unforeseeable. Such expenses are uncommon, and would not be expected in most years. Although they result in a short-term cost to the fund, generally they can deliver longer term benefits for investors.
- **Investment management:** Charge paid to M&G for investment management of the fund. From 1 August 2019 this charge forms part of the annual charge.
- **Administration:** Charge paid for administration services in addition to investment management – any surplus from this charge will be retained by M&G. From 1 August 2019 this charge is rolled into the annual charge.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit. From 1 August 2019 these charges will be paid by M&G and rolled into the annual charge.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated. From 1 August 2019 charges from underlying funds (excluding Investment Trust Companies and Real Estate Investment Trusts) will be rebated.

The operating charges paid by each share class of the fund are shown in the following performance tables. These charges do not include portfolio transaction costs or any entry and exit charges (also known as initial and redemption charges). The charging structures of share classes may differ, and therefore the operating charges may differ.

Once the annual charge has been operational for twelve months, operating charges will be in line with the ongoing charges shown in the Key Investor Information Document, other than where there have been extraordinary legal or tax expenses, or an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

#### Portfolio transaction costs

Portfolio transaction costs are incurred by funds when buying and selling investments. These costs vary depending on the types of investment, their market capitalisation, country of exchange and method of execution. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission and taxes.
- **Indirect portfolio transaction costs:** 'Dealing spread' – the difference between the buying and selling prices of the fund's investments; some types of investment, such as fixed interest securities, have no direct transaction costs and only the dealing spread is paid.

Investments are bought or sold by a fund when changes are made to the investment portfolio and in response to net flows of money into or out of the fund from investors buying and selling shares in the fund.

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. The table below shows direct portfolio transaction costs paid by the fund before and after that part of the dilution adjustment relating to direct portfolio transaction costs. To give an indication of the indirect portfolio dealing costs the table also shows the average portfolio dealing spread.

Further information on this process is in the Prospectus, which is available free of charge on request either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

## M&G UK Select Fund

# Financial highlights

### Operating charges and portfolio transaction costs

#### Portfolio transaction costs (continued)

##### Portfolio transaction costs

for the year to 31 May	2020	2019	2018	Average <sup>[a]</sup>
Direct portfolio transaction costs <sup>[b]</sup>	%	%	%	%
Broker commission	0.04	0.04	0.03	0.04
Taxes	0.15	0.22	0.14	0.17
Costs before dilution adjustments	0.19	0.26	0.17	0.21
Dilution adjustments <sup>[c]</sup>	(0.01)	(0.04)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.18	0.22	0.16	0.19

as at 31 May	2020	2019	2018	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.13	0.12	0.09	0.11

<sup>[a]</sup> Average of first three columns.

<sup>[b]</sup> As a percentage of average net asset value.

<sup>[c]</sup> In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.

### Specific share class performance

The following tables show the performance of each share class. All 'Performance and charges' percentages represent an annual rate except for the 'Return after operating charges' which is calculated as a percentage of the opening net asset value per share (NAV). 'Dilution adjustments' are only in respect of direct portfolio transaction costs.

Historic yields for the current year are calculated as at 5 June 2020.

#### Euro Class 'A' Accumulation share performance

The share class was launched on 31 August 2007.			
for the year to 31 May	2020	2019	2018
Change in NAV per share	Euro €	Euro €	Euro €
Opening NAV	1,388.29	1,451.15	1,391.94
Return before operating charges and after direct portfolio transaction costs	(51.44)	(39.88)	81.80
Operating charges	(22.92)	(22.98)	(22.59)
Return after operating charges	(74.36)	(62.86)	59.21
Distributions	(10.55)	(21.82)	(15.71)
Retained distributions	10.55	21.82	15.71
Closing NAV	1,313.93	1,388.29	1,451.15
Direct portfolio transaction costs	Euro €	Euro €	Euro €
Costs before dilution adjustments	2.59	3.57	2.34
Dilution adjustments <sup>[a]</sup>	(0.19)	(0.50)	(0.08)
Total direct portfolio transaction costs	2.40	3.07	2.26
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.18	0.22	0.16
Operating charges <sup>[c]</sup>	1.65	1.66	1.66
Return after operating charges	-5.36	-4.33	+4.25
Historic yield	0.76	1.56	1.08
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	1,714	1,840	2,684
Closing NAV percentage of total fund NAV (%)	0.32	0.32	0.45
Number of shares	144,408	149,548	211,045
Highest share price (Euro €)	1,601.02	1,476.34	1,467.79
Lowest share price (Euro €)	974.87	1,196.56	1,261.60

# M&G UK Select Fund

## Financial highlights

### Specific share class performance

#### Euro Class 'C' Accumulation share performance

The share class was launched on 31 August 2007. for the year to 31 May			
	2020	2019	2018
<b>Change in NAV per share</b>	<b>Euro €</b>	<b>Euro €</b>	<b>Euro €</b>
Opening NAV	1,514.76	1,571.50	1,496.07
Return before operating charges and after direct portfolio transaction costs	(55.80)	(42.31)	88.76
Operating charges	(12.31)	(14.43)	(13.33)
Return after operating charges	(68.11)	(56.74)	75.43
Distributions	(25.36)	(34.88)	(28.10)
Retained distributions	25.36	34.88	28.10
Closing NAV	1,446.65	1,514.76	1,571.50
<b>Direct portfolio transaction costs</b>	<b>Euro €</b>	<b>Euro €</b>	<b>Euro €</b>
Costs before dilution adjustments	2.89	4.08	2.52
Dilution adjustments <sup>[a]</sup>	(0.21)	(0.58)	(0.08)
Total direct portfolio transaction costs	2.68	3.50	2.44
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.18	0.22	0.16
Operating charges <sup>[c]</sup>	0.73	0.91	0.91
Return after operating charges	-4.50	-3.61	+5.04
Historic yield	1.67	2.28	1.79
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	95	4,390	34
Closing NAV percentage of total fund NAV (%)	0.02	0.76	0.01
Number of shares	7,275	327,077	2,465
Highest share price (Euro €)	1,758.14	1,609.84	1,589.23
Lowest share price (Euro €)	1,071.38	1,301.42	1,358.51

#### Sterling Class 'A' Income share performance

The share class was launched on 19 October 1982. for the year to 31 May			
	2020	2019	2018
<b>Change in NAV per share</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Opening NAV	2,873.47	3,069.31	3,015.29
Return before operating charges and after direct portfolio transaction costs	(53.35)	(52.70)	186.62
Operating charges	(36.30)	(48.56)	(49.42)
Return after operating charges	(89.65)	(101.26)	137.20
Distributions	(68.64)	(94.58)	(83.18)
Closing NAV	2,715.18	2,873.47	3,069.31
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	5.30	7.55	5.12
Dilution adjustments <sup>[a]</sup>	(0.38)	(1.06)	(0.17)
Total direct portfolio transaction costs	4.92	6.49	4.95
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.18	0.22	0.16
Operating charges <sup>[c]</sup>	1.28	1.66	1.66
Return after operating charges	-3.12	-3.30	+4.55
Historic yield	2.44	3.27	2.71
Effect on yield of charges offset against capital	1.28	1.65	1.65
<b>Other information</b>			
Closing NAV (£'000)	202,586	224,258	257,652
Closing NAV percentage of total fund NAV (%)	37.85	38.59	42.85
Number of shares	7,461,242	7,804,421	8,394,454
Highest share price (UK p)	3,125.10	3,117.16	3,172.34
Lowest share price (UK p)	2,112.75	2,583.46	2,803.64

#### Sterling Class 'A' Accumulation share performance

The share class was launched on 17 December 1968. for the year to 31 May			
	2020	2019	2018
<b>Change in NAV per share</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Opening NAV	4,652.54	4,809.42	4,598.26
Return before operating charges and after direct portfolio transaction costs	(87.60)	(80.52)	286.79
Operating charges	(59.01)	(76.36)	(75.63)
Return after operating charges	(146.61)	(156.88)	211.16
Distributions	(52.74)	(73.22)	(52.09)
Retained distributions	52.74	73.22	52.09
Closing NAV	4,505.93	4,652.54	4,809.42
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	8.61	11.87	7.84
Dilution adjustments <sup>[a]</sup>	(0.62)	(1.67)	(0.26)
Total direct portfolio transaction costs	7.99	10.20	7.58
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.18	0.22	0.16
Operating charges <sup>[c]</sup>	1.28	1.66	1.66
Return after operating charges	-3.15	-3.26	+4.59
Historic yield	1.13	1.56	1.08
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	163,588	180,828	203,795
Closing NAV percentage of total fund NAV (%)	30.56	31.11	33.89
Number of shares	3,630,503	3,886,649	4,237,421
Highest share price (UK p)	5,094.93	4,884.05	4,872.93
Lowest share price (UK p)	3,444.47	4,081.30	4,306.59

#### Sterling Class 'C' Income share performance

Sterling Class 'C' shares are not generally available to all investors. The share class was launched on 13 March 2013. for the year to 31 May			
	2020	2019	2018
<b>Change in NAV per share</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Opening NAV	2,994.19	3,150.12	3,048.20
Return before operating charges and after direct portfolio transaction costs	(56.37)	(53.07)	191.53
Operating charges	(0.83)	(4.97)	(4.88)
Return after operating charges	(57.20)	(58.04)	186.65
Distributions	(71.99)	(97.89)	(84.73)
Closing NAV	2,865.00	2,994.19	3,150.12
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	5.56	7.80	5.22
Dilution adjustments <sup>[a]</sup>	(0.40)	(1.10)	(0.17)
Total direct portfolio transaction costs	5.16	6.70	5.05
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.18	0.22	0.16
Operating charges <sup>[c]</sup>	0.03	0.16	0.16
Return after operating charges	-1.91	-1.84	+6.12
Historic yield	2.43	3.25	2.69
Effect on yield of charges offset against capital	0.03	0.15	0.15
<b>Other information</b>			
Closing NAV (£'000)	12,966	14,582	17,233
Closing NAV percentage of total fund NAV (%)	2.42	2.51	2.86
Number of shares	452,568	487,022	547,039
Highest share price (UK p)	3,282.85	3,208.32	3,254.26
Lowest share price (UK p)	2,223.98	2,674.58	2,868.98

# M&G UK Select Fund

## Financial highlights

### Specific share class performance

#### Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	1,428.16	1,513.97	1,476.12
Return before operating charges and after direct portfolio transaction costs	(26.69)	(25.75)	92.02
Operating charges	(10.41)	(13.21)	(13.33)
Return after operating charges	(37.10)	(38.96)	78.69
Distributions	(34.21)	(46.85)	(40.84)
Closing NAV	1,356.85	1,428.16	1,513.97
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	2.64	3.73	2.52
Dilution adjustments <sup>[a]</sup>	(0.19)	(0.53)	(0.08)
Total direct portfolio transaction costs	2.45	3.20	2.44
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.18	0.22	0.16
Operating charges <sup>[c]</sup>	0.73	0.91	0.91
Return after operating charges	-2.60	-2.57	+5.33
Historic yield	2.43	3.26	2.70
Effect on yield of charges offset against capital	0.73	0.90	0.90
Other information			
Closing NAV (£'000)	27,266	30,714	34,102
Closing NAV percentage of total fund NAV (%)	5.09	5.28	5.67
Number of shares	2,009,537	2,150,600	2,252,490
Highest share price (UK p)	1,558.80	1,539.76	1,564.38
Lowest share price (UK p)	1,054.74	1,279.86	1,380.86

#### Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	1,689.42	1,733.34	1,644.85
Return before operating charges and after direct portfolio transaction costs	(32.06)	(28.66)	103.40
Operating charges	(12.32)	(15.26)	(14.91)
Return after operating charges	(44.38)	(43.92)	88.49
Distributions	(28.31)	(38.96)	(30.98)
Retained distributions	28.31	38.96	30.98
Closing NAV	1,645.04	1,689.42	1,733.34
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	3.13	4.31	2.82
Dilution adjustments <sup>[a]</sup>	(0.23)	(0.61)	(0.09)
Total direct portfolio transaction costs	2.90	3.70	2.73
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.18	0.22	0.16
Operating charges <sup>[c]</sup>	0.73	0.91	0.91
Return after operating charges	-2.63	-2.53	+5.38
Historic yield	1.66	2.29	1.79
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	92,724	88,570	50,251
Closing NAV percentage of total fund NAV (%)	17.32	15.24	8.36
Number of shares	5,636,584	5,242,643	2,899,075
Highest share price (UK p)	1,856.68	1,762.73	1,755.90
Lowest share price (UK p)	1,256.30	1,477.29	1,549.92

#### Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	141.82	150.72	147.33
Return before operating charges and after direct portfolio transaction costs	(2.65)	(2.57)	9.15
Operating charges	(1.38)	(1.67)	(1.71)
Return after operating charges	(4.03)	(4.24)	7.44
Distributions	(3.39)	(4.66)	(4.05)
Closing NAV	134.40	141.82	150.72
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.26	0.37	0.25
Dilution adjustments <sup>[a]</sup>	(0.02)	(0.05)	(0.01)
Total direct portfolio transaction costs	0.24	0.32	0.24
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.18	0.22	0.16
Operating charges <sup>[c]</sup>	0.98	1.16	1.16
Return after operating charges	-2.84	-2.81	+5.05
Historic yield	2.44	3.26	2.68
Effect on yield of charges offset against capital	0.98	1.15	1.15
Other information			
Closing NAV (£'000)	5,153	5,206	4,911
Closing NAV percentage of total fund NAV (%)	0.96	0.90	0.82
Number of shares	3,834,022	3,670,824	3,258,198
Highest share price (UK p)	154.55	153.22	155.73
Lowest share price (UK p)	104.53	127.23	137.52

#### Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	166.03	170.77	162.46
Return before operating charges and after direct portfolio transaction costs	(3.15)	(2.84)	10.22
Operating charges	(1.62)	(1.90)	(1.91)
Return after operating charges	(4.77)	(4.74)	8.31
Distributions	(2.37)	(3.42)	(2.64)
Retained distributions	2.37	3.42	2.64
Closing NAV	161.26	166.03	170.77
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.31	0.42	0.28
Dilution adjustments <sup>[a]</sup>	(0.02)	(0.06)	(0.01)
Total direct portfolio transaction costs	0.29	0.36	0.27
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.18	0.22	0.16
Operating charges <sup>[c]</sup>	0.98	1.16	1.16
Return after operating charges	-2.87	-2.78	+5.12
Historic yield	1.42	2.05	1.54
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	21,004	21,153	18,947
Closing NAV percentage of total fund NAV (%)	3.92	3.64	3.15
Number of shares	13,024,454	12,740,356	11,095,303
Highest share price (UK p)	182.18	173.58	173.00
Lowest share price (UK p)	123.22	145.33	152.77

# M&G UK Select Fund

## Financial highlights

### Specific share class performance

#### Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	2,892.63	3,089.78	3,035.39
Return before operating charges and after direct portfolio transaction costs	(53.63)	(53.05)	187.97
Operating charges	(36.62)	(48.88)	(49.71)
Return after operating charges	(90.25)	(101.93)	138.26
Distributions	(69.09)	(95.22)	(83.87)
Closing NAV	2,733.29	2,892.63	3,089.78
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	5.34	7.59	5.15
Dilution adjustments <sup>[a]</sup>	(0.39)	(1.07)	(0.17)
Total direct portfolio transaction costs	4.95	6.52	4.98
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.18	0.22	0.16
Operating charges <sup>[c]</sup>	1.28	1.66	1.66
Return after operating charges	-3.12	-3.30	+4.55
Historic yield	2.44	3.27	2.71
Effect on yield of charges offset against capital	1.28	1.65	1.65
Other information			
Closing NAV (£'000)	4,868	5,836	7,018
Closing NAV percentage of total fund NAV (%)	0.91	1.00	1.17
Number of shares	178,082	201,759	227,138
Highest share price (UK p)	3,145.94	3,137.94	3,193.63
Lowest share price (UK p)	2,126.84	2,600.69	2,822.47

#### Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002. for the year to 31 May			
	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	4,602.61	4,757.81	4,548.91
Return before operating charges and after direct portfolio transaction costs	(86.65)	(79.66)	283.68
Operating charges	(58.38)	(75.54)	(74.78)
Return after operating charges	(145.03)	(155.20)	208.90
Distributions	(52.18)	(72.43)	(51.56)
Retained distributions	52.18	72.43	51.56
Closing NAV	4,457.58	4,602.61	4,757.81
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	8.52	11.74	7.75
Dilution adjustments <sup>[a]</sup>	(0.62)	(1.66)	(0.26)
Total direct portfolio transaction costs	7.90	10.08	7.49
Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.18	0.22	0.16
Operating charges <sup>[c]</sup>	1.28	1.66	1.66
Return after operating charges	-3.15	-3.26	+4.59
Historic yield	1.13	1.56	1.08
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	3,359	3,790	4,638
Closing NAV percentage of total fund NAV (%)	0.63	0.65	0.77
Number of shares	75,354	82,354	97,489
Highest share price (UK p)	5,040.25	4,831.64	4,820.64
Lowest share price (UK p)	3,407.51	4,037.51	4,260.38

<sup>[a]</sup> In respect of direct portfolio transaction costs.

<sup>[b]</sup> As a percentage of average net asset value.

<sup>[c]</sup> Following the change in charging structure, you may see variances between the comparative and current year figures.



## M&G UK Select Fund

# Financial statements and notes

### Financial statements

#### Statement of total return

for the year to 31 May	Note	2020		2019	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		(24,099)		(30,213)
Revenue	5	14,077		19,192	
Expenses	6	(6,296)		(8,343)	
Net revenue / (expense) before taxation		7,781		10,849	
Taxation	7	(28)		(80)	
Net revenue / (expense) after taxation			7,753		10,769
<b>Total return before distributions</b>			<b>(16,346)</b>		<b>(19,444)</b>
Distributions	8		(10,468)		(14,353)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(26,814)</b>		<b>(33,797)</b>

#### Statement of change in net assets attributable to shareholders

for the year to 31 May	£'000	2020		2019	
		£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>			<b>581,167</b>		<b>601,265</b>
Amounts received on issue of shares	24,909			61,220	
Amounts paid on cancellation of shares	(47,965)			(53,172)	
			(23,056)		8,048
Dilution adjustments			117		299
Change in net assets attributable to shareholders from investment activities (see above)			(26,814)		(33,797)
Retained distributions on Accumulation shares			3,869		5,312
Unclaimed distributions			40		40
<b>Closing net assets attributable to shareholders</b>			<b>535,323</b>		<b>581,167</b>

## M&G UK Select Fund

# Financial statements and notes

### Financial statements (continued)

#### Balance sheet

as at 31 May	Note	2020 £'000	2019 £'000
<b>Assets</b>			
<b>Fixed assets</b>			
Investments		503,663	560,471
<b>Current assets</b>			
Debtors	9	1,023	9,115
Cash and bank balances	10	860	597
Cash equivalents		34,911	45,048
<b>Total assets</b>		<b>540,457</b>	<b>615,231</b>
<b>Liabilities</b>			
<b>Creditors</b>			
Bank overdrafts		0	(16,273)
Distribution payable		(4,527)	(6,986)
Other creditors	11	(607)	(10,805)
<b>Total liabilities</b>		<b>(5,134)</b>	<b>(34,064)</b>
<b>Net assets attributable to shareholders</b>		<b>535,323</b>	<b>581,167</b>

## M&G UK Select Fund

# Financial statements and notes

### Notes to the financial statements

#### 1 Accounting policies

The financial statements have been prepared in accordance with the 'Summary of significant accounting policies' set out on pages 7 and 8.

#### 2 Distribution policy

In determining the amount available for distribution to Income shares, the annual charge, the annual management charge and administration charge are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

In determining the amount available for distribution, ordinary stock dividends have been transferred to capital, reducing the amount available.

Marginal tax relief has not been taken into account in respect of expenses offset against capital.

#### 3 Net capital gains / (losses)

	2020 £'000	2019 £'000
for the year to 31 May		
Non-derivative securities	(25,002)	(30,071)
Currency gains / (losses)	904	(135)
Transaction charges	(1)	(7)
<b>Net capital gains / (losses)</b>	<b>(24,099)</b>	<b>(30,213)</b>

#### 4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 131.

	2020 £'000	% of transaction	2019 £'000	% of transaction
for the year to 31 May				
<b>a) Purchases</b>				
<b>Equities</b>				
Equities before transaction costs	246,157		308,425	
Commissions	103	0.04	123	0.04
Taxes	845	0.34	1,231	0.40
<b>Equities after transaction cost</b>	<b>247,105</b>		<b>309,779</b>	
<b>Other transaction types</b>				
Corporate actions	0		3,465	
<b>Total purchases after transaction costs</b>	<b>247,105</b>		<b>313,244</b>	
<b>b) Sales</b>				
<b>Equities</b>				
Equities before transaction costs	277,832		314,405	
Commissions	(103)	0.04	(119)	0.04
Taxes	(1)	0.00	(1)	0.00
<b>Total sales after transaction costs</b>	<b>277,728</b>		<b>314,285</b>	
<b>c) Direct portfolio transaction costs</b>	<b>2020 £'000</b>	<b>% of average NAV</b>	<b>2019 £'000</b>	<b>% of average NAV</b>
<b>Commissions paid</b>				
Equities	206	0.04	242	0.04
<b>Total commissions paid</b>	<b>206</b>	<b>0.04</b>	<b>242</b>	<b>0.04</b>
<b>Taxes paid</b>				
Equities	846	0.15	1,232	0.22
<b>Total taxes paid</b>	<b>846</b>	<b>0.15</b>	<b>1,232</b>	<b>0.22</b>
<b>Total direct portfolio transaction costs <sup>[a]</sup></b>	<b>1,052</b>	<b>0.19</b>	<b>1,474</b>	<b>0.26</b>
<b>d) Indirect portfolio transaction costs</b>		%		%
Portfolio dealing spread <sup>[b]</sup>		0.13		0.12

<sup>[a]</sup> Costs before dilution adjustments. Please refer to the 'Financial highlights' section for the effect of dilution adjustments.

<sup>[b]</sup> Average portfolio dealing spread at the balance sheet date.

#### 5 Revenue

	2020 £'000	2019 £'000
for the year to 31 May		
Bank interest	1	1
Dividends from equity investments: non-taxable	13,478	18,107
Dividends from equity investments: taxable	3	126
Interest distributions	181	168
Rebate of ongoing charges from underlying funds	14	0
Stock dividends	400	790
<b>Total revenue</b>	<b>14,077</b>	<b>19,192</b>

# M&G UK Select Fund

## Financial statements and notes

### Notes to the financial statements

#### 6 Expenses

	2020	2019
for the year to 31 May	£'000	£'000
<b>Payable to the ACD or associate</b>		
Annual charge	4,880	0
Annual management charge <sup>[a]</sup>	1,259	7,446
Administration charge <sup>[a]</sup>	147	845
	6,286	8,291
<b>Payable to the Depositary or associate</b>		
Depositary's charge (including VAT) <sup>[a]</sup>	7	38
<b>Other expenses</b>		
Audit fee (including VAT) <sup>[a]</sup> <sup>[b]</sup>	2	9
Interest payable	1	2
Safe custody charge <sup>[a]</sup>	0	3
	3	14
<b>Total expenses</b>	<b>6,296</b>	<b>8,343</b>

<sup>[a]</sup> The segregated charges shown above for annual management, administration, depositary, audit and safe custody are those paid by the fund up to and including 31 July 2019. As of 1 August 2019 these charges have been replaced by the single annual charge.

<sup>[b]</sup> Audit fees for the financial year ending 2020 were £9,000 (including VAT).

#### 7 Taxation

	2020	2019
for the year to 31 May	£'000	£'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	0
Withholding tax	28	80
Deferred tax (note 7c)	0	0
<b>Total taxation</b>	<b>28</b>	<b>80</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue / (expense) before taxation	7,781	10,849
Corporation tax at 20%	1,556	2,170
<b>Effects of:</b>		
Dividends from equity investments: non-taxable	(2,695)	(3,622)
Stock dividends not taxable	(80)	(158)
Current year expenses not utilised	1,219	1,610
Withholding tax	28	80
<b>Total tax charge (note 7a)</b>	<b>28</b>	<b>80</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The fund has not recognised a deferred tax asset of £28,112,000 (2019: £26,893,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

#### 8 Distributions

	2020		2019	
for the year to 31 May	Inc <sup>[a]</sup>	Acc <sup>[b]</sup>	Inc <sup>[a]</sup>	Acc <sup>[b]</sup>
Dividend distributions	£'000	£'000	£'000	£'000
Interim	1,913	1,017	2,318	897
Final	4,527	2,852	6,986	4,415
<b>Total net distributions</b>		<b>10,309</b>		<b>14,616</b>
Income deducted on cancellation of shares		279		421
Income received on issue of shares		(120)		(684)
<b>Distributions</b>		<b>10,468</b>		<b>14,353</b>
Net revenue / (expense) per statement of total return		7,753		10,769
Expenses offset against capital		3,115		4,374
Stock dividends not distributed		(400)		(790)
<b>Distributions</b>		<b>10,468</b>		<b>14,353</b>

<sup>[a]</sup> Distributions payable on Income shares.

<sup>[b]</sup> Retained distributions on Accumulation shares.

#### 9 Debtors

	2020	2019
as at 31 May	£'000	£'000
Amounts receivable on issues of shares	32	4,301
Currency deals outstanding	2	0
Distributions receivable	10	17
Dividends receivable	978	2,126
Rebate of ongoing charges from underlying funds	1	0
Sales awaiting settlement	0	2,671
<b>Total debtors</b>	<b>1,023</b>	<b>9,115</b>

#### 10 Cash and bank balances

	2020	2019
as at 31 May	£'000	£'000
Cash held as bank balances	860	597
<b>Total cash and bank balances</b>	<b>860</b>	<b>597</b>

#### 11 Other creditors

	2020	2019
as at 31 May	£'000	£'000
ACD's annual management charge payable	0	229
Administration charge payable	0	26
Amounts payable on cancellation of shares	429	955
Annual charge payable	165	0
Currency deals outstanding	2	0
Expenses payable	11	14
Purchases awaiting settlement	0	9,581
<b>Total other creditors</b>	<b>607</b>	<b>10,805</b>

#### 12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2019: same).

## M&G UK Select Fund

# Financial statements and notes

### Notes to the financial statements

#### 13 Shares in issue

The following table shows each class of share in issue during the year. Each share class has the same rights on winding up however they may have different charging structures as set out in note 14.

Share class	Opening 01.06.19	Movements		Closing 31.05.20
		Issued	Cancelled	
<b>Euro</b>				
Class 'A' Accumulation	149,548	19,448	(24,588)	144,408
Class 'C' Accumulation	327,077	79,107	(398,909)	7,275
<b>Sterling</b>				
Class 'A' Income	7,804,421	105,165	(448,344)	7,461,242
Class 'A' Accumulation	3,886,649	7,620	(263,766)	3,630,503
Class 'C' Income	487,022	14,600	(49,054)	452,568
Class 'I' Income	2,150,600	130,403	(271,466)	2,009,537
Class 'T' Accumulation	5,242,643	918,253	(524,312)	5,636,584
Class 'R' Income	3,670,824	407,613	(244,415)	3,834,022
Class 'R' Accumulation	12,740,356	1,402,599	(1,118,501)	13,024,454
Class 'X' Income	201,759	6,675	(30,352)	178,082
Class 'X' Accumulation	82,354	3,420	(10,420)	75,354

#### 14 Charging structure

The table below sets out the charging structure for each class of share. The charging structure is the same for both Income and Accumulation shares of each class.

Share class	Entry charge %	Exit charge %	Annual charge <sup>[a]</sup> %
<b>Euro</b>			
Class 'A'	5.25	n/a	1.65
Class 'C'	3.25	n/a	0.70
<b>Sterling</b>			
Class 'A'	n/a	n/a	1.20
Class 'C'	n/a	n/a	0.00
Class 'I'	n/a	n/a	0.70
Class 'R'	n/a	n/a	0.95
Class 'X'	n/a	n/a	1.20

<sup>[a]</sup> The amounts shown are the maximum annual charge. M&G will apply a discount of 0.02% for every £1 billion of a fund's net asset value. This is assessed quarterly and implemented on a forward basis no later than 13 business days after quarter end.

#### 15 Related parties

M&G Securities Limited, as Authorised Corporate Director (ACD), is a related party and acts as principal on all the transactions of shares in the fund except with in specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to shareholders' and note 8. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 9 and 11 where applicable.

Amounts paid to M&G Securities Limited in respect of the annual charge, ACD's annual management charge and administration charge are disclosed in note 6. Amounts due at the year end in respect of the annual charge are disclosed in note 11.

During the year, there were transactions with related parties of M&G Securities Limited with a total value of £26,991,000 (2019: £17,430,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £nil (2019: £8,226,000).

At the balance sheet date, shareholders from within M&G plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 11.08% (2019: 9.24%) of the fund's shares.

#### 16 Events after the balance sheet date

There were no events after the balance sheet date to disclose.

#### 17 Fair value analysis

Financial instruments have been measured at their fair value and have been classified below using a hierarchy that reflects the significance of the inputs used in measuring their fair value:

##### Level 1: Unadjusted quoted price in an active market for an identical instrument

This includes instruments such as publicly traded equities, highly liquid bonds (e.g. Government bonds) and exchange traded derivatives (e.g. futures) for which quoted prices are readily and regularly available.

##### Level 2: Valuation technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs. However no such financial instruments were held.

##### Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

	Assets 2020	Liabilities 2020	Assets 2019	Liabilities 2019
as at 31 May	£'000	£'000	£'000	£'000
Basis of valuation				
Level 1	503,663	0	560,471	0
Level 2	0	0	0	0
Level 3	0	0	0	0
	503,663	0	560,471	0

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 13 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

## M&G UK Select Fund

# Financial statements and notes

### Notes to the financial statements

#### 18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 9 to 10.

#### 19 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by £25,183,000 (2019: £28,024,000). A five per cent decrease would have an equal and opposite effect.

#### 20 Currency risk sensitivity and exposure

Currency risk is not considered significant for the fund and is therefore not disclosed.

#### 21 Interest rate risk sensitivity and exposure

As the majority of the fund's financial assets are non-interest bearing, the risk is not considered significant and is therefore not disclosed.

#### 22 Credit risk

Credit risk is not considered significant for the fund and is therefore not disclosed.

#### 23 Dividend distribution tables

This fund pays semi-annual ordinary distributions and the following table sets out the distribution periods.

##### Semi-annual distribution periods

	Start	End	Xd	Payment
Interim	01.06.19	30.11.19	02.12.19	31.01.20
Final	01.12.19	31.05.20	01.06.20	31.07.20

The following tables set out for each distribution the rates per share for both Group 1 and Group 2 shares.

Group 1 shares are those purchased prior to a distribution period and therefore their income rate is the same as the distribution rate.

Group 2 shares are those purchased during a distribution period and therefore their distribution rate is made up of income and equalisation. Equalisation is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the income and equalisation components.

##### Euro Class 'A' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	Euro €	Euro €	Euro €	Euro €
Interim	1.8083	1.0141	2.8224	4.0189
Final	4.9311	2.7989	7.7300	17.8036

##### Euro Class 'C' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	Euro €	Euro €	Euro €	Euro €
Interim	5.4967	1.8337	7.3304	7.7069
Final	3.0934	14.9409	18.0343	27.1778

##### Sterling Class 'A' Income shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	UK p	UK p	UK p	UK p
Interim	12.2952	7.7048	20.0000	23.0000
Final	19.7413	28.8937	48.6350	71.5844

##### Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	UK p	UK p	UK p	UK p
Interim	5.9659	7.3258	13.2917	13.3960
Final	17.2866	22.1659	39.4525	59.8217

##### Sterling Class 'C' Income shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	UK p	UK p	UK p	UK p
Interim	11.3297	9.5807	20.9104	23.6871
Final	26.8457	24.2334	51.0791	74.2043

##### Sterling Class 'I' Income shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	UK p	UK p	UK p	UK p
Interim	3.3567	6.5995	9.9562	11.3646
Final	7.1427	17.1141	24.2568	35.4861

##### Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	UK p	UK p	UK p	UK p
Interim	7.0564	0.7818	7.8382	8.5514
Final	5.1654	15.3095	20.4749	30.4068

##### Sterling Class 'R' Income shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	UK p	UK p	UK p	UK p
Interim	0.0000	0.9881	0.9881	1.1308
Final	0.6471	1.7579	2.4050	3.5269

##### Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2 Distribution	
	Income	Equalisation	2020	2019
	UK p	UK p	UK p	UK p
Interim	0.0327	0.6112	0.6439	0.7201
Final	0.3665	1.3571	1.7236	2.7042

## M&G UK Select Fund

# Financial statements and notes

### Notes to the financial statements

#### 23 Dividend distribution tables (continued)

##### Sterling Class 'X' Income shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2	
	Income	Equalisation	Distribution	
	2020	2020	2020	2019
	UK p	UK p	UK p	UK p
Interim	14.3028	5.8307	20.1335	23.1534
Final	23.8165	25.1431	48.9596	72.0619

##### Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2		Group 1 & 2	
	Income	Equalisation	Distribution	
	2020	2020	2020	2019
	UK p	UK p	UK p	UK p
Interim	0.0000	13.1491	13.1491	13.2521
Final	20.3916	18.6374	39.0290	59.1799

## M&G Investment Funds (2)

# Other regulatory disclosures

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### Value assessment

We have published an annual value assessment delivered to investors in this fund, including an assessment of our charges and services, and how we compare to our competitors. This is available at <https://www.mandg.co.uk/investor/fund-prices-performance/annual-value-assessment>.

### Remuneration

In line with the requirements of the Undertakings for Collective Investments in Transferable Securities (UCITS) V, the UCITS Manager is subject to a remuneration policy which is consistent with the principles outlined in SYSC19E of the FCA Handbook (UCITS Remuneration Code).

The remuneration policy is designed to ensure that any relevant conflicts of interest can be managed appropriately at all times and that the remuneration of employees is in line with the risk policies and objectives of the UCITS funds managed by the UCITS Manager. Further details of the remuneration policy can be found here: <https://www.mandg.com/about-us/policies-and-business-principles>. The remuneration policy, and its implementation, is reviewed on an annual basis, or more frequently where required, and is approved by the M&G plc Board Remuneration Committee.

The UCITS management company is required under UCITS to make quantitative disclosures of remuneration. These disclosures are made in line with M&G's interpretation of currently available guidance on quantitative remuneration disclosures. As market or regulatory guidance evolves, M&G may consider it appropriate to make changes to the way in which quantitative disclosures are calculated. Members of staff and senior management typically provide both UCITS and non-UCITS related services and have a number of areas of responsibility. Therefore, only the portion of remuneration for those individuals' services which may be attributable to UCITS is included in the remuneration figures disclosed. Accordingly the figures are not representative of any individual's actual remuneration.

M&G Securities Limited does not directly employ any staff members. However, for the financial year ended 31 December 2019, aggregate remuneration of £37,357,114 (£6,853,720 in respect of fixed remuneration and £30,503,394 in respect of variable remuneration) was paid to individuals whose actions may have a material impact on the risk profile of the UCITS Manager, of which £2,111,206 related to senior management.

### Swiss investor information

For funds registered in Switzerland we are required by FINMA to disclose the Total Expense Ratio (TER).

For these funds the TERs are the same as the operating charges disclosed in each fund's financial highlights section under 'Performance and charges'.



# Glossary

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**Accumulation shares:** A type of share where distributions are automatically reinvested and reflected in the value of the shares.

**Accumulation units:** A type of unit where distributions are automatically reinvested and reflected in the value of the units.

**Asset:** Anything having commercial or exchange value that is owned by a business, institution or individual.

**Asset allocation:** Apportioning a portfolio's assets according to risk tolerance and investment goals.

**Asset class:** Category of assets, such as cash, company shares, fixed income securities and their sub-categories, as well as tangible assets such as real estate.

**Bond:** A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

**Bond issue:** A set of fixed income securities offered for sale to the public by a company or government. If the bonds are sold for the first time, it is called a 'new issue'.

**Bottom-up selection:** Selecting stocks based on the attractiveness of a company.

**Bunds:** Fixed income securities issued by the German government.

**Capital:** Refers to the financial assets, or resources, that a company has to fund its business operations.

**Capital growth:** Occurs when the current value of an investment is greater than the initial amount invested.

**Capital return:** The term for the gain or loss derived from an investment over a particular period. Capital return includes capital gain or loss only and excludes income (in the form of interest or dividend payments).

**Cash equivalents:** Deposits or investments with similar characteristics to cash.

**Charity Authorised Investment Fund (CAIF) :** An investment entity that is both a registered charity and an authorised investment fund. The CAIF must comply with charity law as well as financial services laws and regulations, and is usually treated as a registered charity for tax purposes.

**Comparative sector:** A group of funds with similar investment objectives and/or types of investment, as classified by bodies such as the Investment Association (IA) or Morningstar™. Sector definitions are mostly based on the main assets a fund should invest in, and may also have a geographic focus. Sectors can be the basis for comparing the different characteristics of similar funds, such as their performance or charging structure.

**Consumer Prices Index (CPI):** An index used to measure inflation, which is the rate of change in prices for a basket of goods and services. The contents of the basket are meant to be representative of products and services we typically spend our money on.

**Convertible bonds:** Fixed income securities that can be exchanged for predetermined amounts of company shares at certain times during their life.

**Corporate bonds:** Fixed income securities issued by a company. They are also known as bonds and can offer higher interest payments than bonds issued by governments as they are often considered more risky.

**Coupon:** The interest paid by the government or company that has raised a loan by selling bonds.

**Credit:** The borrowing capacity of an individual, company or government. More narrowly, the term is often used as a synonym for fixed income securities issued by companies.

**Credit default swaps (CDS):** Are a type of derivative, namely financial instruments whose value, and price, are dependent on one or more underlying assets. CDS are insurance-like contracts that allow investors to transfer the risk of a fixed income security defaulting to another investor.

**Credit rating:** An independent assessment of a borrower's ability to repay its debts. A high rating indicates that the credit rating agency considers the issuer to be at low risk of default; likewise, a low rating indicates high risk of default. Standard & Poor's, Fitch and Moody's are the three most prominent credit rating agencies. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**Credit rating agency:** A company that analyses the financial strength of issuers of fixed income securities and attaches a rating to their debt. Examples include Standard & Poor's and Moody's.

**Credit risk:** Risk that a financial obligation will not be paid and a loss will result for the lender.

**Credit selection:** The process of evaluating a fixed income security, also called a bond, in order to ascertain the ability of the borrower to meet its debt obligations. This research seeks to identify the appropriate level of default risk associated with investing in that particular bond.

**Credit spread:** The difference between the yield of a corporate bond, a fixed income security issued by a company, and a government bond of the same life span. Yield refers to the income received from an investment and is expressed as a percentage of the investment's current market value.

**Default:** When a borrower does not maintain interest payments or repay the amount borrowed when due.

**Default risk:** Risk that a debtholder will not receive interest and full repayment of the loan when due.

**Derivatives:** Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded over the counter.

**Developed economy/market:** Well-established economies with a high degree of industrialisation, standard of living and security.

**Dilution adjustments:** The dilution adjustment is used to protect ongoing investors against the transaction charges incurred in investing or divesting in respect of creations and cancellations. The dilution adjustment is made up of the direct and indirect transaction charges. In the financial statements the direct transaction charges as a percentage of average NAV will be disclosed. This percentage will take account of those direct transaction charges that have been recovered through the dilution adjustment leaving a percentage that just represents the costs incurred in portfolio management.

**Distribution:** Distributions represent a share in the income of the fund and are paid out to Income shareholders or reinvested for Accumulation shareholders at set times of the year (monthly, quarterly, half-yearly or annually). They may either be in the form of interest distributions or dividend distributions.

**Distribution yield:** Expresses the amount that is expected to be distributed by the fund over the next 12 months as a percentage of the share price as at a certain date. It is based on the expected gross income less the ongoing charges.

**Diversification:** The practice of investing in a variety of assets. This is a risk management technique where, in a well-diversified portfolio, any loss from an individual holding should be offset by gains in other holdings, thereby lessening the impact on the overall portfolio.

# Glossary

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**Dividend:** Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.

**Duration:** A measure of the sensitivity of a fixed income security, also called a bond, or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

**Duration risk:** The longer a fixed income security, also called a bond, or bond fund's duration, the more sensitive and therefore at risk it is to changes in interest rates.

**Emerging economy or market:** Economies in the process of rapid growth and increasing industrialisation. Investments in emerging markets are generally considered to be riskier than those in developed markets.

**Equities:** Shares of ownership in a company.

**Exchange traded:** Usually refers to investments traded on an exchange, such as company shares on a stock exchange.

**Ex-dividend, ex-distribution or XD date:** The date on which declared distributions officially belong to underlying investors.

**Exposure:** The proportion of a fund invested in a particular share/fixed income security, sector/region, usually expressed as a percentage of the overall portfolio.

**Fixed income security:** A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid. Also referred to as a bond.

**Floating rate notes (FRNs):** Securities whose interest (income) payments are periodically adjusted depending on the change in a reference interest rate.

**Foreign exchange:** The exchange of one currency for another, or the conversion of one currency into another currency. Foreign exchange also refers to the global market where currencies are traded virtually around the clock. The term foreign exchange is usually abbreviated as 'forex' and occasionally as 'FX'.

**Foreign exchange (FX) strategy:** Currencies can be an asset class in its own right, along with company shares, fixed income securities, property and cash. Foreign exchange strategy can therefore be a source of investment returns.

**Forward contract:** A contract between two parties to buy or sell a particular commodity or financial instrument at a pre-determined price at a future date. Examples include forward currency contracts.

**Fundamentals (company):** A basic principle, rule, law, or the like, that serves as the groundwork of a system. A company's fundamentals pertain specifically to that company, and are factors such as its business model, earnings, balance sheet and debt.

**Fundamentals (economic):** A basic principle, rule, law, or the like, that serves as the groundwork of a system. Economic fundamentals are factors such as inflation, employment, economic growth.

**Futures:** A futures contract is a contract between two parties to buy or sell a particular commodity or financial instrument at a predetermined price at a future date. Futures are traded on a regulated exchange.

**Gilts:** Fixed income securities issued by the UK government.

**Government bonds:** Fixed income securities issued by governments, that normally pay a fixed rate of interest over a given time period, at the end of which the initial investment is repaid.

**Hedging:** A method of reducing unnecessary or unintended risk.

**High water mark (HWM):** The highest level that a fund's NAV (net asset value) has reached at the end of any 12-month accounting period.

**High yield bonds:** Fixed income securities issued by companies with a low credit rating from a recognised credit rating agency. They are considered to be at higher risk of default than better quality, ie higher-rated fixed income securities but have the potential for higher rewards. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**Historic yield:** The historic yield reflects distributions declared over the past 12 months as a percentage of the share price, as at the date shown.

**Income yield:** Refers to the income received from an investment and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.

**Index:** An index represents a particular market or a portion of it, serving as a performance indicator for that market.

**Income shares:** A type of share where distributions are paid out as cash on the payment date.

**Income units:** A type of unit where distributions are paid out as cash on the payment date.

**Index tracking:** A fund management strategy that aims to match the returns from a particular index.

**Index-linked bonds:** Fixed income securities where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. Also referred to as inflation-linked bonds.

**Inflation:** The rate of increase in the cost of living. Inflation is usually quoted as an annual percentage, comparing the average price this month with the same month a year earlier.

**Inflation risk:** The risk that inflation will reduce the return of an investment in real terms.

**Initial public offering (IPO):** The first sale of shares by a private company to the public.

**Interest rate risk:** The risk that a fixed income investment will lose value if interest rates rise.

**Interest rate swap:** An agreement between two parties to swap a fixed interest payment with a variable interest payment over a specified period of time.

**Investment Association (IA):** The UK trade body that represents fund managers. It works with investment managers, liaising with government on matters of taxation and regulation, and also aims to help investors understand the industry and the investment options available to them.

**Issuer:** An entity that sells securities, such as fixed income securities and company shares.

**Investment grade bonds:** Fixed income securities issued by a company with a medium or high credit rating from a recognised credit rating agency. They are considered to be at lower risk from default than those issued by companies with lower credit ratings. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**Issuer:** An entity that sells securities, such as fixed income securities and company shares.

**Leverage:** When referring to a company, leverage is the level of a company's debt in relation to its assets. A company with significantly more debt than capital is considered to be leveraged. It can also refer to a fund that borrows money or uses derivatives to magnify an investment position.

**Liquidity:** A company is considered highly liquid if it has plenty of cash at its disposal. A company's shares are considered highly liquid if they can be easily bought or sold since large amounts are regularly traded.

# Glossary

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**Long position:** Refers to ownership of a security held in the expectation that the security will rise in value.

**Macroeconomic:** Refers to the performance and behaviour of an economy at the regional or national level. Macroeconomic factors such as economic output, unemployment, inflation and investment are key indicators of economic performance. Sometimes abbreviated to 'macro'.

**Maturity:** The length of time until the initial investment amount of a fixed income security is due to be repaid to the holder of the security.

**Modified duration:** A measure of the sensitivity of a fixed income security, called a bond, or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

**Monetary easing:** When central banks lower interest rates or buy securities on the open market to increase the money in circulation.

**Monetary policy:** A central bank's regulation of money in circulation and interest rates.

**Monetary tightening:** When central banks raise interest rates or sell securities on the open market to decrease the money in circulation.

**Morningstar™:** A provider of independent investment research, including performance statistics and independent fund ratings.

**Near cash:** Deposits or investments with similar characteristics to cash.

**Net asset value (NAV):** A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.

**Ongoing Charge Figure:** The Ongoing charge Figure represents the operating costs investors can reasonably expect to pay under normal circumstances.

**Open-ended investment company (OEIC):** A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

**Options:** Financial contracts that offer the right, but not the obligation, to buy or sell an asset at a given price on or before a given date in the future.

**Over-the-counter (OTC):** Whereby financial assets are traded directly between two parties. This is in contrast to exchange trading, which is carried out through exchanges set up specifically for the purpose of trading. OTC is also known as off-exchange trading.

**Overweight:** If a fund is 'overweight' a stock, it holds a larger proportion of that stock than the comparable index or sector.

**Payment date:** The date on which distributions will be paid by the fund to investors, usually the last business day of the month.

**Physical assets:** An item of value that has tangible existence, for example, cash, equipment, inventory or real estate. Physical assets can also refer to securities, such as company shares or fixed income securities.

**Portfolio transaction cost:** The cost of trading, such as brokerage, clearing, exchange fees and bid-offer spread as well as taxes such as stamp duty.

**Preference shares:** Preference shares are a loan to a company that may be traded in the same way as ordinary shares, but generally have a higher yield and pay dividends on fixed dates. Preference shares have varying characteristics as to the treatment of the principal and the dividend payment, which includes ranking them above ordinary shares when it comes to dividend payments.

**Principal:** The face value of a fixed income security, which is the amount due back to the investor by the borrower when the security reaches the end of its life.

**Private placement:** An offer of sale of securities to a relatively small number of investors selected by the company, generally investment banks, mutual funds, insurance companies or pension funds.

**Property Expense Ratio (PER):** Property expenses are the operating expenses that relate to the management of the property assets in the portfolio. These include: insurance and rates, rent review and lease renewal costs and maintenance and repairs, but not improvements. They depend on the level of activity taking place within the fund. The Property Expense Ratio is the ratio of property expenses to the fund's net asset value.

**Real yield:** The return of an investment, adjusted for changes in prices in an economy.

**Retail Prices Index (RPI):** A UK inflation index that measures the rate of change in prices for a basket of goods and services in the UK, including mortgage payments and council tax.

**Risk:** The chance that an investment's return will be different to what is expected. Risk includes the possibility of losing some or all of the original investment.

**Risk management:** The term used to describe the activities the fund manager undertakes to limit the risk of a loss in a fund.

**Risk premium:** The difference between the return from a risk-free asset, such as a high-quality government bond or cash, and the return from an investment in any other asset. The risk premium can be considered the 'price' or 'pay-off' for taking on increased risk. A higher risk premium implies higher risk.

**Risk-free asset:** An asset that notionally carries no risk of nonpayment by the borrower such as a high-quality fixed income security issued by a government or cash.

**Risk/reward ratio:** A ratio comparing the expected returns of an investment with the amount of risk undertaken.

**Safe-haven assets:** Refers to assets that investors perceive to be relatively safe from suffering a loss in times of market turmoil.

**Security:** Financial term for a paper asset – usually a share in a company or a fixed income security also known as a bond.

**Share class:** Each M&G fund has different share classes, such as A, R and I. Each has a different level of charges and minimum investment. Details on charges and minimum investments can be found in the Key Investor Information Documents.

**Share class hedging:** Activities undertaken in respect of hedged shares to mitigate the impact on performance of exchange rate movements between the fund's currency exposure and the investor's chosen currency.

**Short position:** A way for a fund manager to express his or her view that the market might fall in value.

**Short selling:** This often refers to the practice whereby an investor sells an asset they do not own. The investor borrows the asset from someone who does own it and pays a fee. The investor must eventually return the borrowed asset by buying it in the open market. If the asset has fallen in price, the investor buys it for less than they sold it for, thus making a profit. The contrary may also occur.

**Short-dated corporate bonds:** Fixed income securities issued by companies and repaid over relatively short periods.

**Short-dated government bonds:** Fixed income securities issued by governments and repaid over relatively short periods.

**Sovereign debt:** Debt of a government. Also referred to as government bonds.

**Sub-investment grade bonds:** Fixed income securities issued by a company with a low rating from a recognised credit rating agency. They are considered to be at higher risk from default than those issued by companies with higher credit ratings. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

# Glossary

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**Top-down investing:** An investment approach that analyses economic factors, ie surveys the 'big picture', before selecting which companies to invest in. The top-down investor will look at which industries are likely to generate the best returns in certain economic conditions and limit the search to that area.

**Total return:** The term for the gain or loss derived from an investment over a particular period. Total return includes income (in the form of interest or dividend payments) and capital gains.

**Treasuries:** Fixed income securities issued by the US government.

**Triple A or AAA rated:** The highest possible rating a fixed income security, also called a bond, can be assigned by credit rating agencies. Bonds that are rated AAA are perceived to have the lowest risk of default. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**UCITS:** Stands for Undertakings for Collective Investment in Transferable Securities. This is the European regulatory framework for an investment vehicle that can be marketed across the European Union and is designed to enhance the single market in financial assets while maintaining high levels of investor protection.

**Unconstrained:** The term used to describe the mandate of a fund whereby the manager has the freedom to invest according to his or her own strategy, not being obliged to allocate capital according to the weightings of any index, for example.

**Underlying value:** The fundamental value of a company, reflecting both tangible and intangible assets, rather than the current market value.

**Underlying yield:** Refers to the income received by a managed fund, and is usually expressed annually as a percentage based on the fund's current value.

**Underweight:** If a portfolio is 'underweight' a stock, it holds a smaller proportion of that stock than the comparable index or sector.

**Unit trust:** A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

**Unit/share type:** Type of units/shares held by investors in a trust or fund (unit/share types differ by features such as whether income is to be paid out as cash or reinvested on the payment date).

**Valuation:** The worth of an asset or company based on its current price.

**Volatile:** When the value of a particular share, market or sector swings up and down fairly frequently and/or significantly, it is considered volatile.

**Volatility:** The degree to which a given security, fund, or index rapidly changes. It is calculated as the degree of deviation from the norm for that type of investment over a given time period. The higher the volatility, the riskier the security tends to be.

**Warrant:** A security issued by a company that gives the holder the right to buy shares in that company at a specified price and within a certain timeframe.

**Yield:** This refers to either the interest received from a fixed income security or to the dividends received from a share. It is usually expressed as a percentage based on the investment's costs, its current market value or its face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

**Yield (equity):** Refers to the dividends received by a holder of company shares and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

**Yield (bonds):** This refers to the interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

**Yield (income):** Refers to the income received from an investment and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.





