



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

Interim Long Report and unaudited Financial Statements  
for the six months ended 30 November 2019

# Contents

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

<b>Authorised Corporate Director's Report</b>	<b>Page</b>	<b>1</b>
Directors' statement	Page	3
<b>Financial statements and notes</b>	<b>Page</b>	<b>4</b>
<b>Authorised Corporate Director's Reports, including the financial highlights and financial statements and notes for:</b>		
M&G Gilt & Fixed Interest Income Fund	Page	5
M&G Global High Yield Bond Fund	Page	13
M&G Index-Linked Bond Fund	Page	25
M&G Index Tracker Fund	Page	33
M&G Short Dated Corporate Bond Fund	Page	45
M&G UK Income Distribution Fund	Page	55
M&G UK Select Fund	Page	69
<b>Other regulatory disclosures</b>	<b>Page</b>	<b>79</b>
<b>Glossary</b>	<b>Page</b>	<b>80</b>

# M&G Investment Funds (2)

## Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Investment Funds (2) presents its Interim Long Report and unaudited Financial Statements for the six months ended 30 November 2019.

The unaudited financial statements of M&G Investment Funds (2) and the investment report and unaudited 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 30 November 2019 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 Tax Incentivised Savings Association.)

### Directors of the ACD

M Ammon\*, G N Cotton\*\*, C Dobson (non executive director),  
N M Donnelly, P R Jelfs, M McGrade (non executive director),  
L J Mumford

\* Resigned 17 October 2019.

\*\* Resigned 27 September 2019.

### 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

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

### 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

### Important information

On 8 April 2019, M&G Global High Yield Bond Fund and M&G Short Dated Corporate Bond Fund launched Sterling Class 'PP' Accumulation shares.

As mentioned in the shareholder letter on 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 easier to compare with 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 which are shown in the Key Investor Information Document (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, M&G Global High Yield Bond Fund and M&G Short Dated Corporate Bond Fund launched Sterling Class 'PP' Income shares.

# M&G Investment Funds (2)

## Authorised Corporate Director's Report

### 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,  
PO 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

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.

#### Austrian paying and information agent:

Société Générale, Vienna Branch,  
Prinz Eugen-Strasse 8-10/5/Top 11, 1040 Wien, Austria

#### Belgian financial agent:

Société Générale Private Banking NV,  
Kortrijksesteenweg 302, 9000 Gent, Belgium

#### Danish representative agent:

Nordea Bank Danmark A/S,  
Client Relations DK, Investor Services & Solutions,  
Postbox 850, Reg.no.6428. HH. 6.1., 0900 København C, Denmark

#### French centralising agent:

RBC Investor Services, Bank France S.A.,  
105 rue Réaumur, 75002 Paris, France

During the accounting period, the effective proportion of the net assets of the M&G UK Select Fund in PEA ('Plan d'Épargne en Actions') eligible assets has permanently been equal to at least 75%.

#### German information agent:

M&G International Investments Limited,  
mainBuilding, Taunusanlage 19, 60325 Frankfurt am Main, Germany

#### Greek paying agents and distributors:

Alpha Bank A.E.,  
40 Stadiou Street, 10252 Athens, Greece  
Eurobank Ergasias S.A.,  
8 Othonos Street, 10557 Athens, Greece  
Piraeus Ergasias S.A.  
4 Amerikis Street, 10564 Athens, Greece

#### Irish facilities agent:

Société Générale S.A., Dublin Branch,  
3rd Floor IFSC House – The IFSC, Dublin 1, Ireland

#### Italian paying agents:

Allfunds Bank, S.A.,  
Via Santa Margherita 7, 20121 Milano, Italy  
Banca Monte dei Paschi di Siena S.p.A.,  
Piazza Salimbeni 3, 53100 Siena, Italy  
Banca Sella Holding S.p.A.,  
Piazza Gaudenzio Sella 1, 13900 Biella, Italy  
BNP PARIBAS Securities Services,  
Piazza Lina Bo Bardi 3, 20124 Milano, Italy  
CACEIS Bank Luxembourg,  
Milan Branch, Piazza Cavour 2, 20121 Milano, Italy  
RBC Investor Services Bank S.A., Milan Branch  
Via Vittor Pisani 26, 20124 Milano, Italy  
State Street Bank S.p.A.,  
Via Ferrante Aporti 10, 20125 Milano, Italy  
Société Générale Securities Services S.A.,  
Via Benigno Crespi 19A - MAC 2, 20159 Milano, Italy

#### Luxembourg paying and information agent:

Société Générale Bank & Trust S.A.,  
Centre opérationnel, 28-32, place de la Gare, 1616 Luxembourg,  
Grand Duchy of Luxembourg

#### Portuguese distributor:

Best - Banco Electrónico de Serviço Total, S.A.,  
Praça Marquês de Pombal, no. 3 - 3º, 1250-161 Lisboa, Portugal

#### Spanish representative:

Allfunds Bank, S.A.,  
Calle Estafeta, No 6 Complejo Plaza de la Fuente,  
La Moraleja 28109, Alcobendas, Madrid, Spain

#### Swedish paying agent:

Nordea Bank AB (publ),  
Smålandsgatan 17, 105 71 Stockholm, Sweden

#### 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

### 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  
15 January 2020

# 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

#### Accounting policies

The interim financial statements have been prepared on the same basis as the audited financial statements for the year ended 31 May 2019. They are prepared under the historical cost convention, as modified by the revaluation of investments, 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.

# M&G Gilt & Fixed Interest Income Fund

## Authorised Corporate Director's Report

### Investment objective

The fund aims to provide income and capital growth.

### Investment policy

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 approach

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.

### Benchmark

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.

### 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.

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 2 December 2019, for the six months ended 30 November 2019**

#### Performance against objective

Between 3 June 2019 (the start of the review period) and 2 December 2019, the M&G Gilt & Fixed Interest Income Fund's Sterling Class 'A' shares delivered a total return (the combination of income and growth of capital) of 1.8%. The fund lagged behind its comparator benchmark, the FTSE Actuaries UK Conventional Gilts All Stocks Index, which returned 2.7% over the same period.

Over this reporting period, the fund has met its objective of providing income and capital growth. The fund has also met its objective over one, three and five years and since launch.\*

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

#### Investment performance

UK government bonds (also known as gilts) delivered positive returns in the review period. Investor sentiment towards the asset class was supported by monetary policy moves by the US Federal Reserve (Fed) as well as continued trade tensions between the US and China, with investors favouring government bonds for their perceived status as a safe asset. 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 inflation or interest rates typically support sentiment towards government bonds.

As a result of their perceived safe haven character, gilts also appealed to the market at times when a 'no deal' Brexit appeared likely, but they became less attractive to investors as the announcement in October of a general election on 12 December 2019 raised hopes of a Brexit breakthrough of some sort.

# M&G Gilt & Fixed Interest Income Fund

## Authorised Corporate Director's Report

### Investment review

#### Investment performance (continued)

In marked contrast to late 2018, when sustained interest rate hikes in the US were considered likely, from early 2019, investors increasingly expected a cut in borrowing costs due to the global economic slowdown, lower oil prices and subdued domestic inflation. The Fed subsequently cut interest rates at the end of July, and twice more, in September and October, each time by a quarter of a percentage point. The Fed's action, together with stimulus measures by the European Central Bank, helped to drive solid performance across core government bonds.

In late summer, renewed trade conflict and concerns about slowing global economic growth and the possibility of recession unsettled investors again, which led to a sharp rise in demand for gilts. Pro-democracy protests in Hong Kong added to the volatility at times. Risk appetite picked up again in the autumn, led by the US stockmarket, which recorded a series of all-time highs, although Brexit remained a concern. The period ended on a more risk averse note, due to a lack of any clear direction on developments in international trade tariffs.

In terms of UK politics, following Theresa May's resignation in early summer, Boris Johnson became prime minister in July 2019, increasing the perceived likelihood of a 'no-deal' Brexit and leading to sterling weakness. However, the prospect that UK interest rates would need to be cut in this scenario bolstered the performance of UK government bonds.

The revised Brexit deadline of 31 October 2019 came and went and the European Union (EU) agreed a flexible extension for Brexit, to 31 January 2020. Boris Johnson has secured agreement from the EU for a withdrawal deal and the UK has the option to leave before the new deadline if Parliament agrees this deal by specific dates. Meanwhile, a general election was held shortly after the end of the review period, resulting in a clear majority for the Conservative Party.

Turning to the domestic economy, UK activity grew by 0.3% in the third quarter of 2019, after falling by 0.2% in the second quarter as businesses used stockpiles built up in anticipation of the original Brexit deadline in late March 2019. The UK economy remains lacklustre as slowing global activity and concerns about Brexit continue to weigh on domestic manufacturing and business investment.

Inflation, as measured by the Consumer Prices Index (CPI), stood at 1.5% in October 2019, and it remains below the Bank of England's 2.0% target level. Meanwhile, domestic interest rates are relatively low at 0.75%.

UK government bonds increased in value over the six months under review, supported by three quarter-percentage point cuts in US interest rates. Faced with ongoing economic and political uncertainties, investors also turned to perceived safe-haven assets at times. Gilts with the longest time until repayment (+15 years) delivered the strongest gains (6.3%), while returns from gilts maturing in less than five years were lacklustre (0.3%).

The fund's performance is affected by its 'duration', which refers to the portfolio's sensitivity to changes in interest rates. The portfolio has been positioned to be less sensitive to the possibility of rising interest rates for some time. However, this short duration led to underperformance over the period under review. This short interest rate duration relative to the comparator benchmark reflects our view that interest rates are likely to increase over the next few years.

#### Investment activities

We broadly kept the fund's short duration position over the past six months. However, the duration at the end of the review period was closer to a neutral positioning than at the start.

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 5 to 10 years, as well as those maturing in 20 to 35 years.

In terms of trades over the review period, we bought government bonds maturing in 2054 as they offered attractive value. We also added some sterling-denominated issues from NYLIFE GIC, at the same time selling some German covered bonds to accommodate the new holdings.

#### Outlook

The recent general election has removed some uncertainty as Prime Minister Boris Johnson now has a clear majority to drive forward his plan for the UK to leave the EU by 31 January 2020. However, there still remains the considerable challenge of securing a trade deal with the EU before the end of 2020. Sterling reacted positively to the news and, should this trend continue, import costs may reduce, in turn lowering inflation.

Aside from Brexit, the outlook remains uncertain due to weaker economic prospects at home and abroad, as well as a lack of resolution to the ongoing trade tensions between the US and its major trading partners. These factors may weigh on the domestic economy as well as contributing to market volatility.

Investors tend to favour gilts during times of volatility as they are perceived to represent lower risk than other asset classes. As a result, we feel that UK government bonds should appeal to investors in the event of any volatility going forward. Meanwhile, a generally accommodative approach from major central banks should prove supportive for fixed income markets on the whole.

#### 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 Gilt & Fixed Interest Income Fund

## Authorised Corporate Director's Report

### Investments

#### Portfolio statement

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>FIXED INCOME</b>	<b>591,529</b>	<b>99.10</b>	<b>98.51</b>
Debt securities	591,529	99.10	98.62
'AAA' credit rated bonds	61,064	10.23	10.33
£8,000,000 European Investment Bank 0.875% 15/12/2023	8,014	1.35	
£7,000,000 European Investment Bank 2.5% 31/10/2022	7,345	1.23	
£6,000,000 European Investment Bank 4.5% 07/06/2029	7,891	1.32	
£3,500,000 FMS Wertmanagement 1.125% 07/09/2023	3,540	0.59	
£28,000,000 KfW 1.125% 07/12/2021	28,201	4.72	
£6,000,000 Nordic Investment Bank 1.125% 15/12/2023	6,073	1.02	
<b>'AA' credit rated bonds</b>	<b>524,510</b>	<b>87.87</b>	<b>86.32</b>
£5,226,723 CTRL Section 1 Finance 5.234% 02/05/2035	7,026	1.18	
£3,644,000 New York Life Global Funding 1.25% 17/12/2026	3,629	0.61	
£6,000,000 NRW Bank 1% 15/06/2022	6,014	1.01	
£5,000,000 Transport for London 3.875% 23/07/2042	6,650	1.11	
£78,500,000 UK Treasury 1.5% 22/07/2026	83,837	14.05	
£27,850,000 UK Treasury 1.5% 22/07/2047	29,925	5.01	
£49,500,000 UK Treasury 1.625% 22/10/2028	54,018	9.05	
£53,600,000 UK Treasury 1.625% 22/10/2054	60,895	10.20	
£4,350,000 UK Treasury 1.75% 22/01/2049	4,951	0.83	
£40,700,000 UK Treasury 2% 22/07/2020	41,030	6.87	
£18,550,000 UK Treasury 2.5% 22/07/2065	27,952	4.68	
£12,900,000 UK Treasury 3.25% 22/01/2044	18,488	3.10	
£3,200,000 UK Treasury 3.5% 22/07/2068	6,098	1.02	
£23,700,000 UK Treasury 4.25% 07/12/2040	37,507	6.28	
£10,800,000 UK Treasury 4.25% 07/12/2046	18,466	3.09	
£4,250,000 UK Treasury 4.25% 07/12/2049	7,544	1.26	
£5,350,000 UK Treasury 4.5% 07/09/2034	7,997	1.35	
£17,000,000 UK Treasury 4.75% 07/03/2020	17,179	2.88	
£57,700,000 UK Treasury 6% 07/12/2028	85,304	14.29	
<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>5,955</b>	<b>1.00</b>	<b>1.08</b>
£4,225,473 PRS Finance 1.75% 24/11/2026	4,424	0.74	
£1,439,000 PRS Finance 2% 23/01/2029	1,531	0.26	
<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>Portfolio of investments</b>	<b>591,529</b>	<b>99.10</b>	<b>98.51</b>
<b>CASH EQUIVALENTS</b>	<b>1,383</b>	<b>0.23</b>	<b>0.14</b>
<b>'AAA' rated money market funds <sup>[a]</sup></b>	<b>1,383</b>	<b>0.23</b>	<b>0.14</b>
1,383,000 Northern Trust Global Fund - Sterling	1,383	0.23	
<b>Total portfolio</b>	<b>592,912</b>	<b>99.33</b>	<b>98.65</b>
<b>Net other assets / (liabilities)</b>	<b>4,002</b>	<b>0.67</b>	<b>1.35</b>
<b>Net assets attributable to shareholders</b>	<b>596,914</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.

#### Portfolio transactions

for the six months to 30 November	2019	2018
Portfolio transactions	£'000	£'000
Total purchases	230,521	112,850
Total sales	205,119	137,592

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

# 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.

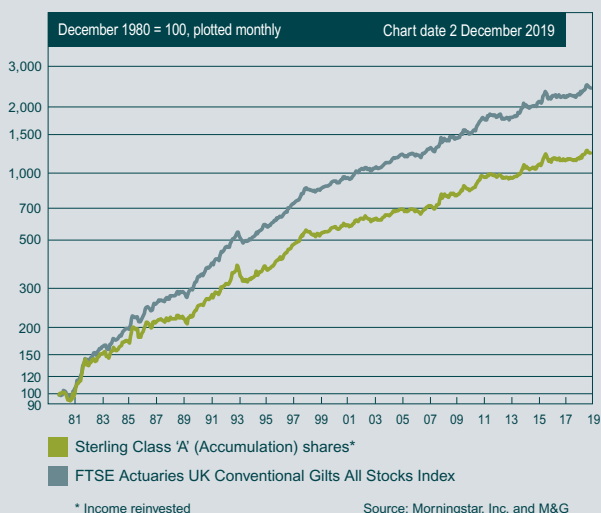
The following chart and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be 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.

### Fund level performance

Fund net asset value			
as at	30.11.19 £'000	31.05.19 £'000	31.05.18 £'000
Fund net asset value (NAV)	596,914	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.



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

	Six months 03.06.19 % [a]	Three years 02.12.16 % p.a.	Five years 02.12.14 % p.a.	Since launch % p.a.
<b>Sterling [b]</b>				
Class 'A'	+1.8	+3.1	+3.7	+6.7 [c]
Class 'I'	+1.9	+3.4	+4.0	+3.2 [d]

[a] Absolute basis.

[b] Price to price with income reinvested.

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

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

## 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.

# M&G Gilt & Fixed Interest Income Fund

## Financial highlights

### Fund performance

## Operating charges and portfolio transaction costs

### Operating charges (continued)

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 below 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	30.11.19	31.05.19	31.05.18	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.11	0.07	0.08	0.09

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

### 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.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	100.40	98.07	100.31
Return before operating charges and after direct portfolio transaction costs	2.89	4.56	(0.16)
Operating charges	(0.34)	(0.89)	(0.89)
Return after operating charges	2.55	3.67	(1.05)
Distributions	(0.64)	(1.34)	(1.19)
Closing NAV	102.31	100.40	98.07
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+2.54	+3.74	-1.05
Distribution yield	1.24	1.32	1.28
Effect on yield of charges offset against capital	0.61	0.90	0.90
<b>Other information</b>			
Closing NAV (£'000)	32,166	33,890	69,191
Closing NAV percentage of total fund NAV (%)	5.39	6.05	11.59
Number of shares	31,439,757	33,755,518	70,551,081
Highest share price (UK p)	106.16	100.74	100.37
Lowest share price (UK p)	100.39	94.16	95.01

# M&G Gilt & Fixed Interest Income Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 9 December 1980.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	577.27	556.19	562.03
Return before operating charges and after direct portfolio transaction costs	16.57	26.13	(0.83)
Operating charges	(1.96)	(5.05)	(5.01)
Return after operating charges	14.61	21.08	(5.84)
Distributions	(1.74)	(2.65)	(1.75)
Retained distributions	1.74	2.65	1.75
Closing NAV	591.88	577.27	556.19
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+2.53	+3.79	-1.04
Distribution yield	0.70	0.43	0.40
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	390,617	335,149	332,613
Closing NAV percentage of total fund NAV (%)	65.44	59.86	55.74
Number of shares	65,996,183	58,057,391	59,802,398
Highest share price (UK p)	612.28	577.27	564.05
Lowest share price (UK p)	577.20	535.78	535.55

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

The share class was launched on 3 August 2012.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	1,146.29	1,116.92	1,139.58
Return before operating charges and after direct portfolio transaction costs	33.02	51.99	(1.76)
Operating charges	(2.46)	(7.33)	(7.35)
Return after operating charges	30.56	44.66	(9.11)
Distributions	(7.29)	(15.29)	(13.55)
Closing NAV	1,169.56	1,146.29	1,116.92
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+2.67	+4.00	-0.80
Distribution yield	1.24	1.32	1.28
Effect on yield of charges offset against capital	0.36	0.65	0.65
<b>Other information</b>			
Closing NAV (£'000)	34,588	37,391	40,417
Closing NAV percentage of total fund NAV (%)	5.79	6.68	6.77
Number of shares	2,957,359	3,261,897	3,618,641
Highest share price (UK p)	1,212.89	1,150.22	1,141.00
Lowest share price (UK p)	1,146.20	1,073.32	1,081.32

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

The share class was launched on 3 August 2012.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	1,236.08	1,187.96	1,197.44
Return before operating charges and after direct portfolio transaction costs	35.52	55.96	(1.73)
Operating charges	(2.67)	(7.84)	(7.75)
Return after operating charges	32.85	48.12	(9.48)
Distributions	(5.28)	(8.63)	(6.67)
Retained distributions	5.28	8.63	6.67
Closing NAV	1,268.93	1,236.08	1,187.96
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+2.66	+4.05	-0.79
Distribution yield	0.95	0.68	0.65
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	139,543	153,439	154,575
Closing NAV percentage of total fund NAV (%)	23.38	27.41	25.90
Number of shares	10,996,908	12,413,361	13,011,801
Highest share price (UK p)	1,311.88	1,236.07	1,202.56
Lowest share price (UK p)	1,235.97	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 six months to 30 November	2019 £'000	2018 £'000
Income		
Net capital gains / (losses)	13,068	(13,684)
Revenue	3,550	4,104
Expenses	(1,651)	(2,409)
Net revenue / (expense) before taxation	1,899	1,695
Taxation	0	0
Net revenue / (expense) after taxation	1,899	1,695
<b>Total return before distributions</b>	<b>14,967</b>	<b>(11,989)</b>
Distributions	(2,056)	(1,982)
<b>Change in net assets attributable to shareholders from investment activities</b>	<b>12,911</b>	<b>(13,971)</b>

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

for the six months to 30 November	2019 £'000	2018 £'000
Opening net assets attributable to shareholders	559,869	596,796
Amounts received on issue of shares	79,542	41,204
Amounts paid on cancellation of shares	(57,135)	(67,503)
	22,407	(26,299)
Dilution adjustments	55	16
Change in net assets attributable to shareholders from investment activities (see above)	12,911	(13,971)
Retained distributions on Accumulation shares	1,671	1,421
Unclaimed distributions	1	1
<b>Closing net assets attributable to shareholders</b>	<b>596,914</b>	<b>557,964</b>

The opening net assets attributable to shareholders for 2019 differs to the closing position in 2018 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

#### Balance sheet

as at	30 November 2019 £'000	31 May 2019 £'000
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	591,529	552,159
<b>Current assets</b>		
Debtors	4,785	4,804
Cash and bank balances	49	3,281
Cash equivalents	1,383	782
<b>Total assets</b>	<b>597,746</b>	<b>561,026</b>
<b>Liabilities</b>		
Investment liabilities	0	(623)
<b>Creditors</b>		
Distribution payable	(206)	(245)
Other creditors	(626)	(289)
<b>Total liabilities</b>	<b>(832)</b>	<b>(1,157)</b>
<b>Net assets attributable to shareholders</b>	<b>596,914</b>	<b>559,869</b>

### Notes to the financial statements

#### Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

#### 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.

# M&G Gilt & Fixed Interest Income Fund

Financial statements and notes

This page is intentionally blank

# M&G Global High Yield Bond Fund

## Authorised Corporate Director's Report

### Investment objective

The fund aims to provide income and capital growth.

### Investment policy

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 approach

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.

### Benchmark

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.

### 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 2 December 2019, for the six months ended 30 November 2019**

#### Performance against objective

Between 3 June 2019 (the start of the review period) and 2 December 2019, the M&G Global High Yield Bond Fund delivered a positive total return (the combination of income and growth of capital) for its sterling share classes.\*

In this reporting period, the fund has met its objective of providing income\*\* and capital growth, and it has also met its objective over three and five years and since launch.

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

\*\* The fund's distribution and distribution yield are as shown in the 'Specific share class performance' tables in the 'Financial highlights' section of this report. This fund provides a variable level of income.



# M&G Global High Yield Bond Fund

## Authorised Corporate Director's Report

### Investment review

#### Investment performance

The six months under review was a positive period for high yield bond markets. (High yield bonds are loans paying fixed interest issued by companies with low credit ratings. 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.)

Following a challenging market environment in 2018, high yield bonds have recovered strongly since the start of 2019. A variety of factors have helped to support investor sentiment, in particular the announcement of a range of stimulus measures from both the Federal Reserve and the European Central Bank (ECB). More recently, high yield markets have benefited from tentative signs of progress in the US/China trade negotiations, along with a slight improvement in German manufacturing data and solid corporate earnings.

The fund's sterling share classes delivered a positive return over the review period, which were ahead of the ICE BofAML Global High Yield Index (GBP Hedged). Performance was helped by our underweight exposure to energy, with many companies in this sector continuing to face headwinds. This was partly offset by our underweight allocation to emerging markets which performed strongly over the period.

#### Investment activities

While we did not make any significant changes to fund positioning, we have been steadily increasing our exposure to the US and emerging markets. Having previously held a bias towards European companies, we are now starting to see better value in other regions and favour a more balanced regional exposure. Otherwise, we maintain our preference for defensive companies that offer resilient cashflows irrespective of the economic environment, such as healthcare providers and cable operators.

We continue to see healthy activity in the primary market, although with many deals pricing at relatively tight levels we continue to be highly selective. Given our light exposure to emerging markets, we took the opportunity to add several names in this space, including Ukrainian poultry producer MHP and Indian solar power operator Greenko. We also added a wide range of US names, including radio broadcaster iHeartMedia, regional sports broadcaster Diamond Sports Group and US grocery chain Albertsons.

In terms of sales, we reduced our positions in Netflix, given the mounting competitive pressures facing the company, and GE, where the timing proved to be fortuitous given the subsequent sell-off in the bonds following the publication of a short-selling report. In the energy sector, we reduced exploration and production (E&P) risk by selling Covey Park and Oasis. We also sold our position in Nova Chemicals after the bonds jumped following a takeover offer for the company.

### Outlook

Overall, we think high yield markets will continue to be supported by solid fundamentals, such as healthy corporate earnings, sound balance sheets, accommodative central banks and a strong demand for yield. Nevertheless, we must acknowledge that high yield bond prices have increased a lot this year. As a result, we see less scope for further significant price gains from this point and we think income is more likely to drive returns in the coming year.

With the global economy currently facing a number of uncertainties and challenges, we think a cautious approach is warranted. We therefore maintain our preference for less cyclical businesses, while remaining defensively positioned in areas such as energy and retail, where the outlook for earnings is less certain.

With heightened volatility likely to lead to a greater divergence in bond prices, we believe that careful individual bond selection and in-depth company analysis will become increasingly important to help identify the most attractive pockets of value.

In our view, high yield investing is as much about avoiding the losers as picking the winners. On this basis, we remain cautiously positioned in the retail sector. We believe that many retailers face long-term structural headwinds as shoppers increasingly shift towards online spending and away from traditional bricks-and-mortar stores. While some of these businesses will be able to adapt, we continue to be very selective in this space.

#### 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&G Global High Yield Bond Fund

## Authorised Corporate Director's Report

### Investments

#### Portfolio statement

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>EQUITIES</b>	<b>2,501</b>	<b>0.24</b>	<b>0.23</b>
<b>Equities</b>	<b>2,501</b>	<b>0.24</b>	<b>0.23</b>
141,319 Chaparral Energy	123	0.01	
680,748 Codere	2,240	0.22	
4,838 Jones Energy II	41	0.00	
21,345 Jones Energy II Warrants 17/05/2024	1	0.00	
48,841,504 New World Resources <sup>[a]</sup>	0	0.00	
9,295 Patterson-UTI Energy	66	0.01	
11,384 Sandridge Energy	30	0.00	
9,856 Sandridge Energy Warrants 2022 A	0	0.00	
4,150 Sandridge Energy Warrants 2022 B	0	0.00	
<b>FIXED INCOME</b>	<b>901,992</b>	<b>87.36</b>	<b>93.23</b>
<b>Debt securities</b>	<b>899,189</b>	<b>87.09</b>	<b>92.97</b>
<b>'AA' credit rated bonds</b>	<b>0</b>	<b>0.00</b>	<b>4.87</b>
<b>'A' credit rated bonds</b>	<b>9,236</b>	<b>0.89</b>	<b>1.71</b>
€2,800,000 Banco Bilbao Vizcaya Argentaria Var. Rate 6% Perpetual	2,616	0.25	
€2,475,000 HSBC Var. Rate 4.75% Perpetual	2,309	0.22	
\$1,771,000 HSBC Var. Rate 6% Perpetual	1,448	0.14	
€2,955,000 Total Var. Rate 3.369% Perpetual	2,863	0.28	
<b>'BBB' credit rated bonds</b>	<b>109,319</b>	<b>10.59</b>	<b>10.23</b>
€1,900,000 América Móvil Var. Rate 6.375% 06/09/2073	1,940	0.19	
\$3,500,000 ArcelorMittal 4.55% 11/03/2026	2,838	0.27	
\$2,376,000 ArcelorMittal 7% 15/10/2039	2,231	0.22	
€1,800,000 Banco de Sabadell Var. Rate 6.5% Perpetual	1,578	0.15	
\$5,000,000 Berry Global 4.875% 15/07/2026	4,052	0.39	
\$9,661,000 Centene 4.75% 15/01/2025	7,779	0.75	
\$2,220,000 Centene 6.125% 15/02/2024	1,789	0.17	
\$7,480,000 Cheniere Corpus Christi 5.875% 31/03/2025	6,478	0.63	
\$2,379,000 Corestates Capital III FRN 2.4799% 15/02/2027	1,737	0.17	
\$6,626,000 Dell International 5.45% 15/06/2023	5,553	0.54	
\$5,710,000 Energy Transfer Operating 5.875% 15/01/2024	4,875	0.47	
£4,988,000 GKN 4.625% 12/05/2032	5,135	0.50	
\$7,916,000 HCA 4.5% 15/02/2027	6,604	0.64	
\$2,379,000 HCA 4.75% 01/05/2023	1,969	0.19	
\$2,724,000 HCA 5% 15/03/2024	2,295	0.22	
\$3,036,000 HCA 5.5% 15/06/2047	2,706	0.26	
\$4,758,000 Lear 5.25% 15/01/2025	3,794	0.37	
£2,855,000 Legal & General Var. Rate 5.375% 27/10/2045	3,227	0.31	
€2,700,000 Merck Var. Rate 1.625% 25/06/2079	2,345	0.23	
\$1,189,000 Newfield Exploration 5.375% 01/01/2026	989	0.10	
\$6,000,000 NGPL PipeCo 4.875% 15/08/2027	4,919	0.48	
\$1,903,000 Park Aerospace 5.5% 15/02/2024	1,616	0.16	
\$3,997,000 Sabine Pass Liquefaction 5.625% 01/03/2025	3,454	0.33	
\$3,881,648 S-JETS 2017-1 5.682% 15/08/2042	3,106	0.30	
£1,095,000 Society of Lloyd's Var. Rate 4.875% 07/02/2047	1,214	0.12	
\$7,613,000 Syngenta Finance 5.182% 24/04/2028	6,299	0.61	
€5,500,000 UniCredit Var. Rate 7.5% Perpetual	5,433	0.53	
\$7,322,000 Vodafone Var. Rate 7% 04/04/2079	6,543	0.63	

#### Portfolio statement (continued)

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>'BBB' credit rated bonds (continued)</b>			
€3,200,000 ZF Europe Finance 2.5% 23/10/2027	2,769	0.27	
€2,000,000 ZF Europe Finance 3% 23/10/2029	1,748	0.17	
\$2,850,000 ZF North America Capital 4.75% 29/04/2025	2,304	0.22	
<b>'BB' credit rated bonds</b>	<b>452,810</b>	<b>43.86</b>	<b>48.24</b>
\$6,500,000 Albertsons 5.875% 15/02/2028	5,266	0.51	
\$3,000,000 Aramark Services 5% 01/04/2025	2,407	0.23	
€2,000,000 Ardagh Packaging Finance 2.125% 15/08/2026	1,753	0.17	
£2,172,000 Arrow Global Finance 5.125% 15/09/2024	2,183	0.21	
€5,810,000 Arrow Global Finance FRN 2.875% 01/04/2025	4,860	0.47	
\$3,806,000 Avis Budget Finance 5.25% 15/03/2025	3,029	0.29	
€5,263,000 Axalta Coating Systems 3.75% 15/01/2025	4,615	0.46	
€2,565,000 Axalta Coating Systems 4.25% 15/08/2024	2,251	0.22	
\$6,500,000 Ball 4% 15/11/2023	5,305	0.51	
€1,636,000 Belden 3.375% 15/07/2027	1,444	0.14	
€1,400,000 Belden 3.875% 15/03/2028	1,259	0.12	
£7,900,000 Cabot Financial Luxembourg 7.5% 01/10/2023	8,188	0.79	
\$8,000,000 Cascades 5.125% 15/01/2026	6,248	0.61	
\$3,859,000 CCO Holdings Capital 4% 01/03/2023	3,041	0.29	
\$9,516,000 CCO Holdings Capital 5.125% 01/05/2027	7,775	0.75	
\$10,468,000 CCO Holdings Capital 5.75% 15/02/2026	8,580	0.83	
\$3,800,000 Cemex 5.7% 11/01/2025	3,019	0.29	
\$2,421,000 Cemex Finance 6% 01/04/2024	1,923	0.19	
€6,250,000 Chemours 4% 15/05/2026	4,718	0.46	
\$6,400,000 Cheniere Energy Partners 4.5% 01/10/2029	4,990	0.48	
\$1,903,000 Cheniere Energy Partners 5.25% 01/10/2025	1,523	0.15	
\$5,554,000 Cheniere Energy Partners 5.625% 01/10/2026	4,538	0.44	
\$3,250,000 CIFI 6.55% 28/03/2024	2,544	0.25	
€1,836,000 Colfax 3.25% 15/05/2025	1,602	0.16	
€7,500,000 CPI Property Var. Rate 4.375% Perpetual	6,569	0.64	
\$1,665,000 Crown Americas 4.25% 30/09/2026	1,341	0.13	
€4,120,000 Crown European 3.375% 15/05/2025	3,835	0.37	
\$7,087,000 CSC 5.5% 15/04/2027	5,872	0.57	
\$7,137,000 CSC 6.625% 15/10/2025	5,777	0.56	
€4,493,000 Digi Communications 5% 15/10/2023	3,929	0.38	
\$2,800,000 Drax Finco 6.625% 01/11/2025	2,295	0.22	
€3,460,000 Dufry Finance 4.5% 01/08/2023	3,016	0.29	
\$3,500,000 Energy Transfer Operating Var. Rate 6.25% Perpetual	2,453	0.24	
\$13,200,000 EnLink Midstream 5.375% 01/06/2029	8,492	0.82	
\$5,249,000 Fiat Chrysler Automobiles 5.25% 15/04/2023	4,367	0.42	
\$3,806,000 Freeport-McMoRan 3.875% 15/03/2023	2,995	0.29	
\$10,468,000 Freeport-McMoRan 5.4% 14/11/2034	8,079	0.78	
\$4,758,000 Goodyear Tire & Rubber 5% 31/05/2026	3,756	0.36	
€3,735,000 Grifols 2.25% 15/11/2027	3,262	0.32	
\$9,363,000 Hanesbrands 4.625% 15/05/2024	7,658	0.74	
\$3,968,000 Hanesbrands 4.875% 15/05/2026	3,277	0.32	
\$7,137,000 HCA 5.375% 01/09/2026	6,108	0.59	
\$243,000 HCA 5.875% 01/02/2029	215	0.02	

# M&G Global High Yield Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at Holding		30.11.19 £'000	30.11.19 %	31.05.19 %
'BB' credit rated bonds (continued)				
\$3,172,000	Hilton Worldwide Finance 4.625% 01/04/2025	2,508	0.24	
€4,200,000	Infineon Technologies Var. Rate 3.625% Perpetual	3,651	0.35	
\$5,416,000	Inretail Pharma 5.375% 02/05/2023	4,387	0.42	
\$9,516,000	International Game Technology 6.25% 15/02/2022	7,796	0.76	
€1,276,000	Intertrust 3.375% 15/11/2025	1,140	0.11	
€1,500,000	Intesa Sanpaolo 3.928% 15/09/2026	1,434	0.14	
€4,758,000	Intesa Sanpaolo Var. Rate 6.25% Perpetual	4,367	0.42	
€1,911,000	Intesa Sanpaolo Var. Rate 7.75% Perpetual	1,954	0.19	
€4,480,000	Intrum 3.125% 15/07/2024	3,863	0.37	
€9,616,000	IQVIA 3.25% 15/03/2025	8,368	0.81	
€900,000	IQVIA 3.5% 15/10/2024	782	0.08	
€3,626,000	James Hardie 3.625% 01/10/2026	3,281	0.32	
\$11,000,000	KB Home 4.8% 15/11/2029	8,665	0.84	
€5,900,000	Koninklijke KPN Var. Rate 2% Perpetual	5,003	0.48	
\$6,327,000	KUO 5.75% 07/07/2027	4,959	0.48	
€4,858,000	Levi Strauss 3.375% 15/03/2027	4,403	0.43	
\$2,855,000	Levi Strauss 5% 01/05/2025	2,284	0.22	
€4,071,000	Lincoln Financing 3.625% 01/04/2024	3,562	0.35	
€2,688,000	Lloyds Banking Var. Rate 6.375% Perpetual	2,355	0.23	
€1,583,000	Louvre Bidco 4.25% 30/09/2024	1,374	0.13	
\$4,300,000	MARB BondCo 6.875% 19/01/2025	3,496	0.34	
\$3,300,000	Melco Resorts Finance 5.375% 04/12/2029	2,610	0.25	
\$3,432,000	Melco Resorts Finance 5.625% 17/07/2027	2,755	0.27	
\$7,131,000	MGM Resorts International 5.5% 15/04/2027	6,090	0.59	
\$2,401,000	Muthoot Finance 6.125% 31/10/2022	1,911	0.19	
€1,903,000	National Westminster Bank Var. Rate 1.725% Perpetual	1,600	0.15	
£1,850,000	Nationwide Building Society Var. Rate 5.875% Perpetual	1,974	0.19	
€7,849,000	Netflix 3.625% 15/05/2027	7,104	0.69	
\$10,235,000	Network IZI Var. Rate 5.65% Perpetual	7,425	0.72	
€1,807,000	OI European 2.875% 15/02/2025	1,566	0.15	
\$9,516,000	Olin 5% 01/02/2030	7,302	0.71	
€1,400,000	Orano 4.875% 23/09/2024	1,382	0.13	
\$2,855,000	Parsley Energy 5.375% 15/01/2025	2,262	0.22	
\$1,427,000	Parsley Energy 5.625% 15/10/2027	1,145	0.11	
\$1,497,000	Performance Food 5.5% 15/10/2027	1,242	0.12	
\$11,581,000	Petrobras Global Finance 5.093% 15/01/2030	9,399	0.91	
\$10,468,000	Pilgrim's Pride 5.75% 15/03/2025	8,421	0.82	
€5,252,000	Playtech 4.25% 07/03/2026	4,717	0.47	
\$4,758,000	Rede D'or Finance 4.95% 17/01/2028	3,740	0.36	
€3,000,000	Repsol International Finance Var. Rate 4.5% 25/03/2075	2,916	0.28	
\$3,359,000	Royal Bank of Scotland 6.1% 10/06/2023	2,845	0.28	
\$9,516,000	Sally 5.625% 01/12/2025	7,658	0.74	
\$4,758,000	Sealed Air 5.125% 01/12/2024	3,984	0.39	
\$3,806,000	Service Corporation International 5.375% 15/05/2024	3,046	0.30	

### Portfolio statement (continued)

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
'BB' credit rated bonds (continued)			
\$3,524,000	Shea Homes Funding 6.125% 01/04/2025	2,826	0.27
\$12,371,000	Sirius XM Radio 5% 01/08/2027	10,033	0.97
\$3,806,000	SM Energy 5% 15/01/2024	2,720	0.26
\$3,489,000	SM Energy 6.625% 15/01/2027	2,426	0.23
€3,932,000	Smurfit Kappa Treasury 1.5% 15/09/2027	3,369	0.33
\$5,040,000	Société Générale Var. Rate 7.875% Perpetual	4,347	0.42
\$10,897,000	Southwestern Energy 7.75% 01/10/2027	7,433	0.72
€839,000	Telecom Italia Finance 7.75% 24/01/2033	1,054	0.10
€10,200,000	Telefónica Europe Var. Rate 4.375% Perpetual	9,584	0.93
\$6,100,000	Tenet Healthcare 4.875% 01/01/2026	4,911	0.49
\$3,200,000	Tenet Healthcare 5.125% 01/11/2027	2,593	0.25
€2,730,000	Teva Pharmaceutical Finance Netherlands II 1.625% 15/10/2028	1,763	0.17
€1,351,000	Teva Pharmaceutical Finance Netherlands II 4.5% 01/03/2025	1,126	0.11
\$6,945,000	Teva Pharmaceutical Finance Netherlands III 3.15% 01/10/2026	4,371	0.42
\$2,268,000	Teva Pharmaceutical Finance Netherlands III 4.1% 01/10/2046	1,267	0.12
\$1,586,000	T-Mobile USA 5.125% 15/04/2025	1,269	0.12
\$2,855,000	T-Mobile USA 6% 15/04/2024	2,292	0.22
\$2,855,000	T-Mobile USA 6.375% 01/03/2025	2,290	0.22
\$5,710,000	UBS Var. Rate 7% Perpetual	4,995	0.48
\$7,686,000	United Rentals North America 4.625% 15/10/2025	6,163	0.60
\$2,855,000	United Rentals North America 6.5% 15/12/2026	2,420	0.23
\$6,344,000	Videotron 5.375% 15/06/2024	5,365	0.52
£3,671,100	Virgin Media Secured Finance 6.25% 28/03/2029	3,847	0.37
€2,438,000	Volvo Car 2.125% 02/04/2024	2,142	0.21
\$9,992,000	WPX Energy 5.25% 15/09/2024	7,928	0.77
\$6,500,000	Yingde Gases Investment 6.25% 19/01/2023	5,193	0.50
'B' credit rated bonds			
	<b>249,459</b>	<b>24.16</b>	<b>22.57</b>
\$2,825,000	1011778 BC ULC / New Red Finance 5% 15/10/2025	2,275	0.22
\$7,639,000	ADES International 8.625% 24/04/2024	6,118	0.59
€5,800,000	Altice France 5.875% 01/02/2027	5,498	0.53
\$3,000,000	Altice Luxembourg 10.5% 15/05/2027	2,633	0.26
\$4,000,000	American Axle & Manufacturing 6.25% 01/04/2025	3,132	0.30
€4,000,000	Antolin-Irausa 3.25% 30/04/2024	3,193	0.31
\$1,600,000	ARD Finance 6.5% 30/06/2027	1,237	0.12
€1,196,000	Ardagh Packaging Finance 4.75% 15/07/2027	1,249	0.12
£3,079,000	Barclays Var. Rate 5.875% Perpetual	3,145	0.31
\$13,983,000	Bausch Health 7% 15/01/2028	11,877	1.15
\$6,500,000	Bombardier 7.875% 15/04/2027	5,051	0.49
\$6,316,000	Caesars Resort Collection 5.25% 15/10/2025	5,055	0.49
\$2,855,000	Carrizo Oil & Gas 6.25% 15/04/2023	2,116	0.20
€6,600,000	Casino Guichard Perrachon 4.498% 07/03/2024	5,087	0.49
\$6,231,000	China Evergrande 6.25% 28/06/2021	4,590	0.44
€10,945,000	CMA CGM 5.25% 15/01/2025	7,277	0.71
\$6,456,000	CommScope 8.25% 01/03/2027	5,033	0.49
£2,321,000	CPUK Finance 4.25% 28/08/2022	2,357	0.23
\$1,900,000	CSC 7.5% 01/04/2028	1,661	0.16

# M&G Global High Yield Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %	
<b>'B' credit rated bonds (continued)</b>				
\$6,377,000 DaVita 5% 01/05/2025	5,108	0.49		
\$2,379,000 DaVita 5.125% 15/07/2024	1,879	0.18		
\$3,000,000 Diamond Sports 6.625% 15/08/2027	2,265	0.22		
€1,715,000 Fire BC FRN 4.75% 30/09/2024	1,446	0.14		
€4,539,000 Gamenet FRN 3.75% 27/04/2023	3,903	0.38		
£2,800,000 Garfunkelux Holdco 3 8.5% 01/11/2022	2,724	0.26		
€3,749,000 HEMA Bondco I FRN 6.25% 15/07/2022	2,328	0.23		
\$2,855,000 Hertz 6.25% 15/10/2022	2,237	0.22		
\$6,800,000 Hexion 7.875% 15/07/2027	5,321	0.52		
£9,208,000 Iceland Bondco 4.625% 15/03/2025	7,759	0.75		
\$3,000,000 iHeartCommunications 8.375% 01/05/2027	2,528	0.24		
\$5,092,000 IHS Netherlands 8% 18/09/2027	4,186	0.41		
\$7,880,000 Ithaca Energy North Sea 9.375% 15/07/2024	6,258	0.61		
€3,999,000 Jaguar Land Rover Automotive 6.875% 15/11/2026	3,535	0.34		
\$6,500,000 Live Nation Entertainment 4.75% 15/10/2027	5,198	0.50		
€4,449,000 LSF10 Wolverine Investments 5% 15/03/2024	3,858	0.37		
£5,818,000 Matalan Finance 6.75% 31/01/2023	5,469	0.53		
\$2,820,000 MHP 7.75% 10/05/2024	2,306	0.22		
\$6,302,000 Oasis Petroleum 6.875% 15/03/2022	4,569	0.44		
\$3,860,000 Owens-Brockway 5% 15/01/2022	3,102	0.30		
\$5,250,000 Panther BF Aggregator 8.5% 15/05/2027	4,144	0.40		
€4,858,000 Paprec FRN 3.5% 31/03/2025	3,788	0.37		
€2,352,000 Picard FRN 3% 30/11/2023	1,949	0.19		
\$9,800,000 Post 5.5% 15/12/2029	7,948	0.77		
£4,147,000 Premier Foods Finance 6.25% 15/10/2023	4,320	0.42		
£3,096,000 Premier Foods Finance FRN 5.785% 15/07/2022	3,093	0.30		
€4,274,000 Rekeep 9% 15/06/2022	3,293	0.32		
€6,834,000 Scientific Games International 5.5% 15/02/2026	5,920	0.57		
\$1,688,000 Scientific Games International 7% 15/05/2028	1,348	0.13		
€8,585,000 Selecta 5.875% 01/02/2024	7,464	0.72		
\$10,330,000 Sprint 7.875% 15/09/2023	8,784	0.85		
\$4,758,000 Sprint Capital 6.875% 15/11/2028	3,936	0.38		
€1,190,000 Starfruit 6.5% 01/10/2026	1,063	0.10		
\$3,200,000 Starfruit 8% 01/10/2026	2,567	0.25		
€3,500,000 Superior Industries International 6% 15/06/2025	2,722	0.26		
€3,028,000 Techem Verwaltungsgesellschaft 674 6% 30/07/2026	2,782	0.27		
\$10,000,000 TransDigm 5.5% 15/11/2027	7,689	0.75		
€1,602,000 Trivium Packaging Finance 3.75% 15/08/2026	1,438	0.14		
\$4,003,000 Trivium Packaging Finance 8.5% 15/08/2027	3,369	0.33		
€1,125,000 Vallourec 6.375% 15/10/2023	791	0.08		
€3,056,000 Vallourec 6.625% 15/10/2022	2,256	0.22		
\$3,000,000 Vertiv 9.25% 15/10/2024	2,283	0.22		
\$9,868,000 VTR Finance 6.875% 15/01/2024	7,809	0.76		
€2,646,000 VZ Vendor Financing 2.5% 31/01/2024	2,292	0.22		
€2,075,000 Walnut Bidco 6.75% 01/08/2024	1,848	0.18		

### Portfolio statement (continued)

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>'CCC' credit rated bonds</b>			
\$4,700,000 AMC Entertainment 6.125% 15/05/2027	3,265	0.32	
£1,562,000 AMC Entertainment 6.375% 15/11/2024	1,531	0.15	
€6,230,000 Eagle Intermediate Global 5.375% 01/05/2023	4,076	0.39	
\$5,100,000 Mauser Packaging Solutions 7.25% 15/04/2025	3,736	0.36	
€3,214,488 Newco 8% 15/12/2022	2,817	0.27	
\$5,710,000 Ortho-Clinical Diagnostics 6.625% 15/05/2022	4,375	0.42	
\$3,806,000 Tenet Healthcare 7% 01/08/2025	3,102	0.30	
€3,095,000 Unilabs Subholding 5.75% 15/05/2025	2,740	0.27	
€6,836,000 Verisure Midholding 5.75% 01/12/2023	5,997	0.58	
\$7,000,000 Vertiv Intermediate 12% 15/02/2022	5,133	0.50	
<b>Bonds with no credit rating</b>	<b>41,593</b>	<b>4.03</b>	<b>2.34</b>
£2,855,000 Cattles 1% 01/01/2049	6	0.00	
€4,673,000 Eurofins Scientific Var. Rate 2.875% Perpetual	3,883	0.38	
€900,000 Eurofins Scientific Var. Rate 3.25% Perpetual	739	0.07	
\$6,250,000 Greenko Solar Mauritius 5.55% 29/01/2025	4,874	0.47	
£5,000,000 Heathrow Finance 3.875% 01/03/2027	5,015	0.48	
€3,761,784 Hellas Telecom III 1% 01/01/2049 <sup>[b]</sup>	0	0.00	
£2,152,000 House of Fraser Funding 6.5286% 15/09/2020	106	0.01	
\$605,705 K2016470219 South Africa 3% 31/12/2022	1	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	
\$2,603,000 Millicom International Cellular 6.25% 25/03/2029	2,184	0.21	
£7,350,000 Ocado 4% 15/06/2024	7,497	0.73	
\$553,000 Puma International Financing 5% 24/01/2026	407	0.04	
\$1,900,000 Puma International Financing 5.125% 06/10/2024	1,454	0.14	
\$5,043,000 Sandridge Energy 7.5% 15/03/2021 <sup>[b]</sup>	0	0.00	
\$951,595 Seventy Seven Energy 6.5% 15/07/2022 <sup>[b]</sup>	0	0.00	
\$3,331,000 Stora Enso 7.25% 15/04/2036	3,131	0.30	
€5,491,000 Summer BC 9.25% 31/10/2027	4,713	0.46	
€2,174,000 Tasty Bondco 1 6.25% 15/05/2026	1,917	0.19	
\$6,750,000 Taylor Morrison Communities 5.875% 15/06/2027	5,666	0.55	
<b>Debt derivatives</b>	<b>2,803</b>	<b>0.27</b>	<b>0.26</b>
<b>Credit default swaps</b>	<b>3,075</b>	<b>0.30</b>	<b>0.34</b>
\$(13,703,040) Markit CDX North American High Yield Series 31 5 Year Dec 2023	870	0.08	
\$(9,900,000) Markit CDX North American High Yield Series 32 5 Year Jun 2024	618	0.06	
\$(26,000,000) Markit CDX North American High Yield Series 33 V1 5 Year Dec 2024	1,562	0.15	
€(4,758,000) Telecom Italia Dec 2021	44	0.01	
€(2,248,521) Telecom Italia Dec 2023	(4)	0.00	
€(1,551,479) Telecom Italia Jun 2024	(15)	0.00	

# M&G Global High Yield Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>Asset swaps</b>	<b>(279)</b>	<b>(0.03)</b>	<b>(0.01)</b>
\$2,855,000 HCA Pay 5.5% Receive VAR Jun 2047	(279)	(0.03)	
<b>Interest rate futures</b>	<b>7</b>	<b>0.00</b>	<b>(0.07)</b>
(362) EuroBobl March 2020	7	0.00	
<b>CURRENCY</b>	<b>(2,602)</b>	<b>(0.24)</b>	<b>(2.97)</b>
<b>Forward currency contracts</b>	<b>(2,602)</b>	<b>(0.24)</b>	<b>(2.97)</b>
€9,323,983 Bought for £7,981,264 (expires 18.12.19)	(30)	0.00	
€(309,416,100) Sold for £264,240,421 (expires 18.12.19)	367	0.04	
\$(752,658,499) Sold for £580,119,720 (expires 18.12.19)	(2,939)	(0.28)	
<b>Portfolio of investments</b>	<b>901,891</b>	<b>87.52</b>	<b>90.49</b>
<b>CASH EQUIVALENTS</b>	<b>98,304</b>	<b>9.52</b>	<b>6.31</b>
<b>'AAA' rated money market funds [c]</b>	<b>98,304</b>	<b>9.52</b>	<b>6.31</b>
98,304,000 Northern Trust Global Fund - Sterling	98,304	9.52	
<b>Total portfolio</b>	<b>1,000,195</b>	<b>96.88</b>	<b>96.80</b>
<b>Net other assets / (liabilities)</b>	<b>32,243</b>	<b>3.12</b>	<b>3.20</b>
<b>Net assets attributable to shareholders</b>	<b>1,032,438</b>	<b>100.00</b>	<b>100.00</b>

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

[a] Unquoted / unlisted.

[b] Defaulted bond.

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

Portfolio transactions		
for the six months to 30 November	2019	2018
Portfolio transactions	£'000	£'000
Total purchases	342,676	230,577
Total sales	434,565	253,242

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

# 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.

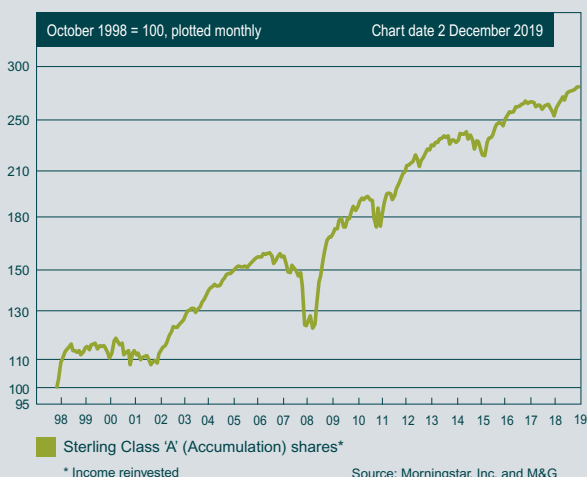
The following charts and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be 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			
as at	30.11.19 £'000	31.05.19 £'000	31.05.18 £'000
Fund net asset value (NAV)	1,032,438	1,058,635	1,172,791

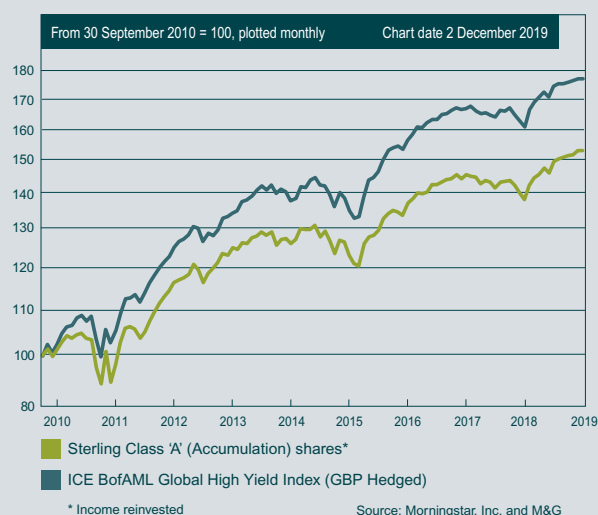
### Performance since launch

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				
	Six months 03.06.19 % [a]	Three years 02.12.16 % p.a.	Five years 02.12.14 % p.a.	Since launch % p.a.
<b>Sterling [b]</b>				
Class 'A'	+5.0	+4.5	+3.6	+5.7 [c]
Class 'I'	+5.3	+5.2	+4.2	+5.5 [d]
Class 'PP'	+5.4	n/a	n/a	+4.8 [e]
Class 'R'	+5.1	+4.8	+3.9	+5.2 [d]
Class 'X'	+5.0	+4.6	+3.6	+5.0 [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. Not annualised.

[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

### Fund performance

## 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	30.11.19	31.05.19	31.05.18	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.72	0.84	0.79	0.78

<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.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Opening NAV	48.04	49.25	51.46
Return before operating charges and after direct portfolio transaction costs	2.56	1.94	0.97
Operating charges	(0.31)	(0.69)	(0.72)
Return after operating charges	2.25	1.25	0.25
Distributions	(1.23)	(2.46)	(2.46)
Closing NAV	49.06	48.04	49.25
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+4.68	+2.54	+0.49
Distribution yield	5.02	5.20	4.99
Effect on yield of charges offset against capital	1.22	1.40	1.40

#### Other information

Closing NAV (£'000)	61,409	60,257	88,585
Closing NAV percentage of total fund NAV (%)	5.94	5.69	7.55
Number of shares	125,175,050	125,436,058	179,851,159
Highest share price (UK p)	49.42	49.81	52.06
Lowest share price (UK p)	47.92	46.33	49.75

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

The share class was launched on 1 October 2002.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	133.40	130.02	129.44
Return before operating charges and after direct portfolio transaction costs	7.14	5.24	2.44
Operating charges	(0.87)	(1.86)	(1.86)
Return after operating charges	6.27	3.38	0.58
Distributions	(2.59)	(4.81)	(4.48)
Retained distributions	2.59	4.81	4.48
Closing NAV	139.67	133.40	130.02
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+4.70	+2.60	+0.45
Distribution yield	3.85	3.79	3.58
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	242,077	250,671	259,871
Closing NAV percentage of total fund NAV (%)	23.45	23.68	22.16
Number of shares	173,317,109	187,906,510	199,863,410
Highest share price (UK p)	139.99	135.30	133.76
Lowest share price (UK p)	133.07	125.99	129.08

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

The share class was launched on 3 August 2012.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	1,031.08	1,050.92	1,091.29
Return before operating charges and after direct portfolio transaction costs	54.91	41.34	20.83
Operating charges	(3.83)	(8.48)	(8.85)
Return after operating charges	51.08	32.86	11.98
Distributions	(26.40)	(52.70)	(52.35)
Closing NAV	1,055.76	1,031.08	1,050.92
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+4.95	+3.13	+1.10
Distribution yield	5.02	5.20	4.99
Effect on yield of charges offset against capital	0.70	0.80	0.80
<b>Other information</b>			
Closing NAV (£'000)	102,124	108,981	125,311
Closing NAV percentage of total fund NAV (%)	9.89	10.29	10.68
Number of shares	9,672,963	10,569,588	11,923,918
Highest share price (UK p)	1,062.40	1,062.86	1,106.95
Lowest share price (UK p)	1,028.54	992.00	1,061.50

# M&G Global High Yield Bond Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 3 August 2012.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	1,409.31	1,365.39	1,351.18
Return before operating charges and after direct portfolio transaction costs	75.43	55.19	25.42
Operating charges	(5.27)	(11.27)	(11.21)
Return after operating charges	70.16	43.92	14.21
Distributions	(31.24)	(58.99)	(55.22)
Retained distributions	31.24	58.99	55.22
Closing NAV	1,479.47	1,409.31	1,365.39
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.01	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.01
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+4.98	+3.22	+1.05
Distribution yield	4.34	4.39	4.18
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	104,484	116,584	121,298
Closing NAV percentage of total fund NAV (%)	10.12	11.01	10.34
Number of shares	7,062,267	8,272,395	8,883,780
Highest share price (UK p)	1,482.45	1,429.11	1,401.66
Lowest share price (UK p)	1,405.82	1,327.60	1,348.33

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

The share class was launched on 5 August 2019.

	Period to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	100.00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	2.52	n/a	n/a
Operating charges	(0.17)	n/a	n/a
Return after operating charges	2.35	n/a	n/a
Distributions	(1.59)	n/a	n/a
Closing NAV	100.76	n/a	n/a
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+2.35	n/a	n/a
Distribution yield	5.02	n/a	n/a
Effect on yield of charges offset against capital	0.53	n/a	n/a
<b>Other information</b>			
Closing NAV (£'000)	20	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)	101.35	n/a	n/a
Lowest share price (UK p)	99.57	n/a	n/a

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

The share class was launched on 8 April 2019.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	99.67	100.00	n/a
Return before operating charges and after direct portfolio transaction costs	5.34	(0.22)	n/a
Operating charges	(0.30)	(0.11)	n/a
Return after operating charges	5.04	(0.33)	n/a
Distributions	(2.29)	(0.77)	n/a
Retained distributions	2.29	0.77	n/a
Closing NAV	104.71	99.67	n/a
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	n/a
Operating charges <sup>[c]</sup>	0.55	0.66	n/a
Return after operating charges	+5.06	-0.33	n/a
Distribution yield	4.49	4.54	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
<b>Other information</b>			
Closing NAV (£'000)	106	223	n/a
Closing NAV percentage of total fund NAV (%)	0.01	0.02	n/a
Number of shares	101,187	223,386	n/a
Highest share price (UK p)	104.92	101.07	n/a
Lowest share price (UK p)	99.43	99.67	n/a

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

The share class was launched on 3 August 2012.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	102.17	104.49	108.88
Return before operating charges and after direct portfolio transaction costs	5.43	4.10	2.09
Operating charges	(0.52)	(1.21)	(1.27)
Return after operating charges	4.91	2.89	0.82
Distributions	(2.61)	(5.21)	(5.21)
Closing NAV	104.47	102.17	104.49
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+4.81	+2.77	+0.75
Distribution yield	5.02	5.20	4.99
Effect on yield of charges offset against capital	0.97	1.15	1.15
<b>Other information</b>			
Closing NAV (£'000)	16,647	15,721	13,273
Closing NAV percentage of total fund NAV (%)	1.61	1.49	1.13
Number of shares	15,935,503	15,386,912	12,703,313
Highest share price (UK p)	105.19	105.66	110.28
Lowest share price (UK p)	101.91	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.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	137.99	134.16	133.23
Return before operating charges and after direct portfolio transaction costs	7.39	5.41	2.54
Operating charges	(0.72)	(1.58)	(1.61)
Return after operating charges	6.67	3.83	0.93
Distributions	(2.86)	(5.30)	(4.96)
Retained distributions	2.86	5.30	4.96
Closing NAV	144.66	137.99	134.16
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+4.83	+2.85	+0.70
Distribution yield	4.09	4.04	3.83
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	16,710	15,754	13,233
Closing NAV percentage of total fund NAV (%)	1.62	1.49	1.13
Number of shares	11,551,568	11,416,874	9,863,114
Highest share price (UK p)	144.97	139.94	137.89
Lowest share price (UK p)	137.65	130.19	132.90

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

The share class was launched on 16 October 1998.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	48.06	49.27	51.47
Return before operating charges and after direct portfolio transaction costs	2.55	1.94	0.98
Operating charges	(0.31)	(0.69)	(0.72)
Return after operating charges	2.24	1.25	0.26
Distributions	(1.23)	(2.46)	(2.46)
Closing NAV	49.07	48.06	49.27
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+4.66	+2.54	+0.51
Distribution yield	5.02	5.20	4.99
Effect on yield of charges offset against capital	1.22	1.40	1.40
<b>Other information</b>			
Closing NAV (£'000)	364,503	368,257	397,647
Closing NAV percentage of total fund NAV (%)	35.31	34.79	33.90
Number of shares	742,749,913	766,322,488	807,032,081
Highest share price (UK p)	49.44	49.83	52.08
Lowest share price (UK p)	47.93	46.34	49.77

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

The share class was launched on 16 October 1998.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	133.50	130.12	129.54
Return before operating charges and after direct portfolio transaction costs	7.14	5.24	2.45
Operating charges	(0.86)	(1.86)	(1.87)
Return after operating charges	6.28	3.38	0.58
Distributions	(2.59)	(4.81)	(4.49)
Retained distributions	2.59	4.81	4.49
Closing NAV	139.78	133.50	130.12
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+4.70	+2.60	+0.45
Distribution yield	3.85	3.79	3.58
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	124,358	122,187	94,493
Closing NAV percentage of total fund NAV (%)	12.05	11.54	8.06
Number of shares	88,968,264	91,524,756	72,618,561
Highest share price (UK p)	140.09	135.40	133.86
Lowest share price (UK p)	133.17	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 six months to 30 November	2019 £'000	2018 £'000
Income		
Net capital gains / (losses)	28,509	(36,307)
Revenue	26,456	29,916
Expenses	(5,986)	(7,373)
Net revenue / (expense) before taxation	20,470	22,543
Taxation	(6)	(29)
Net revenue / (expense) after taxation	20,464	22,514
<b>Total return before distributions</b>	<b>48,973</b>	<b>(13,793)</b>
Distributions	(23,527)	(26,229)
<b>Change in net assets attributable to shareholders from investment activities</b>	<b>25,446</b>	<b>(40,022)</b>

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

for the six months to 30 November	2019 £'000	2018 £'000
Opening net assets attributable to shareholders	1,058,635	1,172,791
Amounts received on issue of shares	32,955	68,554
Amounts paid on cancellation of shares	(94,516)	(93,600)
Transferred to M&G (Lux) Global High Yield Bond Fund	0	(56,010)
	(61,561)	(81,056)
Dilution adjustments	324	275
Change in net assets attributable to shareholders from investment activities (see above)	25,446	(40,022)
Retained distributions on Accumulation shares	9,587	10,863
Unclaimed distributions	7	7
<b>Closing net assets attributable to shareholders</b>	<b>1,032,438</b>	<b>1,062,858</b>

The opening net assets attributable to shareholders for 2019 differs to the closing position in 2018 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

#### Balance sheet

as at	30 November 2019 £'000	31 May 2019 £'000
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	905,158	991,001
<b>Current assets</b>		
Debtors	12,832	14,237
Cash and bank balances	26,336	40,386
Cash equivalents	98,304	66,773
<b>Total assets</b>	<b>1,042,630</b>	<b>1,112,397</b>
<b>Liabilities</b>		
Investment liabilities	(3,267)	(32,966)
<b>Creditors</b>		
Bank overdrafts	0	(1,141)
Overdrawn positions at futures clearing houses and collateral manager	(225)	(486)
Distribution payable	(2,162)	(2,702)
Other creditors	(4,538)	(16,467)
<b>Total liabilities</b>	<b>(10,192)</b>	<b>(53,762)</b>
<b>Net assets attributable to shareholders</b>	<b>1,032,438</b>	<b>1,058,635</b>

### Notes to the financial statements

#### Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

#### 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.

# M&G Index-Linked Bond Fund

## Authorised Corporate Director's Report

### Investment objective

The fund aims to provide income and capital growth.

### Investment policy

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 approach

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.

### Benchmark

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.

### 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 2 December 2019, for the six months ended 30 November 2019**

#### Performance against objective

Between 3 June 2019 (the start of the review period) and 2 December 2019, the M&G Index-Linked Bond Fund's Sterling Class 'A' shares delivered a total return (the combination of income and growth of capital) of -1.6%. This was behind the return from the fund's comparator benchmark, the FTSE Actuaries UK Index-Linked Gilts All Stocks Index, which was -0.9% over the same period.

Over this reporting period, the fund generated a negative return, although over one, three and five years and since launch it has met its objective of providing income and capital growth.\*

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

#### Investment performance

Returns from UK government bonds (also known as gilts) were positive in the review period although index-linked gilts declined due to lower inflation expectations and concerns over potential changes to the way the Retail Prices Index (RPI) is measured. Investor sentiment was supported in general by monetary policy moves by the US Federal Reserve (Fed) as well as continued trade tensions between the US and China, with investors favouring government bonds for their perceived status as a safe asset. 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.

Long-dated index-linked 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 government bonds with a long time to maturity. The proposed changes, which could start from 2025, may complicate the process of determining bond valuations.

# M&G Index-Linked Bond Fund

## Authorised Corporate Director's Report

### Investment review

#### Investment performance (continued)

Index-linked gilts appealed at times when a 'no deal' Brexit appeared likely. However, they became less attractive to investors as the announcement in October of a general election on 12 December 2019 raised hopes of a Brexit breakthrough of some sort. Sterling rose as a result, in turn leading to a marked fall in inflation expectations, which weighed on index-linked gilts.

In notable contrast to late 2018, when sustained interest rate hikes in the US were considered likely, from early 2019, investors increasingly expected a cut in borrowing costs due to the global economic slowdown, lower oil prices and subdued domestic inflation. The Fed subsequently cut interest rates at the end of July, and twice more, in September and October, each time by a quarter of a percentage point. The Fed's action, together with stimulus measures by the European Central Bank helped to drive solid performance across core government bonds.

In late summer, renewed trade conflict and concerns about slowing global economic growth and the possibility of recession unsettled investors again, leading to strong returns for conventional and index-linked gilts. Pro-democracy protests in Hong Kong added to the volatility at times. Risk appetite picked up again in the autumn, led by the US stockmarket, which recorded a series of all-time highs, although Brexit remained a concern.

In terms of UK politics, following Theresa May's resignation in early summer, Boris Johnson became prime minister in July 2019, increasing the perceived likelihood of a 'no-deal' Brexit and leading to sterling weakness. However, the prospect that UK interest rates would need to be cut in this scenario bolstered performance in UK government bonds.

The revised Brexit deadline of 31 October 2019 came and went and the European Union (EU) agreed a flexible extension for Brexit, to 31 January 2020. Boris Johnson has secured agreement from the EU for a withdrawal deal and the UK has the option to leave before the new deadline if Parliament agrees this deal by specific dates. Meanwhile, a general election was held shortly after the end of the review period, resulting in a clear majority for the Conservative Party.

Turning to the domestic economy, UK activity grew by 0.3% in the third quarter of 2019, after falling by 0.2% in the second quarter as businesses used stockpiles built up in anticipation of the original Brexit deadline in late March 2019. The UK economy remains lacklustre as slowing global activity and concerns about Brexit continue to weigh on domestic manufacturing and business investment.

Inflation, as measured by the Consumer Prices Index (CPI), stood at 1.5% in October 2019, and it remains below the Bank of England's 2.0% target level. Meanwhile, domestic interest rates are relatively low at 0.75%.

UK conventional government bonds increased in value over the six months under review, supported by three quarter-percentage point cuts in US interest rates. Faced with ongoing economic and political uncertainties, investors also turned to perceived safe haven assets at times.

However, returns from UK index-linked government bonds declined over the period, with news of potential RPI reform and falling inflation expectations acting as a drag. The fund underperformed its comparator benchmark due to its lower sensitivity to changes in interest rates, relative to the index, although losses were partly offset by relatively large positions in very short- and 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 portfolio was positioned to be modestly less sensitive to the possibility of rising interest rates for most of the period under review. Government bonds with a short time till repayment are often less sensitive to interest rate movements than bonds with a longer maturity date.

We see value in index-linked government bonds maturing in 5-10 years as well as those maturing in more than 40 years. Our allocation to index-linked gilts maturing in 10-40 years is relatively small, compared to the wider index-linked market.

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 portfolio.

#### Outlook

The recent general election has removed some uncertainty as Prime Minister Boris Johnson now has a clear majority to drive forward his plan for the UK to leave the EU by 31 January 2020. However, there still remains the considerable challenge of securing a trade deal with the EU before the end of 2020. Sterling reacted positively to the news and, should this trend continue, import costs may reduce, in turn lowering inflation.

Aside from Brexit, the outlook remains uncertain due to weaker economic prospects at home and abroad, as well as ongoing trade tensions between the US and its major trading partners. These factors may weigh on the domestic economy as well as contribute to market volatility.

Investors tend to favour gilts during times of volatility as they are perceived to represent lower risk than other asset classes. As a result, we feel that conventional and index-linked UK government bonds should appeal to investors in the event of any volatility going forward. Meanwhile, a generally accommodative approach from major central banks should prove supportive for fixed income markets on the whole.

#### 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

### Investments

Portfolio statement			
as at	30.11.19	30.11.19	31.05.19
Holding	£'000	%	%
<b>FIXED INCOME</b>	<b>261,246</b>	<b>99.64</b>	<b>99.68</b>
Debt securities	260,972	99.54	99.68
'AA' credit rated bonds	257,047	98.04	98.35
£1,000,000 Network Rail Infrastructure Finance IL 1.9618% 01/12/2025	1,948	0.74	
£5,000,000 UK Treasury 1.75% 07/09/2037	5,545	2.11	
£37,600,000 UK Treasury IL 0.125% 22/03/2024	50,156	19.13	
£9,400,000 UK Treasury IL 0.125% 10/08/2028	12,304	4.69	
£16,250,000 UK Treasury IL 0.125% 22/03/2029	25,326	9.66	
£6,550,000 UK Treasury IL 0.125% 22/11/2036	10,757	4.10	
£25,900,000 UK Treasury IL 0.125% 10/08/2041	42,361	16.16	
£1,880,000 UK Treasury IL 0.125% 22/11/2065	4,845	1.85	
£23,847,516 UK Treasury IL 0.375% 22/03/2062	67,955	25.92	
£10,331,052 UK Treasury IL 0.75% 22/11/2047	28,436	10.85	
£2,750,000 UK Treasury IL 1.875% 22/11/2022	4,405	1.68	
£850,000 UK Treasury IL 2.5% 16/04/2020	3,009	1.15	
'A' credit rated bonds	496	0.19	0.17
£200,000 National Grid Electricity Transmission IL 2.817% 08/07/2032	496	0.19	
Bonds with no credit rating	3,429	1.31	1.16
£2,722,000 University of Cambridge IL 0.25% 27/06/2068	3,429	1.31	
Debt derivatives	274	0.10	0.00
Interest rate swaps	274	0.10	0.00
£2,000,000 Pay VAR Receive 3.5755% Sep 2034	109	0.04	
£2,500,000 Pay VAR Receive 3.6275% Sep 2034	165	0.06	
<b>Portfolio of investments</b>	<b>261,246</b>	<b>99.64</b>	<b>99.68</b>
<b>CASH EQUIVALENTS</b>	<b>1,188</b>	<b>0.45</b>	<b>0.00</b>
'AAA' rated money market funds [a]	1,188	0.45	0.00
1,188,000 Northern Trust Global Fund - Sterling	1,188	0.45	
<b>Total portfolio</b>	<b>262,434</b>	<b>100.09</b>	<b>99.68</b>
<b>Net other assets / (liabilities)</b>	<b>(231)</b>	<b>(0.09)</b>	<b>0.32</b>
<b>Net assets attributable to shareholders</b>	<b>262,203</b>	<b>100.00</b>	<b>100.00</b>

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

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

Portfolio transactions		
for the six months to 30 November	2019	2018
Portfolio transactions	£'000	£'000
Total purchases	293,552	148,960
Total sales	311,834	173,110

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

# 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.

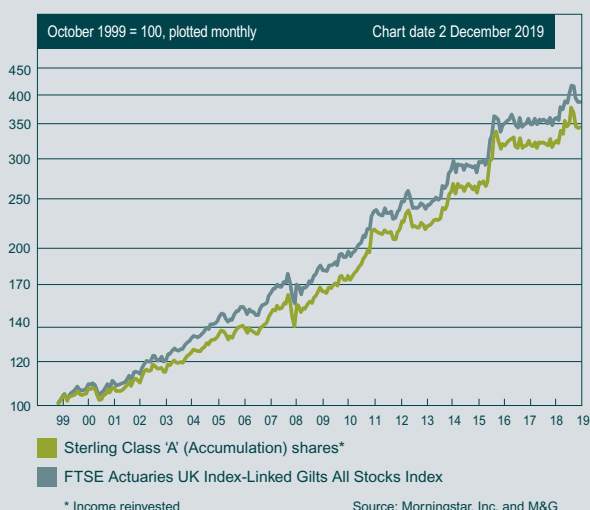
The following chart and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be 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.

### Fund level performance

Fund net asset value			
as at	30.11.19 £'000	31.05.19 £'000	31.05.18 £'000
Fund net asset value (NAV)	262,203	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.



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

	Six months 03.06.19 % [a]	Three years 02.12.16 % p.a.	Five years 02.12.14 % p.a.	Since launch % p.a.
<b>Sterling [b]</b>				
Class 'A'	-1.6	+4.1	+6.3	+6.4 [c]
Class 'I'	-1.5	+4.2	+6.4	+6.8 [d]

[a] Absolute basis.

[b] Price to price with income reinvested.

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

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

## 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.



# M&G Index-Linked Bond Fund

## Financial highlights

### Fund performance

## Operating charges and portfolio transaction costs

### Operating charges (continued)

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 below 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

	Six months to 30.11.19	Year to 31.05.19	Year to 31.05.18	Average <sup>[a]</sup>
	%	%	%	%
Indirect portfolio transaction costs				
Average portfolio dealing spread	0.14	0.13	0.10	0.12

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

### 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.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	155.40	141.16	144.31
Return before operating charges and after direct portfolio transaction costs	(4.20)	15.19	(2.23)
Operating charges	(0.46)	(0.95)	(0.92)
Return after operating charges	(4.66)	14.24	(3.15)
Distributions	0.00	0.00	0.00
Closing NAV	150.74	155.40	141.16
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	-3.00	+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
<b>Other information</b>			
Closing NAV (£'000)	14,329	15,929	18,080
Closing NAV percentage of total fund NAV (%)	5.46	5.54	5.75
Number of shares	9,506,221	10,250,393	12,807,899
Highest share price (UK p)	165.65	155.44	146.50
Lowest share price (UK p)	147.69	136.86	134.21

# M&G Index-Linked Bond Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 4 October 1999.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	178.53	162.16	165.78
Return before operating charges and after direct portfolio transaction costs	(4.84)	17.46	(2.56)
Operating charges	(0.52)	(1.09)	(1.06)
Return after operating charges	(5.36)	16.37	(3.62)
Distributions	0.00	0.00	0.00
Retained distributions	0.00	0.00	0.00
Closing NAV	173.17	178.53	162.16
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	-3.00	+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
<b>Other information</b>			
Closing NAV (£'000)	37,200	44,350	47,960
Closing NAV percentage of total fund NAV (%)	14.19	15.41	15.27
Number of shares	21,481,617	24,841,658	29,574,772
Highest share price (UK p)	190.30	178.57	168.30
Lowest share price (UK p)	169.67	157.23	154.18

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

The share class was launched on 3 August 2012.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	1,666.49	1,512.24	1,544.44
Return before operating charges and after direct portfolio transaction costs	(45.18)	162.87	(23.79)
Operating charges	(3.22)	(8.62)	(8.41)
Return after operating charges	(48.40)	154.25	(32.20)
Distributions	0.00	0.00	0.00
Closing NAV	1,618.09	1,666.49	1,512.24
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	-2.90	+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
<b>Other information</b>			
Closing NAV (£'000)	90,120	86,709	86,869
Closing NAV percentage of total fund NAV (%)	34.37	30.13	27.66
Number of shares	5,569,542	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)	1,585.24	1,466.64	1,436.51

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

The share class was launched on 3 August 2012.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	1,668.67	1,514.22	1,546.46
Return before operating charges and after direct portfolio transaction costs	(45.22)	163.06	(23.82)
Operating charges	(3.25)	(8.61)	(8.42)
Return after operating charges	(48.47)	154.45	(32.24)
Distributions	0.00	0.00	0.00
Retained distributions	0.00	0.00	0.00
Closing NAV	1,620.20	1,668.67	1,514.22
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	-2.90	+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
<b>Other information</b>			
Closing NAV (£'000)	120,554	140,765	161,185
Closing NAV percentage of total fund NAV (%)	45.98	48.92	51.32
Number of shares	7,440,692	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)	1,587.32	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

for the six months to 30 November	2019		2018	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		(6,093)		(7,286)
Revenue	(557)		1,708	
Expenses	(589)		(890)	
Net revenue / (expense) before taxation	(1,146)		818	
Taxation	1		0	
Net revenue / (expense) after taxation		(1,145)		818
<b>Total return before equalisation</b>		<b>(7,238)</b>		<b>(6,468)</b>
Equalisation		52		136
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>(7,186)</b>		<b>(6,332)</b>

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

for the six months to 30 November	2019		2018	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>287,753</b>		<b>314,094</b>
Amounts received on issue of shares	16,465		7,242	
Amounts paid on cancellation of shares	(34,864)		(30,717)	
		(18,399)		(23,475)
Dilution adjustments		35		14
Change in net assets attributable to shareholders from investment activities (see above)		(7,186)		(6,332)
<b>Closing net assets attributable to shareholders</b>		<b>262,203</b>		<b>284,301</b>

The opening net assets attributable to shareholders for 2019 differs to the closing position in 2018 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

#### Balance sheet

as at	30 November 2019	31 May 2019
	£'000	£'000
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	261,246	286,835
<b>Current assets</b>		
Debtors	106	440
Cash and bank balances	0	798
Cash equivalents	1,188	0
<b>Total assets</b>	<b>262,540</b>	<b>288,073</b>
<b>Liabilities</b>		
<b>Creditors</b>		
Bank overdrafts	(194)	0
Other creditors	(143)	(320)
<b>Total liabilities</b>	<b>(337)</b>	<b>(320)</b>
<b>Net assets attributable to shareholders</b>	<b>262,203</b>	<b>287,753</b>

### Notes to the financial statements

#### Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

#### 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.

# M&G Index-Linked Bond Fund

Financial statements and notes

This page is intentionally blank

## 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 fund is passively managed. The index is a constraining benchmark for the fund. The fund aims to track the return of the index. The fund's portfolio holdings are therefore unlikely to significantly deviate from the index's constituent parts.

## 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 2 December 2019, for the six months ended 30 November 2019**

### 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 2 December 2019, the fund's Sterling Class 'A' and 'C' shares produced a total return (the combination of income and growth of capital) of 6.2% and 6.4%, respectively in sterling terms. Meanwhile, the fund's comparator benchmark, the FTSE All-Share Index, produced a total return of 4.8% over the same period.\*

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

## Investment performance

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

Timing – This reflects the fact that the fund is priced at midday while the index is priced at close of business day. The fund's apparent outperformance of the index over the six-month period was largely due to timing – the index fell on the afternoon of the last business day, whereas the fund was unaffected because of its midday pricing.

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).

**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.

**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 period under review started against a backdrop of stockmarket weakness, due to heightened trade tensions between the US and China. In June, shares rallied as investors were encouraged by expectations of a cut in US interest rates. The US Federal Reserve (Fed) subsequently cut interest rates at the end of July, and twice more, in September and October. In late summer, renewed trade conflict and concerns about slowing global economic growth unsettled investors again. Risk appetite subsequently picked up in the autumn, led by the US market, which recorded a series of all-time highs. UK equities lagged, however, as Brexit increasingly preoccupied investors in the domestic market.

# M&G Index Tracker Fund

## Authorised Corporate Director's Report

### Investment review

#### Investment performance (continued)

In terms of UK politics, following Theresa May's resignation in early summer, Boris Johnson became prime minister in July 2019. The revised Brexit deadline of 31 October 2019 came and went and the European Union (EU) agreed a flexible extension for Brexit, to 31 January 2020. Boris Johnson has secured agreement from the EU for a withdrawal deal and the UK has the option to leave before the new deadline if Parliament agrees this deal by specific dates. Meanwhile, a general election was held shortly after the end of the review period, resulting in a clear majority for the Conservative Party.

Turning to the domestic economy, UK activity grew by 0.3% in the third quarter of 2019, after falling by 0.2% in the second quarter as businesses used stockpiles built up in anticipation of the original Brexit deadline in late March 2019. The UK economy remains lacklustre as slowing global activity and concerns about Brexit continue to weigh on domestic manufacturing and business investment.

Inflation, as measured by the Consumer Prices Index (CPI), stood at 1.5% in October 2019, down from 1.7% the previous month, and it remains below the Bank of England's 2.0% target level. Wage growth continues to be positive, although the pace of expansion eased from 3.9% in the three months to July 2019 to 3.6% for total (including bonuses) and regular pay in the three months to September. Meanwhile, unemployment stood at 3.8% in the same period, broadly unchanged on the preceding three-month period. In other data, domestic interest rates stayed at 0.75% and are expected to remain unchanged in the near term.

At a sector level, defensive industries, which tend to be relatively resilient in uncertain times, generally fared well over the six months. Sectors that outperformed the broader market included pharmaceuticals, telecommunications and utilities, while industrials also made robust gains over the period. Meanwhile, certain cyclical industries trailed the overall market, with industrial metals and mining stocks notably weak, while oil & gas and banks also lagged. Cyclical stocks are generally closely linked to economic cycles.

Turning to individual stocks, leading contributors included pharmaceutical firms AstraZeneca and GlaxoSmithKline, as well as telecommunications company Vodafone and banking group Barclays. In contrast, significant detractors over the six months included banking group HSBC, energy firm BP and beverages company Diageo.

#### Investment activities

Selected 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.

A number of stocks entered the FTSE All-Share Index during the period and we subsequently initiated holdings in the portfolio. For example, Network International Holdings, which provides payments solutions to merchants and financial institutions in the Middle East, and media firm Future entered both the index and the portfolio during the six months under review. Meanwhile, ticketing website Trainline also joined the portfolio after it floated on the London Stock Exchange.

Other entrants to the portfolio included investment manager M&G, which was spun off from parent Prudential during the period and we received a new holding as a result.

#### Outlook

The UK stockmarket has been remarkably sanguine so far this year, notwithstanding a weaker economic outlook at home and abroad, increased trade tensions between the US and its major trading partners, geopolitical concerns and uncertainty regarding Brexit. Despite this year's rally, though, the UK stockmarket still represents fair value compared to other markets, but is likely to remain at a discount to them until some form of Brexit resolution is achieved.

The recent general election has removed some uncertainty as Prime Minister Boris Johnson now has a clear majority to drive forward his plan for the UK to leave the EU by 31 January 2020. However, there still remains the challenge of securing a trade deal with the EU before the end of 2020. Aside from Brexit, the election result is generally perceived as a business-friendly outcome, which could support investor and business sentiment.

Meanwhile, weaker global economic activity and ongoing international trade wars are likely to weigh on the domestic economy, in the short term at least. Longer term, we are more optimistic about prospects for the UK economy, given the broadly positive fundamentals of high employment – notwithstanding a recent Brexit-related dip – and low inflation. Meanwhile, corporate earnings have so far held up well and company balance sheets generally remain well capitalised.

#### 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&G Index Tracker Fund

## Authorised Corporate Director's Report

### Investments

#### Portfolio statement

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>EQUITIES</b>	<b>526,335</b>	<b>99.21</b>	<b>99.10</b>
<b>Software &amp; computer services</b>	<b>5,530</b>	<b>1.04</b>	<b>1.09</b>
90,562 Avast	406	0.08	
16,000 AVEVA	727	0.14	
18,923 Computacenter	288	0.05	
21,635 FDM	206	0.04	
76,862 Micro Focus International	861	0.16	
84,545 NCC	174	0.03	
245,468 Sage	1,870	0.35	
24,806 SDL	144	0.03	
36,554 Softcat	415	0.08	
77,410 Sophos	439	0.08	
<b>Technology hardware &amp; equipment</b>	<b>350</b>	<b>0.06</b>	<b>0.05</b>
162,534 Spirent Communications	350	0.06	
<b>Telecommunication service providers</b>	<b>14,051</b>	<b>2.65</b>	<b>2.47</b>
2,006,369 BT	3,857	0.73	
109,175 Inmarsat	596	0.11	
151,871 TalkTalk Telecom	160	0.03	
13,585 Telecom Plus	181	0.03	
6,068,354 Vodafone	9,257	1.75	
<b>Medical equipment &amp; services</b>	<b>5,688</b>	<b>1.07</b>	<b>1.01 <sup>[a]</sup></b>
12,913 Consort Medical	134	0.03	
336,974 ConvaTec	654	0.12	
15,000 Georgia Healthcare	25	0.00	
87,523 Mediclinical International	343	0.07	
19,068 NMC Health	480	0.09	
198,468 Smith & Nephew	3,466	0.65	
83,002 Spire Healthcare	102	0.02	
58,560 UDG Healthcare	484	0.09	
<b>Pharmaceuticals &amp; biotechnology</b>	<b>43,730</b>	<b>8.24</b>	<b>7.17 <sup>[a]</sup></b>
296,620 AstraZeneca	22,202	4.18	
24,862 Dechra Pharmaceuticals	704	0.13	
17,209 Genus	546	0.10	
1,107,628 GlaxoSmithKline	19,450	3.67	
33,399 Hikma Pharmaceuticals	643	0.12	
161,108 Indivior	64	0.01	
143,970 Vectura	121	0.03	
<b>Banks</b>	<b>51,174</b>	<b>9.65</b>	<b>10.24</b>
9,871 Bank of Georgia	145	0.03	
3,852,938 Barclays	6,683	1.26	
35,678 Close Brothers	539	0.10	
4,587,828 HSBC	26,518	5.00	
16,206,242 Lloyds Banking	10,048	1.90	
36,424 Metro Bank	70	0.01	
1,017,049 Royal Bank of Scotland	2,336	0.44	
614,103 Standard Chartered	4,305	0.81	
296,153 Virgin Money	530	0.10	
<b>Finance &amp; credit services</b>	<b>6,502</b>	<b>1.22</b>	<b>1.02</b>
61,570 International Personal Finance	87	0.02	
116,125 John Laing	442	0.08	
70,798 London Stock Exchange	4,906	0.92	
62,963 OneSavings Bank	245	0.04	
72,188 Paragon Banking	362	0.07	
26,655 Plus500	205	0.04	
58,983 Provident Financial	255	0.05	

#### Portfolio statement (continued)

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>Investment banking &amp; brokerage services</b>	<b>13,818</b>	<b>2.60</b>	<b>2.26</b>
217,101 3i	2,347	0.44	
72,221 AJ Bell	292	0.06	
87,249 Allied Minds	43	0.01	
91,792 Ashmore	440	0.08	
69,960 Brewin Dolphin	242	0.05	
12,000 City of London Investment	51	0.01	
9,871 Georgia Capital	93	0.02	
61,884 Hargreaves Lansdown	1,162	0.22	
88,277 IG	608	0.11	
49,313 IntegraFin	197	0.04	
69,264 Intermediate Capital	1,069	0.20	
154,172 Investec	682	0.13	
261,778 IP	151	0.03	
102,819 Jupiter Fund Management	380	0.07	
586,885 M&G <sup>[b]</sup>	1,398	0.26	
366,314 Man	560	0.11	
445,500 Quilter	652	0.12	
12,825 Rathbone Brothers	274	0.05	
26,270 Schroders	869	0.16	
18,864 Sole Realisation Company <sup>[b]</sup>	1	0.00	
555,014 Standard Life Aberdeen	1,775	0.33	
137,097 TP ICAP	532	0.10	
<b>Equity investment instruments</b>	<b>28,383</b>	<b>5.35</b>	<b>5.19</b>
142,819 3i Infrastructure	414	0.08	
49,232 Aberdeen Asian Income Fund	102	0.02	
116,749 Aberdeen Diversified Income and Growth Trust	125	0.02	
35,696 Aberdeen New Dawn Investment Trust	88	0.02	
11,497 Aberdeen New India Investment Trust	54	0.01	
14,869 Aberdeen Standard Asia Focus	157	0.03	
13,252 Aberdeen Standard Equity Income Trust	53	0.01	
23,204 Aberforth Smaller Companies Trust	325	0.06	
76,474 Alliance Trust	630	0.12	
7,763 Allianz Technology Trust	128	0.02	
11,508 Artemis Alpha Trust	36	0.01	
28,499 Asia Dragon Trust	113	0.02	
20,401 Baillie Gifford Japan Trust	170	0.03	
54,320 Baillie Gifford Shin Nippon	101	0.02	
32,730 Baillie Gifford UK Growth Fund	61	0.01	
27,330 Bankers Investment Trust	262	0.05	
134,428 BBGI SICAV	224	0.04	
7,235 BH Global	106	0.02	
3,165 BH Macro	82	0.02	
19,019 Biotech Growth Trust	159	0.03	
59,047 BlackRock Frontier Investment Trust	75	0.01	
9,332 BlackRock Latin American Investment Trust	41	0.01	
10,751 BlackRock Smaller Companies Trust	169	0.03	
19,967 BlackRock Throgmorton Trust	128	0.02	
44,057 BlackRock World Mining Trust	152	0.03	
81,569 Bluefield Solar Income Fund	112	0.02	
177,780 BMO Global Smaller Companies Fund	251	0.05	
27,330 British Empire Securities & General Trust	212	0.04	
7,952 Brunner Investment Trust	70	0.01	
9,571 Caledonia Investments	296	0.05	
2,642 Capital Gearing Trust	115	0.02	
48,759 City Merchants High Yield Trust	94	0.02	
81,719 City of London Investment Trust	348	0.06	

# M&G Index Tracker Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>Equity investment instruments (continued)</b>			
70,000 Diverse Income Trust	63	0.01	
51,879 Dragon Capital Vietnam Enterprise Investments	253	0.05	
36,288 Dunedin Income Growth Investment Trust	100	0.02	
52,621 Ecofin Global Utilities and Infrastructure Trust	81	0.02	
48,494 Edinburgh Investment Trust	297	0.06	
60,095 Edinburgh Worldwide Investment Trust	119	0.02	
5,282 Electra Private Equity	17	0.00	
14,371 EP Global Opportunities Trust	43	0.01	
13,277 European Investment Trust	114	0.02	
24,614 European Opportunities Trust	204	0.04	
21,354 F&C Capital & Income Investment Trust	71	0.01	
26,956 F&C Private Equity Trust	97	0.02	
15,537 Fidelity Asian Values	62	0.01	
112,110 Fidelity China Special Situations	243	0.05	
105,890 Fidelity European Values	269	0.05	
64,515 Fidelity Special Values	174	0.03	
42,142 Finsbury Growth & Income Trust	378	0.07	
123,226 Foreign & Colonial Investment Trust	909	0.17	
156,881 Foresight Solar Fund	187	0.04	
6,000 Fundsmith Emerging Equities Trust	67	0.01	
195,921 GCP Infrastructure	256	0.05	
27,825 Genesis Emerging Markets	213	0.04	
366,726 Greencoat UK Wind	538	0.10	
5,000 Hansa Investment	9	0.00	
18,219 Harbourvest Global Private Equity	314	0.06	
12,144 Henderson Alternative Strategies Trust	31	0.01	
96,266 Henderson Diversified Income Trust	89	0.02	
7,185 Henderson European Focus Trust	92	0.02	
4,288 Henderson EuroTrust	50	0.01	
22,794 Henderson Far East Income	81	0.02	
28,474 Henderson High Income Trust	52	0.01	
20,599 Henderson Smaller Companies Investment Trust	202	0.04	
20,371 Herald Investment Trust	287	0.05	
96,840 HgCapital Trust	244	0.05	
410,102 HICL Infrastructure	671	0.13	
18,845 IGG Enterprise Trust	179	0.03	
64,010 Impax Environmental Markets	204	0.04	
57,585 Income & Growth Investment Trust	184	0.03	
13,560 International Biotechnology Trust	86	0.02	
353,647 International Public Partnerships	564	0.11	
14,914 Invesco Asia Trust	42	0.01	
13,876 Invesco Income Growth Trust	38	0.01	
64,465 JPMorgan American Investment Trust	309	0.06	
24,860 JPMorgan Asian Investment Trust	93	0.02	
19,298 JPMorgan Chinese Investment Trust	62	0.01	
14,381 JPMorgan Claverhouse Investment Trust	105	0.02	
31,308 JPMorgan Emerging Markets Investment Trust	317	0.06	
30,134 JPMorgan European Growth Investment Trust	87	0.02	
41,600 JPMorgan European Smaller Companies Trust	152	0.03	

### Portfolio statement (continued)

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>Equity investment instruments (continued)</b>			
70,540 JPMorgan Global Emerging Markets Income Trust	90	0.02	
43,965 JPMorgan Global Growth & Income	150	0.03	
30,674 JPMorgan Indian Investment Trust	226	0.04	
9,427 JPMorgan Japan Smaller Companies Trust	40	0.01	
37,340 JPMorgan Japanese Investment Trust	176	0.03	
5,749 JPMorgan Mid Cap Investment Trust	68	0.01	
13,206 JPMorgan Russian Securities	92	0.02	
26,765 JPMorgan Smaller Companies Investment Trust	71	0.01	
4,455 Jupiter US Smaller Companies	50	0.01	
4,407 Keystone Investment Trust	72	0.01	
28,440 Law Debenture	174	0.03	
9,558 Lowland Investment	126	0.02	
6,893 Majedie Investments	17	0.00	
30,524 Martin Currie Global Portfolio Trust	90	0.02	
193,700 Mercantile Investment Trust	468	0.09	
22,619 Merchants Trust	116	0.02	
44,162 Middlefield Canadian Income Trust	45	0.01	
49,929 Monks Investment Trust	469	0.09	
45,360 Montanaro UK Smaller Companies Investment Trust	60	0.01	
15,376 Murray Income Trust	131	0.02	
29,533 Murray International Trust	358	0.07	
250,550 NB Global Floating Rate Income Fund	227	0.04	
151,521 NextEnergy Solar Fund	186	0.03	
42,740 North American Income Trust	128	0.02	
2,919 North Atlantic Smaller Companies Investment Trust	89	0.02	
28,753 Pacific Assets Trust	83	0.02	
10,174 Pacific Horizon Investment Trust	33	0.01	
13,513 Pantheon International	312	0.06	
51,232 Pershing Square	740	0.14	
496 Personal Assets Trust	210	0.04	
23,952 Polar Capital Global Healthcare Trust	55	0.01	
32,466 Polar Capital Technology Trust	488	0.09	
20,848 Pollen Street Secured Lending	172	0.03	
15,475 Princess Private Equity	133	0.02	
355,191 Renewables Infrastructure	465	0.09	
29,616 RIT Capital Partners	641	0.12	
12,710 Riverstone Energy	54	0.01	
33,743 Ruffer Investment Company (Preference shares)	73	0.01	
36,469 Schroder Asia Pacific Fund	166	0.03	
18,284 Schroder Asian Total Return Investment Company	66	0.01	
18,236 Schroder Income Growth Fund	52	0.01	
19,162 Schroder Japan Growth Fund	38	0.01	
58,397 Schroder Oriental Income Fund	147	0.03	
7,670 Schroder UK Mid Cap Fund	45	0.01	
31,306 Scottish American Investment	130	0.02	
22,562 Scottish Investment Trust	185	0.03	
332,833 Scottish Mortgage Investment Trust	1,769	0.33	
8,864 Scottish Oriental Small Companies Trust	85	0.02	
20,541 Securities Trust of Scotland	41	0.01	
271,251 Sequoia Economic Infrastructure Income Fund	315	0.06	
22,240 Smithson Investment Trust	290	0.05	
19,011 Standard Life European Private Equity Trust	65	0.01	



# M&G Index Tracker Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %	
<b>Equity investment instruments (continued)</b>				
40,740 Standard Life UK Smaller Companies Trust	228	0.04		
107,954 Syncona	241	0.05		
14,154 Temple Bar Investment Trust	194	0.04		
60,759 Templeton Emerging Markets Investment Trust	483	0.09		
7,016 Third Point Offshore Investors	85	0.02		
12,510 TR European Growth Trust	114	0.02		
72,712 TR Property Investment Trust	339	0.06		
45,234 Troy Income & Growth Trust	38	0.01		
96,355 TwentyFour Income Fund	107	0.02		
63,982 Utilico Emerging Markets Trust	142	0.03		
17,183 Value & Income Trust	44	0.01		
44,009 VinaCapital Vietnam Opportunity Fund	147	0.03		
196,695 Witan Investment Trust	433	0.08		
17,102 Witan Pacific Investment Trust	58	0.01		
193,141 Woodford Patient Capital Trust	58	0.01		
11,654 Worldwide Healthcare Trust	348	0.07		
<b>Life insurance</b>	<b>17,892</b>	<b>3.37</b>	<b>3.67</b>	
889,878 Aviva	3,584	0.67		
38,408 Chesnara	111	0.02		
218,857 Just	146	0.03		
1,309,662 Legal & General	3,716	0.70		
129,937 Phoenix	967	0.18		
586,885 Prudential	8,111	1.53		
116,214 St. James's Place	1,257	0.24		
<b>Non-life insurance</b>	<b>5,446</b>	<b>1.03</b>	<b>1.09</b>	
45,337 Admiral	975	0.18		
119,317 Beazley	648	0.12		
309,668 Direct Line Insurance	961	0.18		
70,851 Hastings	128	0.03		
63,772 Hiscox	876	0.17		
48,530 Lancashire	361	0.07		
230,842 RSA Insurance	1,286	0.24		
71,306 Sabre Insurance	211	0.04		
<b>Real estate investment &amp; services</b>	<b>2,263</b>	<b>0.42</b>	<b>0.39</b>	
123,795 BMO Commercial Property Trust	147	0.03		
170,729 Capital & Counties Properties	420	0.08		
53,320 CLS	155	0.03		
1,313 Daejan	70	0.01		
93,425 Foxtons	67	0.01		
144,927 Grainger	417	0.08		
29,362 Helical	122	0.02		
23,460 LSL Property Services	55	0.01		
85,813 Raven Property	35	0.01		
31,732 Savills	316	0.06		
214,900 Sirius Real Estate	174	0.03		
43,703 St. Modwen Properties	201	0.04		
54,660 U and I	84	0.01		
<b>Real estate investment trusts</b>	<b>13,199</b>	<b>2.49</b>	<b>2.20</b>	
550,189 Assura	418	0.08		
35,178 Big Yellow	391	0.07		
104,655 BMO Real Estate Investments REIT	88	0.02		
229,655 British Land	1,340	0.25		
212,669 Capital & Regional	61	0.01		
213,089 Civitas Social Housing	188	0.04		
23,360 Derwent London	875	0.17		

### Portfolio statement (continued)

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>Real estate investment trusts (continued)</b>			
95,000 Ediston Property Investment Company	81	0.02	
132,584 Empiric Student Property	130	0.02	
92,924 GCP Student Living	174	0.03	
67,357 Great Portland Estates	562	0.11	
178,883 Hammerson	540	0.10	
142,661 Hansteen	148	0.03	
210,191 Intu Properties	76	0.01	
161,856 Land Securities	1,565	0.29	
162,390 LondonMetric Property	380	0.07	
82,394 NewRiver	160	0.03	
127,327 Picton Property Income	118	0.02	
306,384 Primary Health Properties	449	0.09	
74,686 RDI	94	0.02	
59,451 Safestore	450	0.09	
120,865 Schroder Real Estate Investment Trust	65	0.01	
255,404 Segro	2,287	0.43	
57,483 Shaftesbury	528	0.10	
92,278 Standard Life Investment Property Income Trust	81	0.02	
22,910 Town Centre Securities	50	0.01	
392,254 Tritax Big Box	588	0.11	
147,517 UK Commercial Property Trust	130	0.02	
67,530 UNITE	844	0.16	
30,462 Workspace	338	0.06	
<b>Automobiles &amp; parts</b>	<b>81</b>	<b>0.01</b>	<b>0.03</b>
14,569 Aston Martin Lagonda Global	81	0.01	
<b>Household goods &amp; home construction</b>	<b>17,424</b>	<b>3.28</b>	<b>3.16</b>
225,384 Barratt Developments	1,507	0.28	
27,827 Bellway	933	0.18	
27,061 Berkeley	1,254	0.24	
35,574 Bovis Homes	437	0.08	
100,328 Countryside Properties	398	0.08	
60,000 Crest Nicholson	232	0.04	
24,525 Galliford Try	181	0.03	
70,212 McBride	55	0.01	
138,605 McCarthy & Stone	194	0.04	
19,105 MJ Gleeson	153	0.03	
71,271 Persimmon	1,845	0.35	
141,927 Reckitt Benckiser	8,659	1.63	
48,770 Redrow	326	0.06	
710,147 Taylor Wimpey	1,250	0.23	
<b>Leisure goods</b>	<b>498</b>	<b>0.09</b>	<b>0.07</b>
7,504 Games Workshop	432	0.08	
73,700 Photo-Me International	66	0.01	
<b>Personal goods</b>	<b>13,557</b>	<b>2.55</b>	<b>2.72</b>
92,822 Burberry	1,971	0.37	
52,316 PZ Cussons	108	0.02	
11,827 Superdry	60	0.01	
6,838 Ted Baker	27	0.00	
248,867 Unilever	11,391	2.15	
<b>Media</b>	<b>20,198</b>	<b>3.81</b>	<b>3.83</b>
9,581 4imprint	296	0.06	
88,547 Ascential	285	0.05	
210,893 Auto Trader	1,197	0.23	
11,581 Bloomsbury Publishing	31	0.01	
80,363 Entertainment One	447	0.08	
23,121 Euromoney Institutional Investor	289	0.05	
7,931 Future	105	0.02	

# M&G Index Tracker Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %	
<b>Media (continued)</b>				
70,989 GoCo	73	0.01		
179,555 Hyve	148	0.03		
281,656 Informa	2,246	0.42		
826,715 ITV	1,203	0.23		
117,735 Moneysupermarket.com	404	0.08		
174,005 Pearson	1,139	0.21		
58,726 Reach	54	0.01		
431,870 RELX	8,123	1.53		
209,140 Rightmove	1,312	0.25		
282,326 WPP	2,846	0.54		
<b>Retailers</b>	<b>9,370</b>	<b>1.77</b>	<b>1.65</b>	
199,283 B&M European Value Retail	761	0.14		
81,886 Card Factory	130	0.03		
43,153 DFS Furniture	102	0.02		
9,796 Dignity	58	0.01		
230,640 Dixons Carphone	284	0.05		
22,551 Dunelm	191	0.04		
48,578 Halfords	79	0.02		
94,687 Inchcape	621	0.12		
95,780 JD Sports Fashion	741	0.14		
132,394 Just Eat	1,013	0.19		
481,393 Kingfisher	1,029	0.19		
81,746 Lookers	43	0.01		
439,485 Marks & Spencer	871	0.16		
48,869 N Brown	65	0.01		
29,435 Next	2,016	0.38		
337,904 Pendragon	38	0.01		
110,480 Pets at Home	284	0.05		
268,345 Saga	139	0.03		
60,566 Sports Direct International	205	0.04		
21,315 Studio Retail	39	0.01		
34,479 Topps Tiles	25	0.00		
25,642 WH Smith	636	0.12		
<b>Travel &amp; leisure</b>	<b>24,094</b>	<b>4.54</b>	<b>4.46</b>	
37,185 Carnival	1,209	0.23		
238,688 Cineworld	493	0.09		
359,564 Compass	6,866	1.29		
128,343 Domino's Pizza	401	0.08		
55,555 easyJet	752	0.14		
122,704 EI	346	0.07		
280,496 FirstGroup	340	0.06		
18,438 Flutter Entertainment	1,637	0.31		
8,404 Fuller Smith & Turner	82	0.02		
9,796 Go-Ahead	215	0.04		
128,026 GVC	1,108	0.21		
24,530 Hostelworld	32	0.01		
41,109 InterContinental Hotels	2,080	0.39		
363,597 International Consolidated Airlines	2,025	0.38		
22,361 J.D.Wetherspoon	358	0.07		
143,101 Marston's	187	0.03		
66,119 Mitchells & Butlers	301	0.06		
99,357 National Express	463	0.09		
66,572 Playtech	254	0.05		
64,084 Rank	158	0.03		
115,910 Restaurant	171	0.03		

### Portfolio statement (continued)

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>Travel &amp; leisure (continued)</b>			
101,534 SSP	693	0.13	
102,684 Stagecoach	141	0.03	
349,133 Thomas Cook <sup>[b]</sup>	0	0.00	
84,286 Trainline	392	0.07	
99,012 TUI	1,063	0.20	
30,695 Whitbread	1,452	0.27	
210,230 William Hill	382	0.07	
12,523 Wizz Air	493	0.09	
<b>Beverages</b>	<b>18,764</b>	<b>3.54</b>	<b>3.92</b>
20,044 A.G. Barr	122	0.02	
59,718 Britvic	584	0.11	
44,626 Coca-Cola HBC	1,151	0.22	
527,526 Diageo	16,778	3.16	
65,456 Stock Spirits	129	0.03	
<b>Food producers</b>	<b>3,792</b>	<b>0.71</b>	<b>0.73</b>
77,605 Associated British Foods	2,006	0.38	
12,758 Cranswick	400	0.07	
58,284 Devro	95	0.02	
87,730 Greencore	214	0.04	
14,452 Hilton Food	145	0.03	
266,618 Premier Foods	106	0.02	
28,460 PureCircle	38	0.00	
108,201 Tate & Lyle	788	0.15	
<b>Tobacco</b>	<b>19,553</b>	<b>3.69</b>	<b>3.63</b>
516,470 British American Tobacco	15,882	3.00	
215,078 Imperial Brands	3,671	0.69	
<b>Personal care, drug &amp; grocery stores</b>	<b>8,797</b>	<b>1.66</b>	<b>1.64</b>
24,944 Greggs	526	0.10	
363,891 J Sainsbury	796	0.15	
100,002 Ocado	1,354	0.25	
2,189,185 Tesco	5,134	0.97	
491,187 Wm Morrison Supermarkets	987	0.19	
<b>Construction &amp; materials</b>	<b>9,820</b>	<b>1.85</b>	<b>1.61</b>
154,114 Balfour Beatty	347	0.07	
32,276 Costain	62	0.01	
184,944 CRH	5,467	1.03	
28,988 Henry Boot	78	0.02	
88,734 Ibstock	234	0.04	
18,581 Keller	118	0.02	
34,008 Kier	31	0.01	
48,210 Marshalls	377	0.07	
1,116,238 Melrose Industries	2,567	0.48	
9,357 Morgan Sindall	134	0.03	
25,215 Norcros	63	0.01	
46,055 Polypipe	225	0.04	
45,817 Tyman	117	0.02	
<b>Aerospace &amp; defence</b>	<b>10,861</b>	<b>2.05</b>	<b>1.87</b>
6,707 Avon Rubber	131	0.03	
118,009 Babcock International	706	0.13	
728,853 BAE Systems	4,191	0.79	
69,509 Chemring	139	0.03	
547,065 Cobham	868	0.16	
173,723 Meggitt	1,121	0.21	
135,024 QinetiQ	451	0.09	
379,534 Rolls-Royce	2,719	0.51	
17,458,564 Rolls Royce (Preference shares)	17	0.00	
100,908 Senior	182	0.04	
16,139 Ultra Electronics	336	0.06	



# M&G Index Tracker Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %	
<b>Electronic &amp; electrical equipment</b>	<b>3,539</b>	<b>0.67</b>	<b>0.61</b>	
7,665 Dialight	18	0.00		
85,497 Halma	1,803	0.34		
69,363 Morgan Advanced Materials	200	0.04		
13,436 Oxford Instruments	213	0.04		
7,823 Renishaw	311	0.06		
26,949 Spectris	762	0.15		
55,780 TT electronics	126	0.02		
3,641 XP Power	106	0.02		
<b>General industrials</b>	<b>4,507</b>	<b>0.85</b>	<b>0.90</b>	
325,197 Coats	236	0.05		
281,576 DS Smith	1,084	0.20		
88,393 Smiths	1,478	0.28		
54,051 Smurfit Kappa	1,480	0.28		
50,382 Vesuvius	229	0.04		
<b>Industrial engineering</b>	<b>4,905</b>	<b>0.92</b>	<b>0.89</b>	
46,912 Bodycote	412	0.08		
18,805 Hill & Smith	256	0.05		
61,398 IMI	693	0.13		
7,911 RHI Magnesita	302	0.05		
204,200 Rotork	676	0.13		
69,710 Severfield	51	0.01		
17,449 Spirax-Sarco Engineering	1,561	0.29		
10,123 Vitec	102	0.02		
60,088 Weir	852	0.16		
<b>Industrial support services</b>	<b>28,587</b>	<b>5.41</b>	<b>5.01</b>	
146,475 AA	65	0.01		
55,051 Aggreko	460	0.09		
108,490 Ashtead	2,577	0.49		
76,581 Bunzl	1,632	0.31		
397,024 Capita	640	0.12		
15,367 Charles Taylor	53	0.01		
58,424 Connect	17	0.00		
22,604 DCC	1,514	0.29		
23,584 De La Rue	34	0.01		
25,288 Diploma	470	0.09		
104,642 Electrocomponents	681	0.13		
69,865 Equiniti	137	0.03		
59,501 Essentra	250	0.05		
206,764 Experian	5,299	1.00		
50,856 Ferguson	3,403	0.64		
352,754 G4S	746	0.14		
50,047 Grafton	419	0.08		
304,704 Hays	510	0.10		
62,536 HomeServe	760	0.14		
132,991 Howden Joinery	849	0.16		
36,470 Intertek	2,012	0.38		
151,024 IWG	618	0.12		
22,348 John Menzies	101	0.02		
25,681 Mears	62	0.01		
85,169 Mitie	111	0.02		
67,798 Network International	391	0.07		
31,624 Northgate	103	0.02		
70,973 Pagegroup	343	0.06		
15,904 PayPoint	164	0.03		
143,021 Renewi	41	0.01		

### Portfolio statement (continued)

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>Industrial support services (continued)</b>			
418,674 Rentokil Initial	1,870	0.35	
13,784 Ricardo	97	0.02	
16,475 Robert Walters	82	0.01	
55,347 RPS	91	0.02	
32,202 Sanne	205	0.04	
287,092 Serco	456	0.09	
150,196 SIG	185	0.03	
136,075 Speedy Hire	84	0.02	
29,569 STthree	101	0.02	
58,242 Travis Perkins	921	0.17	
3,773 Vp	33	0.01	
<b>Industrial transportation</b>	<b>1,582</b>	<b>0.30</b>	<b>0.30</b>
7,359 Clarkson	199	0.04	
10,291 James Fisher & Sons	198	0.04	
201,124 Royal Mail	428	0.08	
181,862 Signature Aviation	594	0.11	
74,400 Stobart	84	0.02	
30,574 Wincanton	79	0.01	
<b>Industrial materials</b>	<b>1,848</b>	<b>0.35</b>	<b>0.26</b>
109,226 Mondi	1,848	0.35	
<b>Industrial metals &amp; mining</b>	<b>32,290</b>	<b>6.09</b>	<b>6.33</b>
283,289 Anglo American	5,765	1.09	
77,439 Antofagasta	682	0.13	
471,042 BHP	8,113	1.53	
114,349 Evraz	424	0.08	
68,390 Ferrexpo	101	0.02	
2,537,784 Glencore	6,263	1.18	
53,149 KAZ Minerals	263	0.05	
3,132 Kenmare Resources wts.	7	0.00	
251,568 Rio Tinto	10,672	2.01	
<b>Precious metals &amp; mining</b>	<b>1,334</b>	<b>0.25</b>	<b>0.26</b>
260,758 Centamin	292	0.06	
40,289 Fresnillo	230	0.04	
29,397 Gem Diamonds	16	0.00	
56,453 Hochschild Mining	93	0.02	
336,193 Petra Diamonds	30	0.00	
58,095 Polymetal International	673	0.13	
<b>Chemicals</b>	<b>3,657</b>	<b>0.69</b>	<b>0.73</b>
27,909 Croda International	1,389	0.26	
136,270 Elementis	235	0.05	
44,755 Johnson Matthey	1,289	0.24	
1,004,939 Sirius Minerals	36	0.01	
86,647 Synthomer	264	0.05	
18,711 Victrex	444	0.08	
<b>Non-renewable energy</b>	<b>64,354</b>	<b>12.13</b>	<b>14.08</b>
4,503,751 BP	21,778	4.10	
124,311 Cairn Energy	227	0.04	
22,609 Energean Oil & Gas	205	0.04	
548,470 EnQuest	101	0.02	
32,704 Hunting	130	0.02	
153,896 John Wood	564	0.11	
75,272 Lamprell	29	0.00	
56,655 Petrofac	223	0.04	
57,952 Pharos Energy	30	0.01	
192,924 Premier Oil	170	0.03	
967,701 Royal Dutch Shell 'A'	21,628	4.08	
848,806 Royal Dutch Shell 'B'	18,810	3.55	
339,874 Tullow Oil	459	0.09	

# M&G Index Tracker Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %	
<b>Electricity</b>	<b>3,402</b>	<b>0.64</b>	<b>0.56</b>	
105,432 Drax	299	0.06		
236,505 SSE	3,103	0.58		
<b>Gas, water &amp; multi-utilities</b>	<b>11,495</b>	<b>2.17</b>	<b>2.00</b>	
1,313,549 Centrica	1,054	0.20		
786,494 National Grid	7,050	1.33		
95,307 Pennon	876	0.16		
52,788 Severn Trent	1,199	0.23		
152,516 United Utilities	1,316	0.25		
<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		
12,707 Electric & General Investment Trust	0	0.00		
<b>EQUITY DERIVATIVES</b>	<b>157</b>	<b>0.03</b>	<b>(0.01)</b>	
<b>Equity futures contracts</b>	<b>157</b>	<b>0.03</b>	<b>(0.01)</b>	
148 FTSE 100 Index Dec 2019	157	0.03		
<b>Portfolio of investments</b>	<b>526,492</b>	<b>99.24</b>	<b>99.09</b>	
<b>CASH EQUIVALENTS</b>	<b>7,947</b>	<b>1.50</b>	<b>1.58</b>	
<b>'AAA' rated money market funds <sup>[d]</sup></b>	<b>7,947</b>	<b>1.50</b>	<b>1.58</b>	
7,947,000 Northern Trust Global Fund - Sterling	7,947	1.50		
<b>Total portfolio</b>	<b>534,439</b>	<b>100.74</b>	<b>100.67</b>	
<b>Net other assets / (liabilities)</b>	<b>(3,925)</b>	<b>(0.74)</b>	<b>(0.67)</b>	
<b>Net assets attributable to shareholders</b>	<b>530,514</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> Unquoted / unlisted.

<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

for the six months to 30 November 2019

	£'000
<b>Largest purchases</b>	
Whitbread	1,382
Anglo American	1,103
HSBC	561
Mondi	495
Network International	398
Trainline	365
AstraZeneca	296
National Grid	277
BT	232
Energean Oil & Gas	214
Other purchases	1,258
<b>Total purchases</b>	<b>6,581</b>
<b>Largest sales</b>	
Whitbread	2,044
Royal Dutch Shell 'A'	1,001
RPC	788
Merlin Entertainment	759
BTG	738
Greene King	605
BCA Marketplace	406
Diageo	371
HSBC	331
AstraZeneca	273
Other sales	1,893
<b>Total sales</b>	<b>9,209</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 30 November 2019 was 0.24% (30 November 2018: -0.03%). 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 30 November 2019 was 0.14% (30 November 2018: 0.12%), which falls within the predicted tracking error range of 0.0% 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	30.11.19 £'000	31.05.19 £'000	31.05.18 £'000
Fund net asset value (NAV)	530,514	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

	Six months 03.06.19 % [a]	Three years 02.12.16 % p.a.	Five years 02.12.14 % p.a.	Since launch % p.a.
<b>Sterling [b]</b>				
Class 'A'	+6.2	+7.6	+6.1	+5.0 [c]
Class 'C'	+6.4	+7.9	+6.4	+7.8 [d]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 27 February 1998, the launch date of the predecessor unit trust.

[d] 16 February 2012, the launch date of the share class.

# M&G Index Tracker Fund

## Financial highlights

### Fund performance

## 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

	Six months to 30.11.19	Year to 31.05.19	Year to 31.05.18	Average <sup>[a]</sup>
Direct portfolio transaction costs <sup>[b]</sup>	%	%	%	%
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)
Total direct portfolio transaction costs	0.00	0.01	0.00	0.00
as at	30.11.19	31.05.19	31.05.18	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.09	0.08	0.08	0.08

<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 period are calculated as at 13 December 2019.

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

The share class was launched on 27 February 1998.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	72.02	78.32	76.82
Return before operating charges and after direct portfolio transaction costs	4.89	(2.79)	4.86
Operating charges	(0.17)	(0.39)	(0.39)
Return after operating charges	4.72	(3.18)	4.47
Distributions	(1.54)	(3.12)	(2.97)
Closing NAV	75.20	72.02	78.32
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.01	0.01
Dilution adjustments <sup>[a]</sup>	0.00	(0.01)	(0.01)
Total direct portfolio transaction costs	0.00	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+6.55	-4.06	+5.82
Historic yield	4.24	4.24	3.80
Effect on yield of charges offset against capital	0.45	0.45	0.45
<b>Other information</b>			
Closing NAV (£'000)	287,244	278,978	317,266
Closing NAV percentage of total fund NAV (%)	54.14	54.58	57.13
Number of shares	381,978,919	387,350,474	405,091,821
Highest share price (UK p)	77.31	79.63	81.43
Lowest share price (UK p)	71.71	66.58	71.48

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

The share class was launched on 27 February 1998.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	135.04	140.68	132.78
Return before operating charges and after direct portfolio transaction costs	9.18	(4.93)	8.58
Operating charges	(0.32)	(0.71)	(0.68)
Return after operating charges	8.86	(5.64)	7.90
Distributions	(2.59)	(5.06)	(4.59)
Retained distributions	2.59	5.06	4.59
Closing NAV	143.90	135.04	140.68
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.01	0.02	0.02
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.02)	(0.02)
Total direct portfolio transaction costs	0.00	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+6.56	-4.01	+5.95
Historic yield	3.68	3.66	3.26
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	198,234	188,380	187,084
Closing NAV percentage of total fund NAV (%)	37.37	36.86	33.69
Number of shares	137,755,778	139,499,585	132,985,401
Highest share price (UK p)	144.96	143.03	143.40
Lowest share price (UK p)	134.47	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.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	72.92	79.05	77.30
Return before operating charges and after direct portfolio transaction costs	4.95	(2.80)	4.90
Operating charges	(0.02)	(0.17)	(0.16)
Return after operating charges	4.93	(2.97)	4.74
Distributions	(1.56)	(3.16)	(2.99)
Closing NAV	76.29	72.92	79.05
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.01	0.01
Dilution adjustments <sup>[a]</sup>	0.00	(0.01)	(0.01)
Total direct portfolio transaction costs	0.00	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+6.76	-3.76	+6.13
Historic yield	4.22	4.23	3.79
Effect on yield of charges offset against capital	0.03	0.15	0.15
<b>Other information</b>			
Closing NAV (£'000)	45,036	43,727	50,956
Closing NAV percentage of total fund NAV (%)	8.49	8.56	9.18
Number of shares	59,033,498	59,968,236	64,457,378
Highest share price (UK p)	78.30	80.42	82.19
Lowest share price (UK p)	72.60	67.32	72.11

<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

for the six months to 30 November	2019		2018	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		23,284		(54,195)
Revenue	11,265		10,632	
Expenses	(1,096)		(1,163)	
Net revenue / (expense) before taxation	10,169		9,469	
Taxation	(82)		(69)	
Net revenue / (expense) after taxation		10,087		9,400
<b>Total return before distributions</b>		<b>33,371</b>		<b>(44,795)</b>
Distributions		(10,472)		(9,874)
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>22,899</b>		<b>(54,669)</b>

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

for the six months to 30 November	2019		2018	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		511,085		555,306
Amounts received on issue of shares	9,357		12,940	
Amounts paid on cancellation of shares	(16,444)		(18,191)	
		(7,087)		(5,251)
Dilution adjustments		47		46
Change in net assets attributable to shareholders from investment activities (see above)		22,899		(54,669)
Retained distributions on Accumulation shares		3,569		3,132
Unclaimed distributions		1		1
<b>Closing net assets attributable to shareholders</b>		<b>530,514</b>		<b>498,565</b>

The opening net assets attributable to shareholders for 2019 differs to the closing position in 2018 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

#### Balance sheet

as at	30 November 2019	31 May 2019
	£'000	£'000
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	526,492	506,502
<b>Current assets</b>		
Debtors	2,448	3,450
Cash and bank balances	1,075	1,344
Cash equivalents	7,947	8,094
<b>Total assets</b>	<b>537,962</b>	<b>519,390</b>
<b>Liabilities</b>		
Investment liabilities	0	(69)
<b>Creditors</b>		
Distribution payable	(6,823)	(7,475)
Other creditors	(625)	(761)
<b>Total liabilities</b>	<b>(7,448)</b>	<b>(8,305)</b>
<b>Net assets attributable to shareholders</b>	<b>530,514</b>	<b>511,085</b>

### Notes to the financial statements

#### Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

#### 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.



# M&G Short Dated Corporate Bond Fund

## Authorised Corporate Director's Report

### Investment objective

The fund aims to provide a total return (the combination of capital growth and income).

### Investment policy

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 approach

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.

### Benchmark

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.

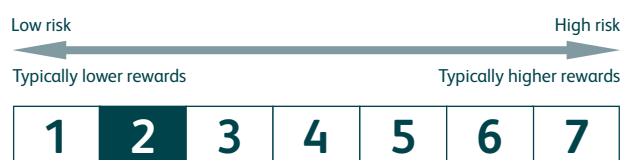
### Risk profile

The fund invests in a range of typically low-risk debt instruments, or bonds, that are typically repaid over 3 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 2 December 2019, for the six months ended 30 November 2019**

#### Performance against objective

Between 3 June 2019 (the start of the review period) and 2 December 2019, 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 comparator benchmark, the Markit iBoxx EUR Corporates 1-3 year Index (GBP Hedged), which returned 1.0% over the same period.

Over this reporting period, the fund has met its objective of providing capital growth and income. The fund has also met its objective over three and five years and since launch.\*

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

# M&G Short Dated Corporate Bond Fund

## Authorised Corporate Director's Report

### Investment review

#### Investment performance

Following a volatile and largely unpredictable period for financial markets throughout most of 2018, the months that followed to 30 November 2019 was, on balance, calmer in terms of investor behaviour and generally more beneficial for the performance of risk assets such as equities (company shares) and corporate bonds.

Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. The initial amount borrowed by the entity is usually repaid at the end of the loan's life. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'.

The drivers of volatility in 2018 centred on higher interest rates, or at least the prospect of higher interest rates, inflation, political uncertainty and global trade tensions. While the last two drivers were still evident during the period under review, especially negotiations over the UK's Brexit deal with the European Union (EU), the fact the Federal Reserve (Fed) paused its plans to raise US interest rates – and actually started to reduce them – certainly settled investor nerves.

But while investors took comfort from statements by the Fed that it would moderate its strategy around raising interest rates, by May-June the more optimistic mood was somewhat dampened. Renewed fears about the prospects for global trade, caused mainly by heightened tensions between the US and China over tariffs, saw investors once again preferring so-called 'safer' assets such as government bonds.

This increasing demand for core government bonds resurfaced in July and August, pushing bond yields lower – and prices higher – on UK gilts, US Treasuries, and German bunds. Against a backdrop of weaker economic data and inflation that was persistently below acceptable levels, major central banks issued statements in July that seemed to pave the way for fresh cuts to interest rates in the autumn months, and on 1 August the Fed cut rates for the first time since the global financial crisis.

In September, the outgoing European Central Bank (ECB) president Mario Draghi announced that the central bank would start buying eurozone government bonds again (a programme referred to as quantitative easing) in a bid to stimulate the flagging eurozone economy.

There was an increase in investors' appetite for risk assets in October and November, boosted by a potential resolution to US-China trade wars, Brexit nearing some type of agreed deal, and the Fed easing interest rates while announcing it would resume the purchases of bonds. The Fed signalled that this would likely be its last 'mid-cycle insurance cut'.

In the UK, Prime Minister Boris Johnson called a general election for 12 December, mainly to boost the government's chances of breaking the Brexit deadlock. The market generally interpreted this move as positive, and the price of sterling rose compared to the US dollar.

Overall, it was a mildly positive period for corporate bonds – especially those issued by US companies. European and UK corporate bonds were weaker, despite the resumption of bond-buying by the ECB seen by many investors as a boost for the former.

In this context, the fund's performance during the period under review was helped by its holding of shorter dated corporate bonds – especially 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. Furthermore, 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 perform well relative to funds which invest in longer dated corporate bonds, while tending to benefit less from falling rates than such funds.

The fund's lack of sensitivity to interest rate changes was particularly supportive of performance towards the end of 2018, when it was protected from some of the worst of the volatility. It then benefited less during a more risk-friendly 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. As mentioned, 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.

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 latter stages of 2018, 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.

We have 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.

Our positive outlook for global growth is reflected in a small position in financials – financials stand to benefit from a rising interest rate environment that helps their margins, while a strong economic backdrop means that corporate default levels should remain low.

#### Outlook

After a difficult 2018 for financial markets, 2019 has been largely constructive for global bond markets, with a return of risk appetite, as investors have generally been encouraged by signs that the Fed would pause its interest rate rising cycle. However, we have long been of the view that the Fed will need to raise rates further, which is reflected in the fund's positioning.

# M&G Short Dated Corporate Bond Fund

## Authorised Corporate Director's Report

### Investment review

#### Outlook (continued)

We remain broadly positive on the outlook for the global economy and corporate bonds, and do not believe that recession is imminent. We do believe the biggest risk currently facing bond investors is a degree of complacency that they are invested in a 'safe' asset class when, in reality, an environment of sharply rising interest rates/yields will hurt traditional government and investment grade corporate bond funds. Investors therefore need to pay close attention to the interest rate risk they are running in their portfolios.

One way to protect against this risk is by buying shorter dated corporate bonds, which carry less interest rate risk, while still allowing investors to achieve the extra pick-up on offer for buying corporate over government bonds. Floating rate notes offer a similar approach, as their coupons increase in line with the underlying interest rate – as is also the case with many asset-backed securities. We believe the global economy is on a reasonable footing, which should prove supportive for corporate issuers.

#### 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.

### Investments

#### Portfolio statement

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>FIXED INCOME</b>	<b>291,641</b>	<b>100.69</b>	<b>100.72</b>
<b>Debt securities</b>	<b>291,415</b>	<b>100.61</b>	<b>100.74</b>
<b>'AAA' credit rated bonds</b>	<b>41,975</b>	<b>14.49</b>	<b>13.68</b>
€21,286,500 Germany (Federal Republic of) 0% 08/10/2021	18,360	6.34	
£1,307,800 Lanark Master Issuer FRN 1.607% 22/12/2069	1,313	0.45	
£2,234,000 Permanent Master Issuer FRN 1.2913% 15/07/2058	2,236	0.77	
£2,836,983 Polaris 2019-1 FRN 1.9607% 27/04/2057	2,836	0.98	
£155,672 Precise Mortgage Funding 2015-1 FRN 1.722% 12/03/2048	156	0.05	
£926,828 Residential Mortgage Securities No. 28 FRN 1.9314% 15/06/2046	928	0.32	
£648,119 Residential Mortgage Securities No. 30 FRN 1.5763% 20/03/2050	648	0.22	
£2,729,000 Santander FRN 1.3098% 12/11/2024	2,732	0.94	
£4,257,000 Silverstone Master Issuer FRN 1.1631% 21/01/2070	4,226	1.46	
£1,383,390 THRONES 2015-1 FRN 1.9756% 18/03/2050	1,385	0.48	
£1,725,000 Towd Point Mortgage Funding 2019-Vantage2 FRN 1% 20/02/2054	1,721	0.60	
£1,159,487 Trinity Square 2015-1 FRN 1.935% 15/07/2051	1,164	0.40	

#### Portfolio statement (continued)

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>'AAA' credit rated bonds (continued)</b>			
£4,249,951 Warwick Finance Residential Mortgages No. 2 FRN 2.265% 21/09/2049	4,270	1.48	
<b>'AA' credit rated bonds</b>	<b>31,042</b>	<b>10.72</b>	<b>15.77</b>
\$5,960,000 Amazon.com 2.4% 22/02/2023	4,687	1.62	
€4,000,000 Apple 1% 10/11/2022	3,524	1.22	
£4,257,000 Metropolitan Life Global Funding I 1.125% 15/12/2021	4,256	1.47	
£3,000,000 New York Life Global Funding 1% 15/12/2021	2,995	1.03	
£2,429,000 New York Life Global Funding 1.25% 17/12/2026	2,419	0.83	
£1,191,000 New York Life Global Funding 1.625% 15/12/2023	1,211	0.42	
€2,379,612 Paragon Mortgages No.13 FRN 1% 15/01/2039	1,869	0.65	
£10,000,000 UK Treasury 2% 22/07/2020	10,081	3.48	
<b>'A' credit rated bonds</b>	<b>94,374</b>	<b>32.58</b>	<b>26.74</b>
\$2,980,000 ABN AMRO Bank 2.65% 19/01/2021	2,324	0.80	
\$2,669,000 ABN AMRO Bank FRN 2.3759% 19/01/2021	2,072	0.71	
£2,550,000 Bank of America 6.125% 15/09/2021	2,772	0.96	
\$3,406,000 Bank of America FRN 2.6605% 05/02/2026	2,635	0.91	
\$5,109,000 Banque Federative du Credit Mutuel 2.7% 20/07/2022	4,004	1.38	
£2,294,000 BMW International Investment 1.25% 11/07/2022	2,289	0.79	
\$5,000,000 BNP Paribas 3.5% 01/03/2023	4,008	1.38	
€4,300,000 BPCE FRN 0.104% 23/03/2023	3,670	1.27	
\$3,333,000 Bristol-Myers Squibb 2.55% 14/05/2021	2,607	0.90	
£2,637,000 Canadian Imperial Bank of Commerce FRN 1.1902% 28/10/2022	2,639	0.91	
\$5,000,000 Citibank Var. Rate 2.844% 20/05/2022	3,914	1.35	
€3,058,000 CK Hutchison Group Telecom Finance 0.375% 17/10/2023	2,611	0.90	
\$5,109,000 Comcast FRN 2.5386% 01/10/2021	3,978	1.37	
\$1,703,000 Crédit Agricole FRN 2.956% 24/04/2023	1,329	0.46	
\$4,257,000 Daimler Finance North America 2.7% 03/08/2020	3,313	1.14	
€2,500,000 Dassault Systemes 0.01% 16/09/2022	2,136	0.74	
£6,000,000 Deutsche Pfandbriefbank 1.75% 21/11/2022	6,005	2.07	
€1,900,000 EssilorLuxottica 0.125% 27/05/2025	1,616	0.56	
€4,000,000 GlaxoSmithKline Capital FRN 0.204% 23/09/2021	3,433	1.19	
€2,300,000 ING FRN 0.454% 20/09/2023	1,986	0.69	
\$4,257,000 ING FRN 3.2544% 29/03/2022	3,340	1.15	
€4,000,000 International Business Machines 0.375% 31/01/2023	3,450	1.19	
\$4,257,000 JPMorgan Chase FRN 2.8396% 25/04/2023	3,326	1.15	
\$4,257,000 JPMorgan Chase FRN 3.166% 24/10/2023	3,357	1.16	
€1,666,000 Medtronic Global 0.25% 02/07/2025	1,424	0.49	
€1,466,000 Medtronic Global 0.375% 07/03/2023	1,263	0.44	
£3,400,000 Munich Re Finance Var. Rate 6.625% 26/05/2042	3,818	1.32	
£1,492,000 National Westminster Bank FRN 1.3109% 22/03/2023	1,499	0.52	
\$6,000,000 NatWest Markets 3.625% 29/09/2022	4,796	1.66	
€3,219,000 UBS FRN 0.304% 20/09/2022	2,759	0.95	
\$5,000,000 US Bancorp 2.4% 30/07/2024	3,924	1.35	
\$2,554,000 US Bancorp 3.375% 05/02/2024	2,077	0.72	

# M&G Short Dated Corporate Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %	
<b>'BBB' credit rated bonds</b>				
£5,109,000 AA Bond 2.875% 31/01/2022	4,963	1.71		
€2,583,000 Altria 1% 15/02/2023	2,231	0.77		
€1,100,000 American International Var. Rate 1.297% 15/03/2037	817	0.28		
€4,600,000 Banco de Sabadell 0.875% 05/03/2023	3,961	1.37		
\$6,000,000 BellSouth 4.266% 26/04/2020	4,688	1.62		
€2,129,000 Channel Link Enterprises Finance Var. Rate 1.761% 30/06/2050	1,821	0.63		
£1,302,000 Citigroup 2.75% 24/01/2024	1,363	0.47		
£3,216,000 Clydesdale Bank FRN 1.4109% 22/03/2024	3,236	1.12		
\$5,109,000 Credit Suisse Group Funding Guernsey 3.8% 15/09/2022	4,113	1.42		
£1,150,000 Fiserv 2.25% 01/07/2025	1,183	0.41		
£5,000,000 Ford Motor Credit 4.535% 06/03/2025	5,268	1.82		
\$5,000,000 General Electric 2.7% 09/10/2022	3,900	1.35		
€1,838,000 General Motors Financial 2.2% 01/04/2024	1,636	0.56		
\$1,703,000 General Motors Financial FRN 3.5361% 14/01/2022	1,331	0.46		
€3,406,000 Goldman Sachs FRN 0.217% 26/09/2023	2,908	1.00		
\$1,703,000 Goldman Sachs FRN 2.9415% 05/06/2023	1,331	0.46		
£2,737,000 Hiscox 2% 14/12/2022	2,765	0.95		
\$5,109,000 Imperial Brands Finance 2.95% 21/07/2020	3,973	1.37		
£4,000,000 Lloyds Banking 2.25% 16/10/2024	4,107	1.42		
€1,222,000 Lloyds Banking Var. Rate 0.5% 12/11/2025	1,033	0.36		
\$5,000,000 Mondelēz International 3% 07/05/2020	3,890	1.34		
\$5,000,000 Morgan Stanley FRN 3.1243% 08/05/2024	3,938	1.36		
\$2,129,000 Nationwide Building Society Var. Rate 3.766% 08/03/2024	1,695	0.59		
€4,418,000 Santander UK FRN 0.44% 27/03/2024	3,760	1.30		
\$4,257,000 Société Générale 4.25% 14/09/2023	3,487	1.20		
£1,700,000 Tesco 6.125% 24/02/2022	1,872	0.65		
£568,000 Tesco Corporate Treasury Services 2.5% 02/05/2025	585	0.20		
\$4,000,000 Verizon Communications FRN 3.0099% 15/05/2025	3,151	1.09		
£1,900,000 Volkswagen Financial Services 1.625% 30/11/2022	1,892	0.65		
£2,400,000 Volkswagen Financial Services 1.875% 03/12/2024	2,391	0.82		
<b>'BB' credit rated bonds</b>				
\$2,908,000 Inretail Pharma 5.375% 02/05/2023	2,356	0.81		
€5,000,000 Telecom Italia 2.75% 15/04/2025	4,448	1.54		
<b>Bonds with no credit rating</b>				
\$468,198 AASET Trust 2017-1 3.967% 16/05/2042	366	0.13		
£1,058,000 Albion No. 4 FRN 1% 17/08/2062	1,059	0.37		
£1,590,519 Brass No. 7 FRN 1.3836% 16/10/2059	1,591	0.55		
£4,117,000 Coventry Building Society 1.5% 23/01/2023	4,128	1.43		
£1,369,711 Finsbury Square 2017-2 FRN 1.4599% 12/09/2065	1,370	0.47		
<b>'BBB' credit rated bonds</b>				
	6,804	2.35	2.87	
<b>Bonds with no credit rating</b>				
	33,931	11.72	13.65	

### Portfolio statement (continued)

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>Bonds with no credit rating (continued)</b>			
£1,459,000 Finsbury Square 2019-3 FRN 1% 16/12/2069	1,462	0.50	
£1,883,000 Friary No. 6 FRN 1% 21/11/2067	1,883	0.65	
£3,160,000 Gosforth Funding 2017-1 FRN 1.2789% 19/12/2059	3,147	1.09	
£3,543,602 Oat Hill No. 1 FRN 1.4416% 25/02/2046	3,540	1.22	
£1,953,000 PCL Funding II FRN 1.4618% 15/06/2022	1,953	0.67	
\$4,000,000 RIN II FRN 3.7841% 10/09/2030	3,085	1.07	
£4,257,000 Skipton Building Society 1.75% 30/06/2022	4,268	1.47	
£2,340,759 Together Asset Backed Securitisation 2019-1 FRN 1.9812% 15/07/2061	2,347	0.81	
£2,154,604 Together Asset Backed Securitisation No. 1 FRN 1.7911% 12/03/2049	2,157	0.75	
£1,568,791 Tower Bridge Funding No. 3 FRN 1.9763% 20/12/2061	1,575	0.54	
<b>Debt derivatives</b>			
	226	0.08	(0.02)
<b>Credit default swaps</b>			
	226	0.08	(0.02)
\$(7,600,000) Markit CDX North American Investment Grade Series 32 5 Year Jun 2024	148	0.06	
€(4,000,000) Markit iTraxx Europe Snr Fin Series 31 5 Year Jun 2024	78	0.02	
<b>CURRENCY</b>			
	(388)	(0.14)	(2.03)
<b>Forward currency contracts</b>			
	(388)	(0.14)	(2.03)
€1,587,999 Bought for £1,353,062 (expires 18.12.19)	1	0.00	
€(84,447,670) Sold for £72,138,670 (expires 18.12.19)	121	0.04	
\$2,571,938 Bought for £1,985,835 (expires 18.12.19)	6	0.00	
\$(128,456,160) Sold for £98,994,275 (expires 18.12.19)	(516)	(0.18)	
<b>Portfolio of investments</b>			
	291,253	100.55	98.69
<b>CASH EQUIVALENTS</b>			
	1,270	0.44	3.77
<b>'AAA' rated money market funds <sup>[a]</sup></b>			
	1,270	0.44	3.77
1,270,000 Northern Trust Global Fund - Sterling	1,270	0.44	
<b>Total portfolio</b>			
	292,523	100.99	102.46
<b>Net other assets / (liabilities)</b>			
	(2,870)	(0.99)	(2.46)
<b>Net assets attributable to shareholders</b>			
	289,653	100.00	100.00

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

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

### Portfolio transactions

for the six months to 30 November	2019 £'000	2018 £'000
<b>Portfolio transactions</b>		
Total purchases	101,975	100,229
Total sales	132,920	229,820

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

# 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.

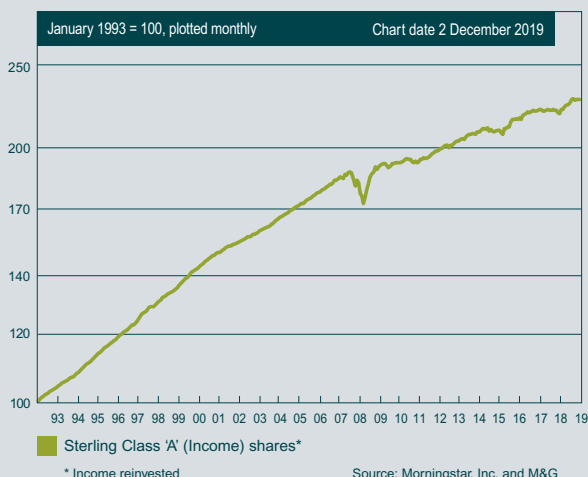
The following charts and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Income) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be different. 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			
as at	30.11.19 £'000	31.05.19 £'000	31.05.18 £'000
Fund net asset value (NAV)	289,653	323,156	472,648

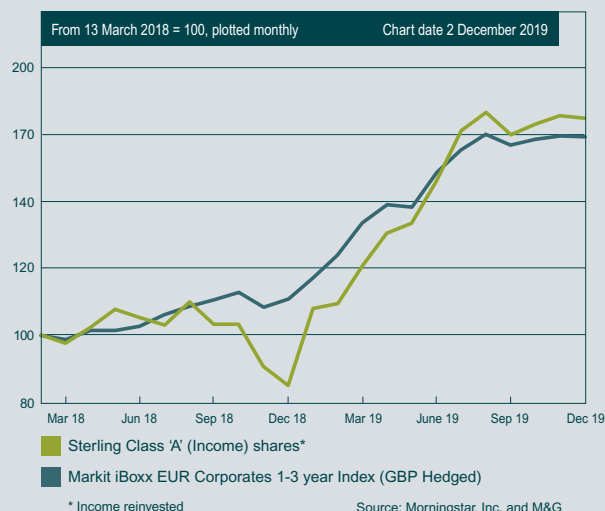
### Performance since launch

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

	Six months 03.06.19 % [a]	Three years 02.12.16 % p.a.	Five years 02.12.14 % p.a.	Since launch % p.a.
<b>Sterling [b]</b>				
Class 'A'	+1.5	+2.0	+1.9	+3.1 [c]
Class 'I'	+1.5	+2.1	+2.0	+2.1 [d]
Class 'PP'	+1.6	n/a	n/a	+1.8 [e]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 29 January 1993, the end of the initial offer period of the predecessor unit trust.

[d] 9 November 2012, the launch date of the share class.

[e] 8 April 2019, the launch date of the share class. Not annualised.



# M&G Short Dated Corporate Bond Fund

## Financial highlights

### Fund performance

### 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 below 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	30.11.19	31.05.19	31.05.18	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.25	0.32	0.31	0.29

<sup>[a]</sup> 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.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	25.47	25.63	25.86
Return before operating charges and after direct portfolio transaction costs	0.47	0.53	0.35
Operating charges	(0.06)	(0.13)	(0.16)
Return after operating charges	0.41	0.40	0.19
Distributions	(0.26)	(0.56)	(0.42)
Closing NAV	25.62	25.47	25.63
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+1.61	+1.56	+0.73
Distribution yield	1.86	2.26	1.86
Effect on yield of charges offset against capital	0.50	0.50	0.62
<b>Other information</b>			
Closing NAV (£'000)	58,317	60,701	100,587
Closing NAV percentage of total fund NAV (%)	20.13	18.78	21.28
Number of shares	227,606,412	238,287,578	392,452,306
Highest share price (UK p)	25.89	25.78	26.07
Lowest share price (UK p)	25.49	25.13	25.67

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

The share class was launched on 9 November 2012.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	1,024.06	1,029.30	1,037.56
Return before operating charges and after direct portfolio transaction costs	18.90	21.69	13.99
Operating charges	(2.09)	(4.27)	(5.53)
Return after operating charges	16.81	17.42	8.46
Distributions	(10.32)	(22.66)	(16.72)
Closing NAV	1,030.55	1,024.06	1,029.30
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+1.64	+1.69	+0.82
Distribution yield	1.86	2.26	1.86
Effect on yield of charges offset against capital	0.40	0.40	0.52
<b>Other information</b>			
Closing NAV (£'000)	231,103	262,435	273,833
Closing NAV percentage of total fund NAV (%)	79.79	81.21	57.94
Number of shares	22,425,216	25,626,979	26,603,691
Highest share price (UK p)	1,041.12	1,035.47	1,046.19
Lowest share price (UK p)	1,024.66	1,009.67	1,030.88

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

The share class was launched on 5 August 2019.

	Period to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	100.00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	0.59	n/a	n/a
Operating charges	(0.10)	n/a	n/a
Return after operating charges	0.49	n/a	n/a
Distributions	(0.98)	n/a	n/a
Closing NAV	99.51	n/a	n/a
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+0.49	n/a	n/a
Distribution yield	1.86	n/a	n/a
Effect on yield of charges offset against capital	0.30	n/a	n/a
<b>Other information</b>			
Closing NAV (£'000)	201	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0.07	n/a	n/a
Number of shares	202,437	n/a	n/a
Highest share price (UK p)	100.49	n/a	n/a
Lowest share price (UK p)	99.46	n/a	n/a

# M&G Short Dated Corporate Bond Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 8 April 2019.

Change in NAV per share	Six months to 30.11.19 UK p	Period to 31.05.19 UK p	Year to 31.05.18 UK p
Opening NAV	100.13	100.00	n/a
Return before operating charges and after direct portfolio transaction costs	1.84	0.18	n/a
Operating charges	(0.15)	(0.05)	n/a
Return after operating charges	1.69	0.13	n/a
Distributions	(0.87)	(0.57)	n/a
Retained distributions	0.87	0.57	n/a
Closing NAV	101.82	100.13	n/a
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
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
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+1.69	+0.13	n/a
Distribution yield	1.56	1.95	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
<b>Other information</b>			
Closing NAV (£'000)	32	20	n/a
Closing NAV percentage of total fund NAV (%)	0.01	0.01	n/a
Number of shares	31,280	20,000	n/a
Highest share price (UK p)	101.82	100.36	n/a
Lowest share price (UK p)	100.18	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

for the six months to 30 November	2019		2018	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		2,581		(4,379)
Revenue	3,156		4,583	
Expenses	(657)		(1,056)	
Net revenue / (expense) before taxation	2,499		3,527	
Taxation	0		(3)	
Net revenue / (expense) after taxation		2,499		3,524
<b>Total return before distributions</b>		<b>5,080</b>		<b>(855)</b>
Distributions		(3,110)		(4,252)
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>1,970</b>		<b>(5,107)</b>

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

for the six months to 30 November	2019		2018	
	£'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	9,981		30,062	
Amounts paid on cancellation of shares	(45,520)		(88,539)	
Transferred to M&G (Lux) Short Dated Corporate Bond Fund	0		(62,094)	
		(35,539)		(120,571)
Dilution adjustments		64		141
Change in net assets attributable to shareholders from investment activities (see above)		1,970		(5,107)
Retained distributions on Accumulation shares		0		441
Unclaimed distributions		2		1
<b>Closing net assets attributable to shareholders</b>		<b>289,653</b>		<b>347,553</b>

#### Balance sheet

as at	30 November 2019	31 May 2019
	£'000	£'000
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	291,769	325,957
<b>Current assets</b>		
Debtors	1,777	1,773
Cash and bank balances	1,870	157
Cash equivalents	1,270	12,190
<b>Total assets</b>	<b>296,686</b>	<b>340,077</b>
<b>Liabilities</b>		
Investment liabilities	(516)	(7,037)
<b>Creditors</b>		
Bank overdrafts	0	(7,295)
Distribution payable	(1,378)	(1,986)
Other creditors	(5,139)	(603)
<b>Total liabilities</b>	<b>(7,033)</b>	<b>(16,921)</b>
<b>Net assets attributable to shareholders</b>	<b>289,653</b>	<b>323,156</b>

### Notes to the financial statements

#### Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

#### 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.

# M&G Short Dated Corporate Bond Fund

Financial statements and notes

This page is intentionally blank

# 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

Benchmark: The fund is actively managed. The target benchmark and comparator benchmark do not constrain the fund's portfolio construction.

- Target: FTSE All-Share Index

The benchmark is a target which the fund seeks to achieve. The target yield referenced in the investment objective has been chosen as it is an achievable target given the fund's investment policy.

- Comparator: 70% FTSE All-Share Index, 30% FTSE Actuaries UK Conventional Gilts All Stocks Index

The fund's performance can be measured against the comparator benchmark. The composite index has been chosen as the fund's comparator benchmark as it best reflects the scope of the fund's investment policy.

### 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 2 December 2019, for the six months ended 30 November 2019**

#### Performance against objective

The fund achieved the objective of growing its income over the six-month review period. In addition, as at 2 December 2019, the 4.91% yield on the fund's Sterling Class 'A' (Income) shares was 15.6% above the broad market FTSE All-Share Index yield of 4.25%, 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 review period, making a total distribution of 13.20p per Income share. This represents an increase of 3.1% on the corresponding period last year. The latest annual inflation rate, as measured by the Retail Prices Index (RPI), was 2.2% in November, while on the Consumer Prices Index (CPI) measure it was 1.5%.

For details of the fund's historic yields for your specific share class, please refer to the 'Specific share class performance' tables in this report.

Between 3 June 2019 (the start of the review period) and 2 December 2019, the fund registered a positive total return of over 6.0% (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 and fixed income recorded modest progress over the period), ending the six-month period ahead of the 4.3% return by its comparator benchmark, a composite index that comprises 70% FTSE All-Share Index and 30% 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 'Fund performance' section of this report.

#### Investment performance

The six months under review was a volatile period for UK equities, or company shares, which limited the progress of the broad market FTSE All-Share Index to a 5.8% total return.

Global equity markets including the UK generally rose through the summer, encouraged by a softening in the US Federal Reserve's (Fed) attitude towards interest rates, cutting them three times between July and October in response to the markets' volatility and concerns about slowing growth. The European Central Bank followed suit, lowering its already negative interest rate towards the end of the review period. The two central banks also recommenced quantitative easing programmes. Late summer, the US-China trade conflict and renewed concerns about global growth unsettled investors, before risk appetite picked up again in the autumn, led by the US market which recorded a series of all-time highs. UK equities lagged, however, as Brexit increasingly preoccupied investors in the domestic market.

Sterling movements were largely affected by developments concerning Brexit, weakening when a 'no-deal' departure from the European Union (EU) appeared probable and strengthening when an agreement seemed more likely. After the general election was announced for 12 December, the currency and the market were encouraged by opinion polls indicating a Conservative majority. However at one stage, sterling reached a 34-year low of US\$1.20, before rallying to nearly US\$1.30 and ending the six-month period with gains against the dollar and euro of 2.6% and 3.6%, respectively.

In this environment, the FTSE 250 Index of medium-sized companies produced the strongest performance over the period (11.4%), with the FTSE 100 Index of larger companies generating more modest gains (4.9%). Meanwhile, the FTSE Smaller Companies ex IT Index (0.5%) generally lagged behind as smaller companies were seen to be most exposed to Brexit and new issue activity dried up.

Sector performance was mixed with industrials, housebuilders, financial services, general retailers and travel and leisure, which have a medium-sized company bias, outperforming, along with more defensive healthcare, life insurance, mobile telecoms, tobacco and utility companies. Conversely, energy and mining companies were affected by slowing global growth, banks by falling interest rates, and consumer staples (ex-tobacco) companies by adverse currency moves.

In the UK sterling bond, or fixed income market, the FTSE Actuaries UK Conventional Gilts All Stocks Index returned 3.6%, while the Merrill Lynch £ Non-Gilts Index returned 4.3%. The US interest rate cuts, combined with equity market volatility and concerns about slowing UK economic growth, 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, outperformed gilts, helped partly by an increase in risk appetite in the wake of the US rate cuts, but also as the prospect of avoiding a disorderly departure from the EU increased under new Prime Minister Boris Johnson. Within the credit market, lower quality issues outperformed, reflecting investors' search for yield.

The fund outperformed its comparator benchmark over the six months as a result of holding a larger weighting in UK company shares than the composite index, at 75%, as these outperformed the sterling bond market. In addition, the equity segment of the portfolio outperformed the FTSE All-Share Index.

The return from the fund's fixed income segment, representing 24% of the portfolio, was more subdued and lagged the FTSE Actuaries UK Conventional Gilts All Stocks Index. This was primarily due to maintaining a defensive stance against a fall in prices from high valuations. However, the fund benefited versus the gilt index from an allocation to credit over the six months.

Within the equity segment, while the fund's sector allocation had a neutral effect, at the stock level, value was added primarily within the fund's holdings in medium-sized companies where there was a flurry of takeover activity.

The main individual contributors to performance included brewer and pub operator Greene King, telecoms group Vodafone, water company Pennon, pharmaceutical manufacturer AstraZeneca and housebuilder Bovis Homes.

Greene King was taken over by a Hong-Kong-listed investor. Sentiment improved towards Vodafone following the announcement that it was planning to monetise its tower assets joint venture with O2 over the next 12-18 months. Falling bond yields, along with fading concerns about the prospect of a Labour majority government, provided support to the water utilities. Pennon was also lifted by speculation that it might break up its Viridor waste management and South West Water arms. AstraZeneca's latest results revealed that the company was benefiting from an improved drugs pipeline across a broad range of therapies. With their domestic focus, the housebuilders have suffered from concerns about Brexit and the winding down of Help to Buy, but the sector picked up as the market began to anticipate a Conservative majority. In addition, Bovis Homes benefited from reigniting a deal to buy rival Galliford Try's housing business.



# M&G UK Income Distribution Fund

## Authorised Corporate Director's Report

### Investment review

#### Investment performance (continued)

Conversely, amongst the main individual detractors were software group Micro Focus, resources companies BP and Rio Tinto, cigarette manufacturer Imperial Brands and support services firm Kier.

Micro Focus, having run up strongly over the previous 12 months, fell after issuing a profit warning following a drop in half-year licence sales. Having previously realised some profits in the software firm, we took the opportunity to increase the fund's holding on a more attractive yield. BP produced lacklustre results as the oil price has been held back by oversupply issues, and disappointed the market somewhat by not raising its dividend in 2019. However, after the oil major raised its dividend last year for the first time since the 2010 disaster in the Gulf of Mexico, it was felt that this was more likely to be a timing issue. Increased iron ore supply, as Brazil's Vale mining group returned to production, weighed on Rio Tinto; nevertheless, the Anglo-Australian miner is another attractive income stock and has raised its dividend substantially this year. Imperial Brands was affected by the US authorities' position against vaping products, although the tobacco sector has recovered recently after the US resiled from its stance. Meanwhile, Kier has issued a series of profit warnings and cut its dividend to zero for 2019 and 2020; as a result we are waiting for clarity from management's review of the business.

#### Investment activities

The broad thrust of the fund was unchanged over the six months under review. Most of the portfolio's weighting remains above-index in the more defensive and higher income-earning sectors of the market, while generally avoiding the lower-quality areas. In this regard, there was a preference for adding to holdings or establishing new positions within the medium-sized company area of the market and especially in financials, but also in the media, leisure, chemicals and housebuilding sectors. Elsewhere, we took advantage of relative market weakness within larger companies to add to holdings in tobacco and utility companies.

Amongst new positions established were the broadcaster ITV, cinema chain Cineworld, home furnishings retailer SCS, alternative finance lender Duke Royalty and several REITs (real estate investment trusts).

ITV has suffered a downturn in advertising revenue and competition from other media platforms; however, the company has potential to deliver more content and brought in Carolyn McCall last year, who turned around easyJet, as chief executive. Shares in Cineworld, the second-largest cinema chain in the world by screens, were acquired on a high yield as the market has been concerned about next year's film line-up and capital investment requirements to compete with their theatrical peers, plus the likes of Netflix and Amazon Prime. However, we believe that audience numbers will stay firm over the longer term. SCS was added to the portfolio via a placing to raise funds for the business. The company is concentrated in the North and the Midlands, and specialises in sofas which are proving fairly resilient to online demand as customers tend to prefer to visit physical stores to try them out. The new holding will complement the fund's position in DFS. Listed on AIM, Duke Royalty is the leading provider of royalty finance to companies in the UK and Europe. The shares are attractively valued and offer a 6% yield. Meanwhile, REITs, or commercial property companies, have performed well, having started

the period under pressure as they are exposed to the domestic economy and sentiment around Brexit, which left them offering very good yields.

To help fund these purchases, some holdings were sold as their yields had become less attractive from an income perspective after a long period of outperformance. These included contract caterer Compass, mezzanine finance provider Intermediate Capital Group, Interdealer broker TP ICAP, media firm RELX, household furnishings group Dunelm and software business Sage. Two holdings exited the portfolio at healthy premiums as a result of takeovers: Hull-based telecoms operator KCOM, plus brewer and pub operator Greene King. Elsewhere, we sold banknote and passport printer De La Rue as we had lost confidence in the investment case and the company subsequently cut its dividend.

The fixed income portion of the fund remains defensively positioned. The bonds added over the past six months were from high-quality issuers with strong credit ratings. The fund has been actively participating in the primary sterling corporate bond market. We purchased, inter alia, new bond issues from UK companies such as Nationwide and Coventry Building Society, but also from overseas companies such as Henkel, Euroclear and Royal Bank of Canada. These bonds were brought to the market at appealing valuations compared to the outstanding bonds of the same issuers. We also sold a few mortgage-backed securities 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

The UK stockmarket has been remarkably sanguine in 2019, notwithstanding a weaker economic outlook at home and abroad, increased trade tensions between the US and its major trading partners, geopolitical concerns and the uncertainty regarding Brexit. The main reasons behind the market's support have been the Bank of England's low interest rate policy, together with the low level of bond yields – the 10-year benchmark gilt yield stood at 0.70% at the end of November. In addition, after the sell-off at the end of 2018, the market started 2019 from a low base.

Consumer spending has also been resilient, helped by low unemployment and wage growth that has finally overtaken inflation. Despite this year's recovery, though, the UK stockmarket still represents fair value compared to other markets, notwithstanding the post-12 December election rally, and is likely to remain at a discount to them until some form of Brexit resolution is achieved.

Sterling remains a key influence. The currency breached US\$1.33 after the election result, its highest level since summer 2018, giving a boost to medium-sized and smaller companies, and causing larger and higher yielding companies to sell off. The position unwound subsequently when the prime minister promised legislation to make 31 December 2020 a hard deadline for achieving a transition deal, raising concerns that the UK could crash out of the EU after all. Even though the currency has staged a recovery, it is well below the US\$1.50 level of four years ago, which means UK companies still represent attractive opportunities for overseas buyers as the recent pick-up in takeover activity testifies.

The UK's economic outlook remains uncertain, largely due to continued confusion about Brexit, although there is likely to be a substantial fiscal boost as the new government embarks on a huge investment programme in infrastructure, public housing and the NHS

# M&G UK Income Distribution Fund

## Authorised Corporate Director's Report

### Investment review

#### Outlook (continued)

to list a few projects, especially in its newly won northern and Midlands constituencies. Meanwhile, weaker global economic activity and ongoing international trade disputes are likely to weigh on the domestic economy, in the short term at least. The UK just managed to avoid a recession in the third quarter of 2019. Longer term, we are more optimistic about the UK's prospects, given the broadly positive fundamentals of low interest rates, high employment and subdued inflation. Encouragingly, corporate earnings have held up so far and company balance sheets generally remain well capitalised.

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's income generation has been assisted by the tailwind of sterling weakness on the back of concerns about Brexit and the slowdown in the economy, which has principally benefited the UK's multinationals by boosting the translational effects of their overseas earnings into sterling. The past two years have borne witness to a broadening of the market's dividend-producing base. Despite recent weakness, the recovery in commodity prices from their 2016 lows has enabled the mining behemoths to return to paying dividends once again, and a higher oil price combined with improved production costs has provided greater confidence about the security of future dividend flows from the energy sector. In addition, the UK's banks, another important source of market income in the past, are returning to health and paying dividends again in most cases.

2019 is expected to produce solid gains in dividend payments, which have been helped by special dividends and sterling weakness. However, the forecast for 2020 is less positive, with dividend growth expected to ease, reflecting greater risks to economic growth. In addition, the magnitude of the increases in the mining sector over the past two years is unlikely to be repeated. Nevertheless, in the absence of unforeseen circumstances, we are aiming for a further increase in the fund's distribution in the next year.

#### 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.

### Investments

#### Portfolio statement

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>EQUITIES</b>	<b>451,003</b>	<b>75.55</b>	<b>76.48</b>
<b>Software &amp; computer services</b>	<b>5,600</b>	<b>0.94</b>	<b>1.66</b>
500,000 Micro Focus International	5,600	0.94	
<b>Telecommunication service providers</b>	<b>23,321</b>	<b>3.90</b>	<b>4.14</b>
3,800,000 BT	7,304	1.22	
10,500,000 Vodafone	16,017	2.68	
<b>Pharmaceuticals &amp; biotechnology</b>	<b>43,507</b>	<b>7.29</b>	<b>6.48</b>
288,000 AstraZeneca	21,557	3.61	
1,250,000 GlaxoSmithKline	21,950	3.68	
<b>Banks</b>	<b>30,688</b>	<b>5.13</b>	<b>5.47</b>
380,000 Close Brothers	5,746	0.96	
3,350,000 HSBC	19,363	3.24	
9,000,000 Lloyds Banking	5,579	0.93	
<b>Investment banking &amp; brokerage services</b>	<b>12,120</b>	<b>2.03</b>	<b>2.80</b>
540,000 Ashmore	2,589	0.43	
655,821 Brewin Dolphin	2,273	0.38	
451,127 Duke Royalty	209	0.04	
396,429 EF Realisation [a]	47	0.01	
250,000 Jupiter Fund Management	924	0.15	
1,900,000 Standard Life Aberdeen	6,078	1.02	
<b>Equity investment instruments</b>	<b>3,507</b>	<b>0.59</b>	<b>0.53</b>
1,110,000 Ecofin Global Utilities and Infrastructure Trust	1,704	0.29	
1,750,000 Middlefield Canadian Income Trust	1,803	0.30	
<b>Life insurance</b>	<b>36,877</b>	<b>6.19</b>	<b>5.92</b>
2,352,000 Aviva	9,474	1.59	
1,550,000 Chesnara	4,464	0.75	
4,500,000 Legal & General	12,767	2.14	
640,000 Phoenix	4,762	0.80	
500,000 St. James's Place	5,410	0.91	
<b>Non-life insurance</b>	<b>6,040</b>	<b>1.01</b>	<b>1.05</b>
1,365,000 Direct Line Insurance	4,234	0.71	
1,000,000 Hastings	1,806	0.30	
<b>Real estate investment &amp; services</b>	<b>3,122</b>	<b>0.52</b>	<b>0.57</b>
2,200,000 Channel Islands Property Fund	2,200	0.37	
1,000,000 Grit Real Estate Income	922	0.15	
<b>Real estate investment trusts</b>	<b>21,460</b>	<b>3.60</b>	<b>2.81</b>
202,127 British Land	1,180	0.20	
304,687 Land Securities	2,946	0.49	
1,450,000 LondonMetric Property	3,396	0.57	
1,010,000 McKay Securities	2,495	0.42	
1,974,217 NewRiver REIT	3,834	0.64	
1,663,341 RDI REIT	2,099	0.35	
1,200,000 Regional	1,294	0.22	
2,300,000 Standard Life Investment Property Income Trust	2,029	0.34	
2,063,624 Warehouse REIT	2,187	0.37	
<b>Household goods &amp; home construction</b>	<b>9,256</b>	<b>1.55</b>	<b>1.20</b>
105,000 Bellway	3,520	0.59	
467,460 Bovis Homes	5,736	0.96	
<b>Leisure goods</b>	<b>5,010</b>	<b>0.84</b>	<b>0.76</b>
87,052 Games Workshop	5,010	0.84	
<b>Personal goods</b>	<b>4,577</b>	<b>0.77</b>	<b>2.05</b>
100,000 Unilever	4,577	0.77	

# M&G UK Income Distribution Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %	
<b>Media</b>	<b>26,704</b>	<b>4.48</b>	<b>3.80</b>	
1,025,000 Informa	8,173	1.37		
4,000,000 ITV	5,820	0.98		
575,000 Moneysupermarket.com	1,975	0.33		
3,435,000 Reach	3,177	0.53		
750,000 WPP	7,559	1.27		
<b>Retailers</b>	<b>4,148</b>	<b>0.69</b>	<b>0.69</b>	
537,537 DFS Furniture	1,266	0.21		
454,545 ScS	1,023	0.17		
74,900 WH Smith	1,859	0.31		
<b>Travel &amp; leisure</b>	<b>29,969</b>	<b>5.01</b>	<b>3.77</b>	
1,300,000 Cineworld	2,687	0.45		
240,000 Go-Ahead	5,275	0.88		
1,000,000 GVC	8,658	1.45		
3,350,000 Marston's	4,378	0.73		
1,150,000 National Express	5,357	0.90		
295,243 Restaurant	436	0.07		
1,750,000 William Hill	3,178	0.53		
<b>Food producers</b>	<b>2,185</b>	<b>0.37</b>	<b>0.46</b>	
300,000 Tate & Lyle	2,185	0.37		
<b>Tobacco</b>	<b>25,787</b>	<b>4.32</b>	<b>4.03</b>	
450,000 British American Tobacco	13,838	2.32		
700,000 Imperial Brands	11,949	2.00		
<b>Construction &amp; materials</b>	<b>459</b>	<b>0.08</b>	<b>0.24</b>	
500,000 Kier	459	0.08		
<b>Electronic &amp; electrical equipment</b>	<b>4,852</b>	<b>0.81</b>	<b>0.77</b>	
495,000 discoverIE	2,693	0.45		
750,000 Morgan Advanced Materials	2,159	0.36		
<b>General industrials</b>	<b>2,817</b>	<b>0.47</b>	<b>0.39</b>	
731,818 DS Smith	2,817	0.47		
<b>Industrial engineering</b>	<b>903</b>	<b>0.15</b>	<b>0.14</b>	
80,000 IMI	903	0.15		
<b>Industrial support services</b>	<b>5,700</b>	<b>0.96</b>	<b>0.89</b>	
1,385,000 Connect	399	0.07		
300,000 Electrocomponents	1,954	0.33		
325,000 PayPoint	3,347	0.56		
<b>Industrial transportation</b>	<b>425</b>	<b>0.07</b>	<b>0.10</b>	
160,920 Global Ports	425	0.07		
<b>Industrial metals &amp; mining</b>	<b>24,488</b>	<b>4.10</b>	<b>5.03</b>	
375,000 BHP	6,459	1.08		
425,000 Rio Tinto	18,029	3.02		
<b>Chemicals</b>	<b>4,383</b>	<b>0.74</b>	<b>0.65</b>	
350,000 Synthomer	1,065	0.18		
140,000 Victrex	3,318	0.56		
<b>Non-renewable energy</b>	<b>58,476</b>	<b>9.79</b>	<b>11.29</b>	
6,250,000 BP	30,222	5.06		
1,275,000 Royal Dutch Shell	28,254	4.73		
<b>Electricity</b>	<b>4,592</b>	<b>0.77</b>	<b>0.64</b>	
350,000 SSE	4,592	0.77		
<b>Gas, water &amp; multi-utilities</b>	<b>24,883</b>	<b>4.17</b>	<b>4.06</b>	
1,250,000 National Grid	11,205	1.88		
700,000 Pennon	6,432	1.08		
840,000 United Utilities	7,246	1.21		

### Portfolio statement (continued)

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>Non-convertible preference shares</b>	<b>25,147</b>	<b>4.21</b>	<b>4.09</b>
1,500,000 Aviva 8.375% Cum. Irrd. Pref.	2,145	0.36	
3,800,000 General Accident 7.875% Cum. Irrd. Pref.	5,092	0.85	
2,000,000 General Accident 8.875% Cum. Irrd. Pref.	2,940	0.49	
7,725,000 Lloyds Banking 9.25% Non-cum. Irrd. Pref.	11,804	1.98	
6,250 Nationwide Building Society 10.25% CCD Non-cum. Irrd. Pref.	1,006	0.17	
1,600,000 Standard Chartered 8.25% Non-cum. Irrd. Pref.	2,160	0.36	
<b>FIXED INCOME</b>	<b>142,127</b>	<b>23.83</b>	<b>24.10</b>
<b>'AAA' credit rated bonds</b>	<b>16,245</b>	<b>2.72</b>	<b>3.34</b>
£1,186,000 Barclays Bank FRN 0.9843% 09/01/2023	1,181	0.20	
£1,985,512 Dukinfield FRN 2.0263% 20/12/2052	2,000	0.34	
£6,030,000 European Investment Bank FRN 1.0399% 17/02/2020	6,033	1.01	
£400,000 Johnson & Johnson 5.5% 06/11/2024	484	0.08	
£2,700,000 KfW 5.55% 07/06/2021	2,891	0.48	
£1,000,000 Nationwide Building Society FRN 1.1482% 02/08/2022	1,000	0.17	
£425,547 Polaris 2019-1 FRN 1.9607% 27/04/2057	425	0.07	
£65,401 Residential Mortgage Securities 28 FRN 1.9314% 15/06/2046	66	0.01	
£1,742,000 Santander UK FRN 1.0199% 16/11/2022	1,735	0.29	
£431,000 Towd Point Mortgage Funding 2019-Vantage2 FRN 1% 20/02/2054	430	0.07	
<b>'AA' credit rated bonds</b>	<b>23,137</b>	<b>3.87</b>	<b>3.61</b>
£382,000 Euroclear Bank 1.25% 30/09/2024	383	0.06	
£1,306,000 Land Securities Capital Markets 1.974% 08/02/2024	1,334	0.22	
£933,000 MassMutual Global Funding II 1.375% 15/12/2026	931	0.16	
£2,442,000 Metropolitan Life Global Funding I 1.125% 15/12/2021	2,441	0.41	
£510,000 Metropolitan Life Global Funding I 2.625% 05/12/2022	531	0.09	
£2,500,000 New York Life Global Funding 1% 15/12/2021	2,496	0.42	
£607,000 New York Life Global Funding 1.25% 17/12/2026	604	0.10	
£3,000,000 Procter & Gamble 1.375% 03/05/2025	3,047	0.51	
£905,000 Royal Bank of Canada FRN 1.2909% 03/10/2024	906	0.15	
£315,000 SLM Student Loan Trust FRN 1.3299% 15/12/2039	306	0.05	
£750,000 Toronto-Dominion Bank FRN 1.181% 24/06/2022	751	0.13	
£1,335,000 Toyota Motor Credit 1.125% 07/09/2021	1,338	0.22	
£2,490,000 UK Treasury 4% 07/03/2022	2,687	0.45	
£3,360,000 UK Treasury IL 1.875% 22/11/2022	5,382	0.90	
<b>'A' credit rated bonds</b>	<b>45,827</b>	<b>7.67</b>	<b>7.82</b>
£800,000 ABN AMRO Bank 1% 30/06/2020	800	0.13	
£1,100,000 ABN AMRO Bank 1.375% 07/06/2022	1,105	0.19	
£1,750,000 Amgen 5.5% 07/12/2026	2,185	0.37	
£650,000 Anheuser-Busch InBev 9.75% 30/07/2024	896	0.15	
£900,000 Banco Santander 1.375% 31/07/2024	893	0.15	
£2,400,000 Banque Federative du Credit Mutuel 0.875% 08/06/2020	2,397	0.40	
£1,200,000 Banque Federative du Credit Mutuel 1.375% 20/12/2021	1,205	0.20	
£312,000 BASF 1.375% 21/06/2022	316	0.05	

# M&G UK Income Distribution Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %	
'A' credit rated bonds (continued)				
£574,000 BMW International Investment 1.25% 11/07/2022	573	0.10		
£2,000,000 BNP Paribas 1.125% 16/08/2022	2,003	0.34		
£3,000,000 BPCE 2.125% 16/12/2022	3,079	0.52		
£1,500,000 Canadian Imperial Bank of Commerce FRN 1.2038% 10/01/2022	1,503	0.25		
£430,000 CK Hutchison Group Telecom Finance 2% 17/10/2027	425	0.07		
£2,320,000 Daimler International Finance 1.5% 13/01/2022	2,328	0.39		
£800,000 Deutsche Pfandbriefbank 1.75% 21/11/2022	801	0.13		
£250,000 EDF 6.125% 02/06/2034	365	0.06		
£1,950,000 EDF 6.875% 12/12/2022	2,291	0.38		
£485,000 Experian Finance 2.125% 27/09/2024	504	0.08		
£1,473,000 Heathrow Funding 5.225% 15/02/2023	1,660	0.28		
£500,000 Henkel 1.25% 30/09/2026	498	0.08		
£2,000,000 HSBC Var. Rate 2.256% 13/11/2026	2,026	0.34		
£421,000 HSBC Var. Rate 3% 22/07/2028	444	0.07		
£500,000 HSBC Var. Rate 3% 29/05/2030	525	0.09		
£1,300,000 ING 3% 18/02/2026	1,390	0.23		
£644,000 Lloyds Bank FRN 1.28% 16/05/2024	644	0.11		
£1,845,000 LVMH Moët Hennessy Louis Vuitton 1% 14/06/2022	1,849	0.31		
£96,000 Motability Operations 6.625% 10/12/2019	96	0.02		
£1,000,000 Munich Re Finance Var. Rate 6.625% 26/05/2042	1,123	0.19		
£918,000 Notting Hill Housing Trust 3.25% 12/10/2048	994	0.17		
£703,000 Total Capital International 1.75% 07/07/2025	721	0.12		
£947,000 UBS 1.25% 10/12/2020	948	0.16		
£1,320,000 United Utilities Water Finance 2% 14/02/2025	1,360	0.23		
£1,043,000 Wells Fargo 1.375% 30/06/2022	1,044	0.17		
£1,950,000 Wells Fargo Bank 5.25% 01/08/2023	2,204	0.37		
£2,530,000 Westfield America Management 2.125% 30/03/2025	2,585	0.43		
£1,750,000 Yorkshire Water Finance 6.5876% 21/02/2023	2,047	0.34		
<b>'BBB' credit rated bonds</b>	<b>36,178</b>	<b>6.08</b>	<b>5.54</b>	
£794,000 Akelius Residential Property 2.375% 15/08/2025	811	0.14		
£793,000 Annington Funding 2.646% 12/07/2025	820	0.14		
£664,000 Aroundtown 3% 16/10/2029	672	0.11		
£2,000,000 Aviva Var. Rate 6.625% 03/06/2041	2,145	0.36		
£1,500,000 Bank of America 5.5% 22/11/2021	1,619	0.27		
£1,000,000 Barclays 3.125% 17/01/2024	1,047	0.18		
£1,026,000 Barclays Var. Rate 2.375% 06/10/2023	1,041	0.17		
£874,000 Canadian Imperial Bank of Commerce 1.625% 25/09/2025	873	0.15		
£846,000 Channel Link Enterprises Finance Var. Rate 3.043% 30/06/2050	885	0.15		
£976,000 Citigroup 2.75% 24/01/2024	1,021	0.17		
£965,000 Clydesdale Bank FRN 1.411% 22/03/2024	971	0.16		
£1,171,000 Credit Suisse Var. Rate 2.125% 12/09/2025	1,188	0.20		
£208,000 Deutsche Telekom 3.125% 06/02/2034	228	0.04		

### Portfolio statement (continued)

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
'BBB' credit rated bonds (continued)			
£552,000 Deutsche Telekom International Finance 2.5% 10/10/2025	580	0.10	
£2,180,000 Deutsche Telekom International Finance 7.375% 04/12/2019	2,180	0.37	
£178,000 Digital Stout 2.75% 19/07/2024	186	0.03	
£322,000 Fidelity National Information Services 2.602% 21/05/2025	338	0.06	
£300,000 FirstGroup 6.875% 18/09/2024	353	0.06	
£174,000 Fiserv 2.25% 01/07/2025	179	0.03	
£734,000 Ford Motor Credit 4.535% 06/03/2025	773	0.13	
£3,000 Glencore Canada 7.375% 27/05/2020	3	0.00	
£800,000 Goldman Sachs 3.125% 25/07/2029	863	0.14	
£1,000,000 Goldman Sachs 5.5% 12/10/2021	1,076	0.18	
£878,000 Imperial Brands Finance 8.125% 15/03/2024	1,100	0.18	
£1,250,000 Imperial Brands Finance 9% 17/02/2022	1,451	0.24	
£357,000 Informa 3.125% 05/07/2026	377	0.06	
£1,750,000 InterContinental Hotels 3.875% 28/11/2022	1,879	0.31	
£426,000 LafargeHolcim Sterling Finance (Netherlands) 3% 12/05/2032	448	0.08	
£795,000 Legal & General Var. Rate 10% 23/07/2041	902	0.15	
£454,000 Liberty Living Finance 2.625% 28/11/2024	469	0.08	
£700,000 Lloyds Bank 9.625% 06/04/2023	875	0.15	
£200,000 McDonald's 6.375% 03/02/2020	202	0.03	
£369,000 Mckesson 3.125% 17/02/2029	383	0.06	
£205,000 Next 3% 26/08/2025	213	0.04	
£990,000 Rolls-Royce 3.375% 18/06/2026	1,078	0.18	
£619,000 Royal Bank of Scotland Var. Rate 3.125% 28/03/2027	651	0.11	
£272,000 SP Transmission 2% 13/11/2031	273	0.05	
£241,000 Student Finance 2.6663% 30/09/2024	241	0.04	
£1,000,000 Telefonica Emisiones 5.375% 02/02/2026	1,205	0.20	
£277,000 Tesco 6.125% 24/02/2022	305	0.05	
£101,000 Tesco Corporate Treasury Services 2.5% 02/05/2025	104	0.02	
£422,000 Thames Water Utilities Finance 1.875% 24/01/2024	428	0.07	
£505,000 UNITE 3.5% 15/10/2028	546	0.09	
£698,000 Virgin Money Var. Rate 3.375% 24/04/2026	696	0.12	
£2,500,000 Volkswagen Financial Services 1.5% 12/04/2021	2,500	0.43	
<b>'BB' credit rated bonds</b>	<b>0</b>	<b>0.00</b>	<b>0.10</b>
<b>Bonds with no credit rating</b>	<b>20,740</b>	<b>3.49</b>	<b>3.69</b>
£1,242,000 Coventry Building Society 1% 05/05/2020	1,240	0.21	
£824,000 Coventry Building Society 1.5% 23/01/2023	826	0.14	
£2,000,000 Coventry Building Society 1.875% 24/10/2023	2,032	0.34	
£513,000 DP World 4.25% 25/09/2030	568	0.10	
£128,573 Feldspar 2016-1 FRN 1.4814% 15/09/2045	129	0.02	
£733,837 Finsbury Square 2018-1 FRN 1.4299% 12/09/2065	734	0.12	
£471,000 Friary No. 6 FRN 1% 21/11/2067	471	0.08	
£2,000,000 Hammerson 3.5% 27/10/2025	2,021	0.34	
£1,536,000 John Lewis 6.125% 21/01/2025	1,740	0.29	
£1,525,000 London Merchant Securities 6.5% 16/03/2026	1,945	0.33	

# M&G UK Income Distribution Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %	
<b>Bonds with no credit rating (continued)</b>				
£1,000,000 National Express 2.5% 11/11/2023	1,028	0.17		
£1,997,000 Nordea Eiendomsredditt FRN 1.1056% 18/06/2023	1,988	0.33		
£1,248,626 Oat Hill No. 1 FRN 1.4416% 25/02/2046	1,247	0.21		
£688,000 PCL Funding II FRN 1.4618% 15/06/2022	688	0.12		
£572,000 PCL Funding III FRN 1.3618% 15/06/2023	570	0.10		
£1,071,000 Shaftesbury Chinatown 2.348% 30/09/2027	1,085	0.18		
£463,000 Skipton Building Society 1.75% 30/06/2022	464	0.08		
£149,000 Wm Morrison Supermarkets 3.5% 27/07/2026	165	0.03		
£157,000 Yorkshire Building Society Var. Rate 3% 18/04/2025	162	0.03		
£1,500,000 Yorkshire Building Society 3.5% 21/04/2026	1,637	0.27		
<b>Portfolio of investments</b>	<b>593,130</b>	<b>99.38</b>	<b>100.58</b>	
<b>CASH EQUIVALENTS</b>	<b>3,409</b>	<b>0.57</b>	<b>0.61</b>	
<b>'AAA' rated money market funds <sup>[b]</sup></b>	<b>3,409</b>	<b>0.57</b>	<b>0.61</b>	
3,409,000 Northern Trust Global Fund - Sterling	3,409	0.57		
<b>Total portfolio</b>	<b>596,539</b>	<b>99.95</b>	<b>101.19</b>	
<b>Net other assets / (liabilities)</b>	<b>281</b>	<b>0.05</b>	<b>(1.19)</b>	
<b>Net assets attributable to shareholders</b>	<b>596,820</b>	<b>100.00</b>	<b>100.00</b>	

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

<sup>[a]</sup> Unquoted / unlisted.

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

### Top ten portfolio transactions

for the six months to 30 November 2019

Largest purchases	£'000
GVC	5,913
ITV	5,056
Imperial Brands	3,970
NewRiver REIT	3,676
St. James's Place	3,298
Cineworld	2,897
WPP	2,510
Micro Focus International	2,263
Reach	1,545
Regional	1,278
Other purchases	18,139
<b>Total purchases</b>	<b>50,545</b>
Largest sales	£'000
Unilever	7,356
Greene King	6,319
RELX	4,825
Sage	4,420
TP ICAP	4,033
KCOM	3,850
United Utilities	2,882
AstraZeneca	2,664
BMW International Investment FRN 1.1165% 17/07/2019	2,500
Prudential	2,403
Other sales	29,210
<b>Total sales</b>	<b>70,462</b>

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.

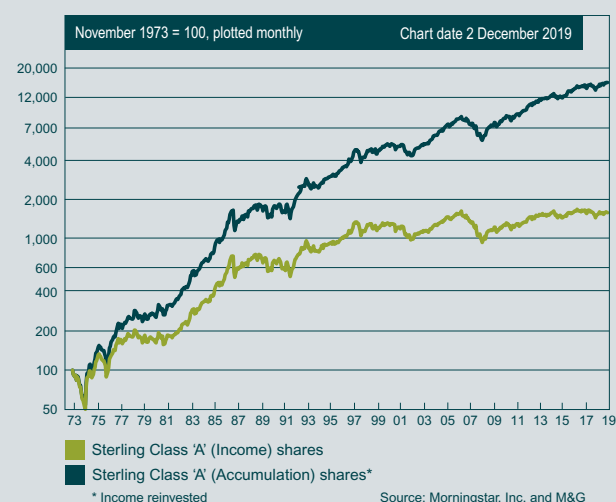
The following charts and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be 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			
as at	30.11.19 £'000	31.05.19 £'000	31.05.18 £'000
Fund net asset value (NAV)	596,820	585,811	632,249

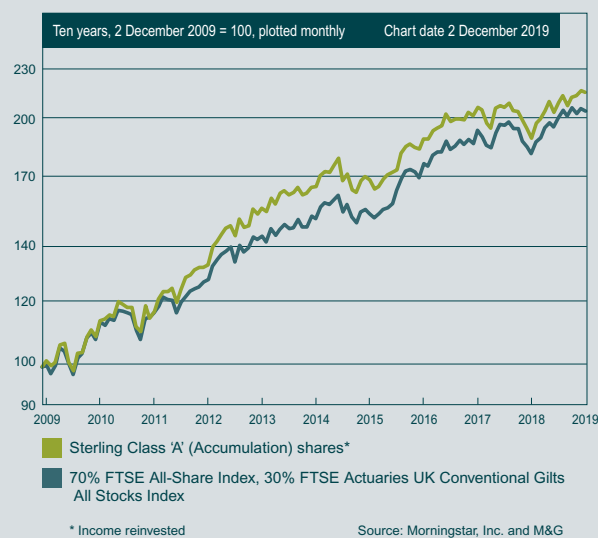
### Share class performance since launch

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.



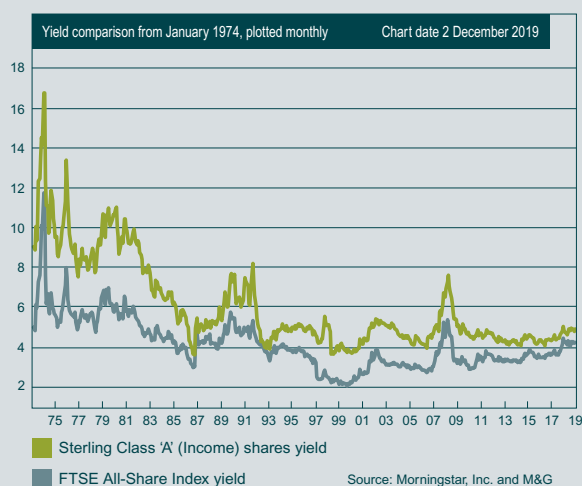
### Ten-year performance

The fund's comparator benchmark changed from the FTSE All-Share Index to a composite index (which comprises 70% FTSE All-Share Index, 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 comparator 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

### Fund performance

#### 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				
	Six months 03.06.19 % [a]	Three years 02.12.16 % p.a.	Five years 02.12.14 % p.a.	Since launch % p.a.
<b>Sterling [b]</b>				
Class 'A'	+6.2	+6.0	+5.4	+11.6 [c]
Class 'C'	+7.0	+7.3	+6.6	+7.1 [d]
Class 'I'	+6.5	+6.6	+5.9	+7.9 [e]
Class 'R'	+6.4	+6.4	+5.7	+7.6 [e]
Class 'X'	+6.2	+6.0	+5.4	+7.6 [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 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.

# M&G UK Income Distribution Fund

## Financial highlights

### Fund performance

## Operating charges and portfolio transaction costs

### 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				
	Six months to 30.11.19	Year to 31.05.19	Year to 31.05.18	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	30.11.19	31.05.19	31.05.18	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.27	0.26	0.26	0.26

<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 period are calculated as at 13 December 2019.

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

The share class was launched on 19 November 1973.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
Change in NAV per share			
Opening NAV	734.51	785.86	802.90
Return before operating charges and after direct portfolio transaction costs	50.40	(3.35)	29.43
Operating charges	(4.78)	(10.89)	(11.19)
Return after operating charges	45.62	(14.24)	18.24
Distributions	(13.20)	(37.11)	(35.28)
Closing NAV	766.93	734.51	785.86
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.22	0.24	0.28
Dilution adjustments <sup>[a]</sup>	(0.05)	(0.11)	(0.09)
Total direct portfolio transaction costs	0.17	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	+6.21	-1.81	+2.27
Historic yield	4.83	4.96	4.49
Effect on yield of charges offset against capital	1.24	1.41	1.41
Other information			
Closing NAV (£'000)	147,053	143,765	163,142
Closing NAV percentage of total fund NAV (%)	24.64	24.54	25.80
Number of shares	19,174,232	19,572,985	20,759,599
Highest share price (UK p)	775.26	795.71	813.76
Lowest share price (UK p)	731.21	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.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	7,169.40	7,300.31	7,131.83
Return before operating charges and after direct portfolio transaction costs	494.82	(28.55)	269.04
Operating charges	(46.81)	(102.36)	(100.56)
Return after operating charges	448.01	(130.91)	168.48
Distributions	(97.35)	(251.75)	(219.55)
Retained distributions	97.35	251.75	219.55
Closing NAV	7,617.41	7,169.40	7,300.31
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	2.16	2.24	2.55
Dilution adjustments <sup>[a]</sup>	(0.46)	(1.05)	(0.78)
Total direct portfolio transaction costs	1.70	1.19	1.77
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+6.25	-1.79	+2.36
Historic yield	3.41	3.45	3.01
Effect on yield of charges offset against capital	0.01	0.01	0.01
<b>Other information</b>			
Closing NAV (£'000)	20,618	20,174	22,610
Closing NAV percentage of total fund NAV (%)	3.46	3.44	3.58
Number of shares	270,673	281,385	309,708
Highest share price (UK p)	7,634.49	7,403.78	7,397.19
Lowest share price (UK p)	7,137.74	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.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	849.58	897.80	905.98
Return before operating charges and after direct portfolio transaction costs	57.62	(4.74)	32.63
Operating charges	(0.24)	(1.67)	(1.52)
Return after operating charges	57.38	(6.41)	31.11
Distributions	(14.90)	(41.81)	(39.29)
Closing NAV	892.06	849.58	897.80
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.26	0.27	0.32
Dilution adjustments <sup>[a]</sup>	(0.05)	(0.13)	(0.10)
Total direct portfolio transaction costs	0.21	0.14	0.22
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+6.75	-0.71	+3.43
Historic yield	4.68	4.83	4.37
Effect on yield of charges offset against capital	0.03	0.16	0.16
<b>Other information</b>			
Closing NAV (£'000)	69,122	67,285	74,902
Closing NAV percentage of total fund NAV (%)	11.58	11.49	11.85
Number of shares	7,748,618	7,919,730	8,342,838
Highest share price (UK p)	901.45	910.97	927.92
Lowest share price (UK p)	845.85	801.46	844.84

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

The share class was launched on 3 August 2012.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	1,207.33	1,283.58	1,303.10
Return before operating charges and after direct portfolio transaction costs	82.69	(5.63)	47.82
Operating charges	(4.45)	(9.80)	(9.89)
Return after operating charges	78.24	(15.43)	37.93
Distributions	(21.70)	(60.82)	(57.45)
Closing NAV	1,263.87	1,207.33	1,283.58
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.36	0.39	0.46
Dilution adjustments <sup>[a]</sup>	(0.08)	(0.18)	(0.14)
Total direct portfolio transaction costs	0.28	0.21	0.32
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+6.48	-1.20	+2.91
Historic yield	4.81	4.94	4.47
Effect on yield of charges offset against capital	0.71	0.76	0.76
<b>Other information</b>			
Closing NAV (£'000)	83,084	79,074	73,043
Closing NAV percentage of total fund NAV (%)	13.92	13.50	11.55
Number of shares	6,573,754	6,549,484	5,690,580
Highest share price (UK p)	1,277.56	1,301.21	1,328.00
Lowest share price (UK p)	1,201.98	1,142.16	1,210.10

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

The share class was launched on 3 August 2012.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	1,643.50	1,663.07	1,614.52
Return before operating charges and after direct portfolio transaction costs	113.24	(6.69)	60.96
Operating charges	(6.10)	(12.88)	(12.41)
Return after operating charges	107.14	(19.57)	48.55
Distributions	(25.45)	(67.69)	(59.97)
Retained distributions	25.45	67.69	59.97
Closing NAV	1,750.64	1,643.50	1,663.07
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.49	0.51	0.58
Dilution adjustments <sup>[a]</sup>	(0.11)	(0.24)	(0.18)
Total direct portfolio transaction costs	0.38	0.27	0.40
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+6.52	-1.18	+3.01
Historic yield	3.96	4.04	3.60
Effect on yield of charges offset against capital	0.01	0.01	0.01
<b>Other information</b>			
Closing NAV (£'000)	31,626	35,417	32,754
Closing NAV percentage of total fund NAV (%)	5.30	6.05	5.18
Number of shares	1,806,520	2,154,969	1,969,502
Highest share price (UK p)	1,754.54	1,696.15	1,684.84
Lowest share price (UK p)	1,636.32	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.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	118.72	126.54	128.79
Return before operating charges and after direct portfolio transaction costs	8.14	(0.56)	4.71
Operating charges	(0.59)	(1.27)	(1.29)
Return after operating charges	7.55	(1.83)	3.42
Distributions	(2.14)	(5.99)	(5.67)
Closing NAV	124.13	118.72	126.54
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.04	0.04	0.05
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.02)	(0.01)
Total direct portfolio transaction costs	0.03	0.02	0.04
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+6.36	-1.45	+2.66
Historic yield	4.83	4.95	4.48
Effect on yield of charges offset against capital	0.96	1.01	1.01

#### Other information

Closing NAV (£'000)	201,561	197,766	220,024
Closing NAV percentage of total fund NAV (%)	33.77	33.76	34.80
Number of shares	162,378,330	166,576,488	173,879,841
Highest share price (UK p)	125.48	128.22	130.91
Lowest share price (UK p)	118.20	112.44	119.33

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

The share class was launched on 3 August 2012.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	161.75	164.08	159.68
Return before operating charges and after direct portfolio transaction costs	11.14	(0.66)	6.05
Operating charges	(0.81)	(1.67)	(1.65)
Return after operating charges	10.33	(2.33)	4.40
Distributions	(2.36)	(6.27)	(5.53)
Retained distributions	2.36	6.27	5.53
Closing NAV	172.08	161.75	164.08
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.05	0.05	0.06
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.02)	(0.02)
Total direct portfolio transaction costs	0.04	0.03	0.04
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+6.39	-1.42	+2.76
Historic yield	3.72	3.81	3.37
Effect on yield of charges offset against capital	0.00	0.01	0.01

#### Other information

Closing NAV (£'000)	19,048	17,692	15,673
Closing NAV percentage of total fund NAV (%)	3.19	3.02	2.48
Number of shares	11,069,393	10,938,290	9,552,132
Highest share price (UK p)	172.46	166.97	166.24
Lowest share price (UK p)	161.04	148.27	151.54

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

The share class was launched on 1 October 2002.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	740.52	792.26	809.43
Return before operating charges and after direct portfolio transaction costs	50.83	(3.35)	29.68
Operating charges	(4.82)	(10.98)	(11.28)
Return after operating charges	46.01	(14.33)	18.40
Distributions	(13.30)	(37.41)	(35.57)
Closing NAV	773.23	740.52	792.26
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.22	0.24	0.29
Dilution adjustments <sup>[a]</sup>	(0.05)	(0.11)	(0.09)
Total direct portfolio transaction costs	0.17	0.13	0.20
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+6.21	-1.81	+2.27
Historic yield	4.83	4.96	4.49
Effect on yield of charges offset against capital	1.24	1.41	1.41
<b>Other information</b>			
Closing NAV (£'000)	21,073	20,739	24,973
Closing NAV percentage of total fund NAV (%)	3.53	3.53	3.95
Number of shares	2,725,353	2,800,614	3,152,075
Highest share price (UK p)	781.63	802.19	820.48
Lowest share price (UK p)	737.19	702.48	747.80

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

The share class was launched on 1 October 2002.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	7,087.69	7,216.95	7,050.45
Return before operating charges and after direct portfolio transaction costs	489.57	(28.12)	265.83
Operating charges	(46.36)	(101.14)	(99.33)
Return after operating charges	443.21	(129.26)	166.50
Distributions	(96.70)	(249.04)	(216.97)
Retained distributions	96.70	249.04	216.97
Closing NAV	7,530.90	7,087.69	7,216.95
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	2.13	2.21	2.52
Dilution adjustments <sup>[a]</sup>	(0.46)	(1.04)	(0.77)
Total direct portfolio transaction costs	1.67	1.17	1.75
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
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	+6.25	-1.79	+2.36
Historic yield	3.41	3.45	3.01
Effect on yield of charges offset against capital	0.01	0.01	0.01
<b>Other information</b>			
Closing NAV (£'000)	3,635	3,899	5,128
Closing NAV percentage of total fund NAV (%)	0.61	0.67	0.81
Number of shares	48,264	55,012	71,061
Highest share price (UK p)	7,547.77	7,319.37	7,312.74
Lowest share price (UK p)	7,056.40	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 six months to 30 November	2019 £'000	2018 £'000
Income		
Net capital gains / (losses)	24,166	(48,066)
Revenue	15,333	15,234
Expenses	(2,704)	(3,088)
Interest payable	(7)	0
Net revenue / (expense) before taxation	12,622	12,146
Taxation	0	0
Net revenue / (expense) after taxation	12,622	12,146
<b>Total return before distributions</b>	<b>36,788</b>	<b>(35,920)</b>
Distributions	(10,205)	(10,036)
<b>Change in net assets attributable to shareholders from investment activities</b>	<b>26,583</b>	<b>(45,956)</b>

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

for the six months to 30 November	2019 £'000	2018 £'000
Opening net assets attributable to shareholders	585,811	632,249
Amounts received on issue of shares	12,918	21,635
Amounts paid on cancellation of shares	(29,686)	(25,941)
	(16,768)	(4,306)
Dilution adjustments	78	104
Change in net assets attributable to shareholders from investment activities (see above)	26,583	(45,956)
Retained distributions on Accumulation shares	1,082	976
Unclaimed distributions	34	31
<b>Closing net assets attributable to shareholders</b>	<b>596,820</b>	<b>583,098</b>

The opening net assets attributable to shareholders for 2019 differs to the closing position in 2018 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

#### Balance sheet

as at	30 November 2019 £'000	31 May 2019 £'000
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	593,130	589,185
<b>Current assets</b>		
Debtors	5,265	5,005
Cash and bank balances	266	1,224
Cash equivalents	3,409	3,593
<b>Total assets</b>	<b>602,070</b>	<b>599,007</b>
<b>Liabilities</b>		
<b>Creditors</b>		
Distribution payable	(4,467)	(12,365)
Other creditors	(783)	(831)
<b>Total liabilities</b>	<b>(5,250)</b>	<b>(13,196)</b>
<b>Net assets attributable to shareholders</b>	<b>596,820</b>	<b>585,811</b>

### Notes to the financial statements

#### Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

#### 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.

In order to conduct a controlled dividend flow to shareholders, interim distributions will be at the fund manager's discretion, up to the maximum of the distributable income available for the period.

# M&G UK Income Distribution Fund

Financial statements and notes

This page is intentionally blank



# 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

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.

### 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 2 December 2019, for the six months ended 30 November 2019**

#### Performance against objective

Between 3 June 2019 (the start of the review period) and 2 December 2019, the fund delivered a positive total return (the combination of income and growth of capital) across all share classes. The fund was broadly in line with its comparator benchmark FTSE All-Share Index which returned 4.8% in sterling, and 8.5% in euros.

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. Prior to this date, the fund's aim was to invest principally in the equities of UK companies with high growth potential, with the sole objective of capital growth. Income considerations were ignored.

The fund has not achieved its new objective over five years. Fund returns lagged the FTSE All-Share Index which returned 6.3% per annum in sterling and 4.6% per annum in euros\*.

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

# M&G UK Select Fund

## Authorised Corporate Director's Report

### Investment review

#### Investment performance

The six months under review was a volatile period for UK equities (company shares). Despite that volatility the FTSE All-Share Index finished with a positive return of 4.8%. Investors continued to comprehend the contrasting forces of more benign monetary policy in the US and Europe against the negative headwinds of Brexit and the US-China trade conflict.

The UK stockmarket in particular continued to be held hostage to sentiment surrounding Brexit. The value of sterling was the most observable mechanism to judge the mood of investors. As Boris Johnson tightened his grip on the Conservative leadership race, the currency plummeted 5% against the US dollar due to increased fear of a 'no-deal' exit on 31 October. Parliament's countermove to stymie him by making that illegal began a reversal in the pound's fate. This was further strengthened when Boris Johnson managed to secure a deal with the European Union (EU) and opted for a general election to build a parliamentary position that could get that bill passed. The exchange rate rallied from \$1.20 to the pound to nearly \$1.30 as the potential Brexit cliff-edge was seemingly taken off the table. The FTSE 250 Index of medium-sized companies produced the strongest performance in this environment (11.4%), with the FTSE 100 Index of larger companies generating more modest gains (4.9%) over the period.

One of the most tangible impacts of sterling weakness in combination with relatively cheap valuations for UK equities was the emergence of amplified takeover activity by international buyers. Cobham, London Stock Exchange, Merlin, Inmarsat, Just Eat, Greene King, Entertainment One and Sophos are a few examples of those targeted or snapped up. The M&G UK Select Fund was a beneficiary of two of those attempts, both of which were major positive contributors to performance over the period.

The first of these was Sophos, a global cyber-security software provider to small and medium-sized businesses. Sophos has a dominant position due to market-leading technology and a unique direct distribution platform to reach customers. This is an under-penetrated industry witnessing attractive structural growth as more small businesses integrate cyber software to protect themselves. US private equity firm, Thoma Bravo, shared our view of the long-term potential of the company, offering a 37% premium to the listed share price at the time.

The second company subject to a takeover attempt was London Stock Exchange (LSE). In this case, however, the bid from Hong Kong Stock Exchange (HKEX) was rejected in preference for their existing purchase of Thomson Reuter's financial and data arm, Refinitiv. The deal supports LSE's vision of strengthening and geographically expanding their deep datasets upon which they build scaled trading venues where the network effect drives a virtuous circle of volume and data. However, the nature of HKEX's attempt, and those that have gone before, evidence the value within LSE and why it is such a unique asset.

The main negative contributor at the stock level was Burford Capital, an AIM-listed (Alternative Investment Market) company, providing specialised finance to the legal market. Burford was subject to an attack by US short-seller, Muddy Waters. Their report on Burford was a provocative and well-written attempt to destroy the accounting and corporate governance standards of the company. We fundamentally disagree with their analysis of Burford's fair value accounting and therefore the returns they make on their litigation investments. Where Muddy Waters were completely justified was in their criticism surrounding corporate governance. Fortunately, Burford has rapidly responded to the criticisms in building a larger independent board, the chief financial officer stepping down and looking for a main market listing. Hopefully we come out of this saga in a stronger position than we entered it. We remain convinced in the attractiveness of the business model and the quality of the management team, and used the drastic share price reaction to rebuild the position.

Another negative contributor was IQE, a Welsh-based manufacturer of innovative compound semiconductors that go into high-end technology applications. When we initiated our position we felt there was enormous potential as these technologies became more mainstream, alongside internal improvements in governance, capital allocation and operational efficiency. We remain convinced that adoption will unleash the growth potential of this business. Unfortunately, end-market weakness in smartphones, as well as the US/China trade spats has caused a fundamental shift in global supply chains and customer confidence in rolling out new technology. This has created a vacuum of compound semiconductor demand that has hurt IQE. We believe that the vacuum will pass at some point and IQE should be able to monetise their assets.

#### Investment activities

A number of new holdings were established during the six-month period. These included Watkin Jones, Close Brothers, FDM and AIA.

We have always been fans of the capital-light nature of Watkin Jones' business model and the structural growth of their end markets. The company sources, designs and develops both student and 'build-to-rent' accommodation on behalf of institutional investment clients, to whom they pre-sell the projects. Watkin Jones have an impressive track record of on-cost and on-time developments, something their clients significantly value and are willing to pay for in order to extract the rental yield once the projects are let out. The UK student population continues to grow, whilst there remains a severe shortage of quality accommodation across the country and much of the current stock is of poor standard.

Close Brothers is an innovative and well-run banking group with exposure to traditional SME (small and medium-sized enterprises) banking, private client wealth and asset management, as well as investment banking. Historically they have shown themselves as canny operators who allocate capital selectively across asset classes and points of the cycle, to grow whilst achieving high returns. Most UK banks struggle to achieve both growth and high returns, with one tending to be at the expense of the other. Close Brothers is a rare example of a bank that can deliver both. Given the weakness in UK domestic cyclicals (economically sensitive companies) and a changing management team, we felt that the share price gave us a great opportunity to access Close Brothers at a compelling valuation.

# M&G UK Select Fund

## Authorised Corporate Director's Report

### Investment review

#### Investment activities (continued)

FDM hires, trains and then places technology professionals with blue-chip clients. These trainees, known as Mounties, are often hired by the company where they are placed. This is an attractive model for FDM's clients, as it means they do not have to pay for the training themselves and instead get a qualified tech graduate who can join at running pace. FDM are the only player to manage this at scale, with breadth across the UK, US and the rest of the world. We see this as an interesting model with attractive growth dynamics as blue chips look to outsource training and hire more tech grads. There is also material regulation coming in the UK around contractor rights, and we think that could play well into the hands of FDM.

One of the key benefits of having the ability to look off-comparator benchmark is that if we are dissatisfied with the investment prospects of a specific sector in the UK, we can look further afield to fill the gap. The life insurance space is a great example of that, with low growth and low returns a common feature of the listed players due to intense regulation and unfavourable developed market demographic trends. AIA, the Hong Kong-listed life insurance provider, was an obvious solution to this problem. It is the leading player in Asia, with commanding positions in most markets. The nascence of health and life insurance policies is stark in these markets, and as gross domestic product per capita improves, many consumers seek the protection that AIA's services provide. The recent turmoil in Hong Kong has seen the shares pull back materially and provide an entry opportunity into the holding.

As part of the continued portfolio transition under the new fund manager, a number of positions were exited during the six-month period. These included Methanex, DS Smith, Essentra, Burberry, Dechra, Liontrust, Lloyds, Prudential and AG Barr.

#### Outlook

We sit here now on the other side of an election which may prove to be one of the most defining in post-war British politics. Not since the Thatcher era in the 1980s have we seen a Tory majority this large. Labour's northern 'red-wall' stands a crumbling relic of its former self due to the erosion of traditional voting patterns in the face of Brexit. The mandate handed to Boris Johnson, in tandem with our ongoing quest to carve out our future with the EU, will have seismic consequences for the future of our country and therefore the financial markets' attitude towards UK equities.

Indeed, the markets' response has been unequivocal, with the dramatic bounce of both sterling and the FTSE All-Share Index demonstrating the constrained power that can be unleashed when uncertainty unwinds. And that statement sends a powerful message as to how we expect UK equities to behave as we move into 2020. Although we have moved forwards in our Brexit journey, much uncertainty prevails, and the Tory-blue waters of post-election Britain are far from clear. If navigated successfully, then the UK's deep discount versus international markets could unwind further, yielding potentially very attractive returns from UK equities.

However, obstacles remain in the form of negotiating a trade deal by 31 December 2020, louder cries for a second Scottish independence vote on the back of the SNP's victory north of the border, and Northern Ireland's fragile position as a hybrid trading outpost between the UK and the EU. As the prime minister negotiates those obstacles he will attempt to unleash growth by turning on the fiscal spending taps, especially as he tries to cement support from the austerity weary blue-collar workers who made the jump from red to blue. If he does indeed navigate that last stretch of choppy Brexit waters, whilst promoting a more favourable growth environment, then the rewards could be rich. As ever with British politics, it will be far from a smooth ride!

How are we positioned to deal with this backdrop? 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 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. Rory Alexander succeeded Sam Ford as the fund manager on 3 May 2019.

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 Select Fund

## Authorised Corporate Director's Report

### Investments

#### Portfolio statement

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>EQUITIES</b>	<b>566,900</b>	<b>96.31</b>	<b>96.44</b>
<b>Software &amp; computer services</b>	<b>46,710</b>	<b>7.94</b>	<b>5.30</b>
799,729 FDM	7,621	1.29	
1,492,660 GB	10,046	1.71	
1,550,000 Sage	11,805	2.01	
3,041,290 Sophos	17,238	2.93	
<b>Technology hardware &amp; equipment</b>	<b>8,715</b>	<b>1.48</b>	<b>0.40</b>
18,007,042 IQE	8,715	1.48	
<b>Medical equipment &amp; services</b>	<b>28,582</b>	<b>4.85</b>	<b>3.53</b>
6,532,345 ConvaTec	12,666	2.15	
911,316 Smith & Nephew	15,916	2.70	
<b>Pharmaceuticals &amp; biotechnology</b>	<b>50,294</b>	<b>8.54</b>	<b>6.11</b>
492,400 AstraZeneca	36,856	6.26	
715,476 Hutchison China MedTech ADR	13,438	2.28	
<b>Banks</b>	<b>37,168</b>	<b>6.31</b>	<b>9.07</b>
622,850 Close Brothers	9,417	1.60	
2,713,400 HSBC	15,683	2.66	
1,721,490 Standard Chartered	12,068	2.05	
<b>Investment banking &amp; brokerage services</b>	<b>57,669</b>	<b>9.80</b>	<b>12.75</b>
2,075,196 AJ Bell	8,394	1.43	
1,428,928 Burford Capital	11,889	2.02	
2,349,329 IntegraFin	9,386	1.59	
245,461 London Stock Exchange	17,010	2.89	
7,187,458 Man	10,990	1.87	
<b>Life insurance</b>	<b>20,065</b>	<b>3.41</b>	<b>4.37</b>
700,000 AIA	5,436	0.92	
1,352,051 St. James's Place	14,629	2.49	
<b>Non-life insurance</b>	<b>5,622</b>	<b>0.96</b>	<b>2.31</b>
409,161 Hiscox	5,622	0.96	
<b>Household goods &amp; home construction</b>	<b>46,788</b>	<b>7.95</b>	<b>5.66</b>
4,075,000 Countryside Properties	16,178	2.75	
343,415 Reckitt Benckiser	20,952	3.56	
4,171,930 Watkin Jones	9,658	1.64	
<b>Personal goods</b>	<b>24,773</b>	<b>4.21</b>	<b>6.83</b>
541,243 Unilever	24,773	4.21	
<b>Media</b>	<b>28,564</b>	<b>4.85</b>	<b>4.33</b>
3,726,374 Ascential	11,992	2.03	
3,355,195 Moneysupermarket.com	11,522	1.96	
1,070,000 Next Fifteen Communications	5,050	0.86	
<b>Retailers</b>	<b>15,707</b>	<b>2.67</b>	<b>3.76</b>
632,844 WH Smith	15,707	2.67	
<b>Travel &amp; leisure</b>	<b>11,046</b>	<b>1.88</b>	<b>1.85</b>
2,499,178 On the Beach	11,046	1.88	
<b>Beverages</b>	<b>0</b>	<b>0.00</b>	<b>0.82</b>
<b>Food producers</b>	<b>14,116</b>	<b>2.40</b>	<b>3.02</b>
450,410 Cranswick	14,116	2.40	
<b>Tobacco</b>	<b>19,680</b>	<b>3.34</b>	<b>3.07</b>
640,000 British American Tobacco	19,680	3.34	
<b>Construction &amp; materials</b>	<b>14,887</b>	<b>2.53</b>	<b>0.40</b>
3,051,928 Polypipe	14,887	2.53	
<b>General industrials</b>	<b>13,128</b>	<b>2.23</b>	<b>3.39</b>
784,911 Smiths	13,128	2.23	
<b>Industrial engineering</b>	<b>20,464</b>	<b>3.48</b>	<b>4.38</b>
160,000 Kone	7,757	1.32	
3,837,889 Rotork	12,707	2.16	

#### Portfolio statement (continued)

as at Holding	30.11.19 £'000	30.11.19 %	31.05.19 %
<b>Industrial support services</b>	<b>24,417</b>	<b>4.15</b>	<b>4.65</b>
499,685 Experian	12,807	2.18	
210,411 Intertek	11,610	1.97	
<b>Industrial transportation</b>	<b>13,207</b>	<b>2.24</b>	<b>0.48</b>
489,149 Clarkson	13,207	2.24	
<b>Chemicals</b>	<b>14,205</b>	<b>2.41</b>	<b>3.03</b>
599,350 Victrex	14,205	2.41	
<b>Non-renewable energy</b>	<b>51,093</b>	<b>8.68</b>	<b>6.93</b>
5,265,034 BP	25,459	4.33	
1,156,781 Royal Dutch Shell	25,634	4.35	
<b>Unquoted / unlisted</b>	<b>0</b>	<b>0.00</b>	<b>0.00</b>
770,825 Izodia [a]	0	0.00	
<b>Portfolio of investments</b>	<b>566,900</b>	<b>96.31</b>	<b>96.44</b>
<b>CASH EQUIVALENTS</b>	<b>24,432</b>	<b>4.15</b>	<b>7.75</b>
<b>'AAA' rated money market funds [b]</b>	<b>24,432</b>	<b>4.15</b>	<b>7.75</b>
24,432,168 Northern Trust Global Fund - Sterling	24,432	4.15	
<b>Total portfolio</b>	<b>591,332</b>	<b>100.46</b>	<b>104.19</b>
<b>Net other assets / (liabilities)</b>	<b>(2,699)</b>	<b>(0.46)</b>	<b>(4.19)</b>
<b>Net assets attributable to shareholders</b>	<b>588,633</b>	<b>100.00</b>	<b>100.00</b>

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

[a] Suspended.

[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 six months to 30 November 2019

Largest purchases	£'000
Royal Dutch Shell	29,648
Hutchison China MedTech ADR	14,027
Polypipe	10,884
IQE	9,898
Clarkson	9,698
Prudential	9,446
Close Brothers	8,829
Watkin Jones	8,775
Burford Capital	6,152
Victrex	5,972
Other purchases	47,610
<b>Total purchases</b>	<b>160,939</b>
Largest sales	£'000
Lloyds Banking	19,568
Prudential	17,545
Unilever	13,533
London Stock Exchange	13,101
BP	12,371
WH Smith	10,055
Methanex	9,119
Rotork	8,300
Essentra	7,698
Hiscox	6,834
Other sales	56,264
<b>Total sales</b>	<b>174,388</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			
as at	30.11.19 £'000	31.05.19 £'000	31.05.18 £'000
Fund net asset value (NAV)	588,633	581,167	601,265

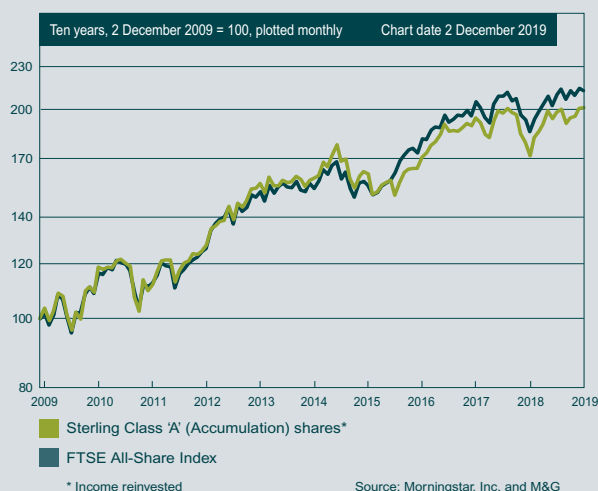
### Performance since launch

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

	Six months 03.06.19 % [a]	Three years 02.12.16 % p.a.	Five years 02.12.14 % p.a.	Since launch % p.a.
<b>Euro [b]</b>				
Class 'A'	+8.2	+7.1	+3.2	+3.4 [c]
Class 'C'	+8.7	+8.0	+4.0	+4.2 [c]
<b>Sterling [d]</b>				
Class 'A'	+4.4	+7.5	+4.7	+9.5 [e]
Class 'C'	+5.1	+9.1	+6.2	+7.3 [f]
Class 'I'	+4.7	+8.3	+5.5	+8.1 [g]
Class 'R'	+4.6	+8.1	+5.2	+7.8 [g]
Class 'X'	+4.4	+7.5	+4.7	+8.5 [h]

[a] Absolute basis.

[b] Price to price with net income reinvested.

[c] 31 August 2007, the launch date of the share class.

[d] Price to price with income reinvested.

[e] 17 December 1968, the end of the initial offer period of the predecessor unit trust.

[f] 13 March 2013, the launch date of the share class.

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

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



# M&G UK Select Fund

## Financial highlights

### Fund performance

## 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

	Six months to 30.11.19	Year to 31.05.19	Year to 31.05.18	Average <sup>[a]</sup>
Direct portfolio transaction costs <sup>[b]</sup>	%	%	%	%
Broker commission	0.05	0.04	0.03	0.04
Taxes	0.19	0.22	0.14	0.18
Costs before dilution adjustments	0.24	0.26	0.17	0.22
Dilution adjustments <sup>[c]</sup>	(0.02)	(0.04)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.22	0.22	0.16	0.20
as at	30.11.19	31.05.19	31.05.18	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.11	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.



# M&G UK Select 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 period are calculated as at 13 December 2019.

#### Euro Class 'A' Accumulation share performance

The share class was launched on 31 August 2007.

Change in NAV per share	Six months to 30.11.19 Euro ¢	Year to 31.05.19 Euro ¢	Year to 31.05.18 Euro ¢
Opening NAV	1,388.29	1,451.15	1,391.94
Return before operating charges and after direct portfolio transaction costs	122.98	(39.88)	81.80
Operating charges	(11.50)	(22.98)	(22.59)
Return after operating charges	111.48	(62.86)	59.21
Distributions	(2.82)	(21.82)	(15.71)
Retained distributions	2.82	21.82	15.71
Closing NAV	1,499.77	1,388.29	1,451.15
<b>Direct portfolio transaction costs</b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	1.67	3.57	2.34
Dilution adjustments <sup>[a]</sup>	(0.11)	(0.50)	(0.08)
Total direct portfolio transaction costs	1.56	3.07	2.26
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.22	0.22	0.16
Operating charges <sup>[c]</sup>	1.65	1.66	1.66
Return after operating charges	+8.03	-4.33	+4.25
Historic yield	1.36	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)	1,967	1,840	2,684
Closing NAV percentage of total fund NAV (%)	0.33	0.32	0.45
Number of shares	153,868	149,548	211,045
Highest share price (Euro ¢)	1,501.26	1,476.34	1,467.79
Lowest share price (Euro ¢)	1,284.85	1,196.56	1,261.60

#### Euro Class 'C' Accumulation share performance

The share class was launched on 31 August 2007.

Change in NAV per share	Six months to 30.11.19 Euro ¢	Year to 31.05.19 Euro ¢	Year to 31.05.18 Euro ¢
Opening NAV	1,514.76	1,571.50	1,496.07
Return before operating charges and after direct portfolio transaction costs	135.26	(42.31)	88.76
Operating charges	(6.54)	(14.43)	(13.33)
Return after operating charges	128.72	(56.74)	75.43
Distributions	(7.33)	(34.88)	(28.10)
Retained distributions	7.33	34.88	28.10
Closing NAV	1,643.48	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	1.88	4.08	2.52
Dilution adjustments <sup>[a]</sup>	(0.12)	(0.58)	(0.08)
Total direct portfolio transaction costs	1.76	3.50	2.44
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.22	0.22	0.16
Operating charges <sup>[c]</sup>	0.74	0.91	0.91
Return after operating charges	+8.50	-3.61	+5.04
Historic yield	2.08	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)	37	4,390	34
Closing NAV percentage of total fund NAV (%)	0.01	0.76	0.01
Number of shares	2,655	327,077	2,465
Highest share price (Euro ¢)	1,645.06	1,609.84	1,589.23
Lowest share price (Euro ¢)	1,404.09	1,301.42	1,358.51

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

The share class was launched on 19 October 1982.

Change in NAV per share	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
Opening NAV	2,873.47	3,069.31	3,015.29
Return before operating charges and after direct portfolio transaction costs	136.32	(52.70)	186.62
Operating charges	(19.59)	(48.56)	(49.42)
Return after operating charges	116.73	(101.26)	137.20
Distributions	(20.00)	(94.58)	(83.18)
Closing NAV	2,970.20	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	3.46	7.55	5.12
Dilution adjustments <sup>[a]</sup>	(0.22)	(1.06)	(0.17)
Total direct portfolio transaction costs	3.24	6.49	4.95
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.22	0.22	0.16
Operating charges <sup>[c]</sup>	1.28	1.66	1.66
Return after operating charges	+4.06	-3.30	+4.55
Historic yield	3.05	3.27	2.71
Effect on yield of charges offset against capital	1.27	1.65	1.65
<b>Other information</b>			
Closing NAV (£'000)	226,515	224,258	257,652
Closing NAV percentage of total fund NAV (%)	38.48	38.59	42.85
Number of shares	7,626,255	7,804,421	8,394,454
Highest share price (UK p)	3,016.49	3,117.16	3,172.34
Lowest share price (UK p)	2,768.52	2,583.46	2,803.64

# M&G UK Select Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 17 December 1968.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	4,652.54	4,809.42	4,598.26
Return before operating charges and after direct portfolio transaction costs	221.50	(80.52)	286.79
Operating charges	(31.74)	(76.36)	(75.63)
Return after operating charges	189.76	(156.88)	211.16
Distributions	(13.29)	(73.22)	(52.09)
Retained distributions	13.29	73.22	52.09
Closing NAV	4,842.30	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	5.60	11.87	7.84
Dilution adjustments <sup>[a]</sup>	(0.36)	(1.67)	(0.26)
Total direct portfolio transaction costs	5.24	10.20	7.58
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.22	0.22	0.16
Operating charges <sup>[c]</sup>	1.28	1.66	1.66
Return after operating charges	+4.08	-3.26	+4.59
Historic yield	1.50	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)	181,106	180,828	203,795
Closing NAV percentage of total fund NAV (%)	30.77	31.11	33.89
Number of shares	3,740,086	3,886,649	4,237,421
Highest share price (UK p)	4,884.87	4,884.05	4,872.93
Lowest share price (UK p)	4,483.31	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.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	2,994.19	3,150.12	3,048.20
Return before operating charges and after direct portfolio transaction costs	142.70	(53.07)	191.53
Operating charges	(0.84)	(4.97)	(4.88)
Return after operating charges	141.86	(58.04)	186.65
Distributions	(20.91)	(97.89)	(84.73)
Closing NAV	3,115.14	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	3.62	7.80	5.22
Dilution adjustments <sup>[a]</sup>	(0.23)	(1.10)	(0.17)
Total direct portfolio transaction costs	3.39	6.70	5.05
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.22	0.22	0.16
Operating charges <sup>[c]</sup>	0.03	0.16	0.16
Return after operating charges	+4.74	-1.84	+6.12
Historic yield	3.02	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)	14,883	14,582	17,233
Closing NAV percentage of total fund NAV (%)	2.53	2.51	2.86
Number of shares	477,769	487,022	547,039
Highest share price (UK p)	3,150.96	3,208.32	3,254.26
Lowest share price (UK p)	2,893.49	2,674.58	2,868.98

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

The share class was launched on 3 August 2012.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	1,428.16	1,513.97	1,476.12
Return before operating charges and after direct portfolio transaction costs	67.89	(25.75)	92.02
Operating charges	(5.55)	(13.21)	(13.33)
Return after operating charges	62.34	(38.96)	78.69
Distributions	(9.96)	(46.85)	(40.84)
Closing NAV	1,480.54	1,428.16	1,513.97
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	1.72	3.73	2.52
Dilution adjustments <sup>[a]</sup>	(0.11)	(0.53)	(0.08)
Total direct portfolio transaction costs	1.61	3.20	2.44
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.22	0.22	0.16
Operating charges <sup>[c]</sup>	0.74	0.91	0.91
Return after operating charges	+4.37	-2.57	+5.33
Historic yield	3.04	3.26	2.70
Effect on yield of charges offset against capital	0.73	0.90	0.90
<b>Other information</b>			
Closing NAV (£'000)	31,390	30,714	34,102
Closing NAV percentage of total fund NAV (%)	5.33	5.28	5.67
Number of shares	2,120,177	2,150,600	2,252,490
Highest share price (UK p)	1,501.09	1,539.76	1,564.38
Lowest share price (UK p)	1,378.01	1,279.86	1,380.86

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

The share class was launched on 3 August 2012.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	1,689.42	1,733.34	1,644.85
Return before operating charges and after direct portfolio transaction costs	80.57	(28.66)	103.40
Operating charges	(6.55)	(15.26)	(14.91)
Return after operating charges	74.02	(43.92)	88.49
Distributions	(7.84)	(38.96)	(30.98)
Retained distributions	7.84	38.96	30.98
Closing NAV	1,763.44	1,689.42	1,733.34
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	2.04	4.31	2.82
Dilution adjustments <sup>[a]</sup>	(0.13)	(0.61)	(0.09)
Total direct portfolio transaction costs	1.91	3.70	2.73
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.22	0.22	0.16
Operating charges <sup>[c]</sup>	0.74	0.91	0.91
Return after operating charges	+4.38	-2.53	+5.38
Historic yield	2.15	2.29	1.79
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	94,921	88,570	50,251
Closing NAV percentage of total fund NAV (%)	16.13	15.24	8.36
Number of shares	5,382,708	5,242,643	2,899,075
Highest share price (UK p)	1,775.97	1,762.73	1,755.90
Lowest share price (UK p)	1,630.34	1,477.29	1,549.92

# M&G UK Select Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 3 August 2012.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	141.82	150.72	147.33
Return before operating charges and after direct portfolio transaction costs	6.74	(2.57)	9.15
Operating charges	(0.73)	(1.67)	(1.71)
Return after operating charges	6.01	(4.24)	7.44
Distributions	(0.99)	(4.66)	(4.05)
Closing NAV	146.84	141.82	150.72
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.17	0.37	0.25
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.05)	(0.01)
Total direct portfolio transaction costs	0.16	0.32	0.24
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.22	0.22	0.16
Operating charges <sup>[c]</sup>	0.99	1.16	1.16
Return after operating charges	+4.24	-2.81	+5.05
Historic yield	3.04	3.26	2.68
Effect on yield of charges offset against capital	0.99	1.15	1.15
<b>Other information</b>			
Closing NAV (£'000)	5,630	5,206	4,911
Closing NAV percentage of total fund NAV (%)	0.96	0.90	0.82
Number of shares	3,833,986	3,670,824	3,258,198
Highest share price (UK p)	149.00	153.22	155.73
Lowest share price (UK p)	136.77	127.23	137.52

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

The share class was launched on 3 August 2012.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	166.03	170.77	162.46
Return before operating charges and after direct portfolio transaction costs	7.91	(2.84)	10.22
Operating charges	(0.85)	(1.90)	(1.91)
Return after operating charges	7.06	(4.74)	8.31
Distributions	(0.64)	(3.42)	(2.64)
Retained distributions	0.64	3.42	2.64
Closing NAV	173.09	166.03	170.77
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.20	0.42	0.28
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.06)	(0.01)
Total direct portfolio transaction costs	0.19	0.36	0.27
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.22	0.22	0.16
Operating charges <sup>[c]</sup>	0.99	1.16	1.16
Return after operating charges	+4.25	-2.78	+5.12
Historic yield	1.92	2.05	1.54
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	22,504	21,153	18,947
Closing NAV percentage of total fund NAV (%)	3.82	3.64	3.15
Number of shares	13,002,012	12,740,356	11,095,303
Highest share price (UK p)	174.46	173.58	173.00
Lowest share price (UK p)	160.14	145.33	152.77

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

The share class was launched on 1 October 2002.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	2,892.63	3,089.78	3,035.39
Return before operating charges and after direct portfolio transaction costs	137.23	(53.05)	187.97
Operating charges	(19.72)	(48.88)	(49.71)
Return after operating charges	117.51	(101.93)	138.26
Distributions	(20.13)	(95.22)	(83.87)
Closing NAV	2,990.01	2,892.63	3,089.78
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	3.48	7.59	5.15
Dilution adjustments <sup>[a]</sup>	(0.23)	(1.07)	(0.17)
Total direct portfolio transaction costs	3.25	6.52	4.98
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.22	0.22	0.16
Operating charges <sup>[c]</sup>	1.28	1.66	1.66
Return after operating charges	+4.06	-3.30	+4.55
Historic yield	3.05	3.27	2.71
Effect on yield of charges offset against capital	1.27	1.65	1.65
<b>Other information</b>			
Closing NAV (£'000)	5,832	5,836	7,018
Closing NAV percentage of total fund NAV (%)	0.99	1.00	1.17
Number of shares	195,043	201,759	227,138
Highest share price (UK p)	3,036.61	3,137.94	3,193.63
Lowest share price (UK p)	2,786.98	2,600.69	2,822.47

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

The share class was launched on 1 October 2002.

	Six months to 30.11.19 UK p	Year to 31.05.19 UK p	Year to 31.05.18 UK p
<b>Change in NAV per share</b>			
Opening NAV	4,602.61	4,757.81	4,548.91
Return before operating charges and after direct portfolio transaction costs	219.11	(79.66)	283.68
Operating charges	(31.39)	(75.54)	(74.78)
Return after operating charges	187.72	(155.20)	208.90
Distributions	(13.15)	(72.43)	(51.56)
Retained distributions	13.15	72.43	51.56
Closing NAV	4,790.33	4,602.61	4,757.81
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	5.54	11.74	7.75
Dilution adjustments <sup>[a]</sup>	(0.36)	(1.66)	(0.26)
Total direct portfolio transaction costs	5.18	10.08	7.49
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.22	0.22	0.16
Operating charges <sup>[c]</sup>	1.28	1.66	1.66
Return after operating charges	+4.08	-3.26	+4.59
Historic yield	1.50	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)	3,848	3,790	4,638
Closing NAV percentage of total fund NAV (%)	0.65	0.65	0.77
Number of shares	80,322	82,354	97,489
Highest share price (UK p)	4,832.45	4,831.64	4,820.64
Lowest share price (UK p)	4,435.20	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 six months to 30 November	2019		2018	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		19,856		(62,108)
Revenue	7,024		8,500	
Expenses	(3,423)		(4,322)	
Net revenue / (expense) before taxation	3,601		4,178	
Taxation	(28)		(42)	
Net revenue / (expense) after taxation		3,573		4,136
<b>Total return before distributions</b>		<b>23,429</b>		<b>(57,972)</b>
Distributions		(3,021)		(3,341)
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>20,408</b>		<b>(61,313)</b>

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

for the six months to 30 November	2019		2018	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		581,167		601,265
Amounts received on issue of shares	15,149		11,501	
Amounts paid on cancellation of shares	(29,199)		(29,455)	
		(14,050)		(17,954)
Dilution adjustments		68		45
Change in net assets attributable to shareholders from investment activities (see above)		20,408		(61,313)
Retained distributions on Accumulation shares		1,017		897
Unclaimed distributions		23		1
<b>Closing net assets attributable to shareholders</b>		<b>588,633</b>		<b>522,941</b>

The opening net assets attributable to shareholders for 2019 differs to the closing position in 2018 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

#### Balance sheet

as at	30 November 2019	31 May 2019
	£'000	£'000
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	566,900	560,471
<b>Current assets</b>		
Debtors	5,242	9,115
Cash and bank balances	493	597
Cash equivalents	24,432	45,048
<b>Total assets</b>	<b>597,067</b>	<b>615,231</b>
<b>Liabilities</b>		
<b>Creditors</b>		
Bank overdrafts	0	(16,273)
Distribution payable	(1,913)	(6,986)
Other creditors	(6,521)	(10,805)
<b>Total liabilities</b>	<b>(8,434)</b>	<b>(34,064)</b>
<b>Net assets attributable to shareholders</b>	<b>588,633</b>	<b>581,167</b>

### Notes to the financial statements

#### Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

#### 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, 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.

In order to conduct a controlled dividend flow to shareholders, interim distributions will be at the fund manager's discretion, up to the maximum of the distributable income available for the period.

# M&G Investment Funds (2)

## Other regulatory disclosures

### 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

**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.

**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.

**Defaulted bond:** When a bond issuer 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.



# Glossary

**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.

**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 pre-determined 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.

# Glossary

**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.

**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 you 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 non-payment 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.

# Glossary

**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.

**Suspended:** Temporarily halting the trading of a listed security on the stock exchange. It can be voluntary (requested by the issuing company) or imposed by regulators. Typically, trading suspensions are introduced ahead of important news announcements, following technical glitches, or due to regulatory concerns.

**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).

**Unlisted/unquoted stocks:** Shares of ownership in companies that are not listed on a public exchange, known as private companies.

**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.

M&G Securities Limited is authorised and regulated by the Financial Conduct Authority and provides investment products. The Company's registered office is 10 Fenchurch Avenue, London EC3M 5AG. Registered in England number 90776.





