



M&G Investment Funds (2)

Annual Long Report and audited Financial Statements
for the year ended 31 May 2018

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M&G Investment Funds (2)

Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Investment Funds (2) presents its Annual Long Report and audited Financial Statements for the year ended 31 May 2018.

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

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

Company information

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

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

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

As at 31 May 2018, 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 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

At the start of the review period Richard Hughes was the fund manager.

M&G UK Select Fund
Sam Ford

ACD

M&G Securities Limited,
Laurence Pountney Hill, London EC4R 0HH, 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

G N Cotton, N M Donnelly*, P R Jelfs, G W MacDowall, L J Mumford

* Appointed 9 June 2017.

W J Nott resigned with effect from 31 December 2017.

Investment manager

M&G Investment Management Limited,
Laurence Pountney Hill, London EC4R 0HH, 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)

* International Financial Data Services (UK) Ltd changed its name to DST Financial Services Europe Ltd on 14 August 2017.

Depositary

National Westminster Bank Plc, Trustee & Depositary Services,
Drummond House, 1 Redheughs Avenue, Edinburgh EH12 9RH, UK
(Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority)

Independent auditor

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

Important information

With effect from 13 March 2018, the investment objective and investment policy for the M&G Short Dated Corporate Bond Fund was changed, and the annual management charge (AMC) has been reduced on the following share classes, as follows:

Table of changes

| Currency | Share class | AMC before effective date | AMC after effective date |
|-------------|-------------|---------------------------|--------------------------|
| Swiss franc | Class 'A-H' | 0.90% | 0.65% |
| Swiss franc | Class 'C-H' | 0.40% | 0.25% |
| Euro | Class 'A-H' | 0.90% | 0.65% |
| Euro | Class 'C-H' | 0.40% | 0.25% |
| Sterling | Class 'A' | 0.50% | 0.35% |
| Sterling | Class 'I' | 0.40% | 0.25% |
| US dollar | Class 'A-H' | 0.90% | 0.65% |
| US dollar | Class 'C-H' | 0.40% | 0.25% |

M&G Investment Funds (2)

Authorised Corporate Director's Report

Investor information

The Prospectus, Instrument of Incorporation, Key Investor Information Documents, 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

German information agent:

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

Greek paying agent and distributor:

Eurobank Ergasias S.A.,
8, Othonos Street, 10557 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.

G W MACDOWALL
L J MUMFORD

} Directors

13 July 2018

M&G Investment Funds (2)

Depository's Responsibilities and Report

Statement of the Depository's Responsibilities and Report of the Depository to the Shareholders of M&G Investment Funds (2) ('the Company') for the period ended 31 May 2018

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

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

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

The Depository must ensure that:

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

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

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

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

Edinburgh
13 July 2018

National Westminster Bank Plc
Trustee and Depository Services

M&G Investment Funds (2)

Independent Auditor's Report

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

Opinion

We have audited the financial statements of M&G Investment Funds (2) ICVC ("the Company") for the year ended 31 May 2018 which comprise the Statement of Total Return and Statement of Change in Net Assets Attributable to Shareholders together with the Balance Sheet for each of the Company's funds, the accounting policies of the Company, the related notes for each fund and the Distribution Tables including a summary of significant policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Company comprising each of its funds as at 31 May 2018 and of the net revenue and the net capital gains / (losses) on the scheme property of the Company comprising each of its funds for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice FRS 102 'The Financial Reporting standard applicable in the UK and Republic of Ireland'.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

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

In our opinion:

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

Matters on which we are required to report by exception

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

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

Responsibilities of the Authorised Corporate Director (ACD)

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

In preparing the financial statements, the ACD is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the ACD either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

M&G Investment Funds (2)

Independent Auditor's Report

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the Company's shareholders, as a body, pursuant to Paragraph 4.5.12 of the rules of the Collective Investment Schemes sourcebook of the Financial Conduct Authority. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Edinburgh
13 July 2018

Ernst & Young LLP
Statutory Auditor

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

M&G Investment Funds (2)

Financial statements and notes

Notes to the financial statements

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

1 Statement of compliance

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

2 Summary of significant accounting policies

a) Basis of preparation

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

b) Functional and presentational currency

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

c) Exchange rates

Transactions in currencies other than each fund's functional currency are translated at the rate of exchange ruling on the date of the transaction and where applicable assets and liabilities are translated into the fund's functional currency at the rate of exchange ruling as at 12 noon on 31 May 2018 being the last business day of the accounting period.

d) Investments - recognition and valuation

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

At the end of the reporting period all investments have been measured at their fair value using the prices and the portfolio holdings determined at 12 noon on 31 May 2018, being the last valuation point of the accounting period, as this is not materially different from a valuation carried out at close of business on the balance sheet date.

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

- Equities and debt securities which are traded on an active market are included at the quoted price, which is normally the bid price, excluding any accrued interest in respect of bonds.
- Equities traded on the Alternative Investment Market (AIM), whose liquidity cannot be guaranteed, are included at their quoted bid price as this represents the most objective and appropriate method of valuation.
- Collective investment schemes operated by the ACD are included at either their cancellation price for dual priced funds or their single price for single priced funds.

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

e) Recognition of income and expenses

- Dividends, including ordinary stock dividends, from equity investments are recognised when the security is quoted ex-dividend.
- Distributions from collective investment schemes are recognised when the scheme is priced ex-distribution.
- Interest income, including coupons from debt securities and bank interest is recognised on an accruals basis.
- Underwriting commission is recognised when the issue takes place.
- Revenue from derivatives is recognised on an accruals basis.
- Fee rebates from investing in other collective investment schemes are recognised on an accruals basis.
- Expenses are recognised on an accruals basis.

f) Treatment of income and expenses

- Any increases or decreases in the fair value of investments and gains and losses realised on sales of investments are treated as capital and recognised in net capital gains / (losses).
- The value of any enhancement to a stock dividend is treated as capital.
- Ordinary equity dividends, including ordinary stock dividends are treated as revenue.
- Special dividends, share buy backs or additional share issues may be treated as revenue or capital depending on the facts of each particular case.
- Distributions from collective investment schemes are treated as revenue in nature, except for any element of equalisation, which represents the average amount of income included in the price paid for the collective investment scheme, which is treated as capital.

M&G Investment Funds (2)

Financial statements and notes

Notes to the financial statements

2 Summary of significant accounting policies (continued)

f) Treatment of income and expenses (continued)

- Debt security interest comprises the coupon interest and the difference between the purchase price and the expected maturity price spread over its expected remaining life. This is treated as revenue with the difference adjusting the cost of the shares and treated as capital.
- Other interest income, such as bank interest is treated as revenue.
- Underwriting commission is treated as revenue, except where the fund is required to take up all or some of the shares underwritten, in which case a proportion of the commission received is deducted from the cost of the shares and treated as capital.
- The treatment of the income on derivative contracts depends upon the nature of the transaction. Both motive and circumstances are used to determine whether the returns should be treated as capital or revenue. Where positions are undertaken to protect or enhance capital, and the circumstances support this, the returns are recognised in net capital gains; similarly where the motives and circumstances are to generate or protect revenue, and the circumstances support this, the returns are included within net revenue before taxation. Where positions generate total returns it will generally be appropriate to apportion such returns between capital and revenue to properly reflect the nature of the transaction.
- Expenses relating to the purchase and sale of investments are treated as capital; all other expenses are treated as revenue.
- Rebates of charges from holdings in collective investment schemes are treated as revenue or capital in accordance with the underlying scheme's distribution policy.

g) Tax

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

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

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

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

h) Allocation of returns to share classes

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

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

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

3 Risk management policies

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

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

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

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

Market risk

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

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

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

Commitment approach

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

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

M&G Investment Funds (2)

Financial statements and notes

Notes to the financial statements

3 Risk management policies (continued)

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

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

Value at Risk approach

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

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

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

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

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

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

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

Liquidity risk

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

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

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

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

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

Credit risk

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

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

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

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

M&G Investment Funds (2)

Financial statements and notes

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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.

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 1 June 2018, for the year ended 31 May 2018

Performance against objective

Between 1 June 2017 (the start of the review period) and 1 June 2018, the M&G Gilt & Fixed Interest Income Fund's Sterling Class 'A' and 'I' share classes delivered a total return (the combination of income and growth of capital) of -0.9% and -0.6%, respectively. This was behind the average return from the fund's peer group, the IA UK Gilts sector, which was 0.1% over the same period.

In this reporting period, the fund has not met its objective of providing income and capital growth, although it has 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.

Investment performance

Expected and actual rising interest rates due to firmer inflation remained key themes for investors during the 12 months to 1 June 2018. In the bond markets, actual or potential increases in inflation or interest rates typically dampen sentiment towards government bonds. Bonds are loans in the form of a security, usually issued by a government (government bonds) or company (corporate bonds), which normally pay a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

In the important US market, the Federal Reserve confirmed three interest rate increases of 0.25 percentage points each during 2017. A further increase of the same magnitude was made in March 2018 and again shortly after the end of the review period. The moves added to the gradual steps taken by the US central bank in recent years to lift rates against the backdrop of strengthening economic growth and inflation.

Improving economic growth was also evident in the eurozone, but the European Central Bank (ECB) held interest rates unchanged. However, expectations remained in financial markets that the significant economic stimulus policies operated by the ECB for some time would soon be scaled back. These measures are largely designed to keep interest rates low.

M&G Gilt & Fixed Interest Income Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

UK inflation moved higher throughout much of 2017, with the Consumer Prices Index (CPI) reaching a peak of 3.1% in November. The Bank of England (BoE) raised interest rates for the first time in 10 years. A further increase was expected in May but the central bank held rates unchanged. Inflationary pressures subsequently eased, with CPI standing at 2.4% in May 2018. This pullback was largely expected, mainly as the impact of sterling's devaluation immediately following the Brexit referendum fell out of the comparison. The decline in inflation was faster than some commentators had expected and this, together with broadly flat economic growth in the first quarter of 2018, contributed to the BoE's decision.

In this environment, the prospect of an increase in global inflation and the withdrawal of central bank stimulus measures weighed on government bond prices for much of the period. However, during February and March, as concerns over rising US interest rates and fears of a trade war led to a sell-off in global stockmarkets, government bonds benefited from their perceived safe-haven qualities. Moreover, against a backdrop of heightened political risk in Italy in May, UK gilts were perceived as relative safe havens and yields fell slightly.

Overall, UK government bonds gained modestly over the 12-month period under review, although performance was mixed. Most government bonds declined, but those with the longest time until repayment rose.

Investment activities

The fund's performance is affected by its 'duration', which refers to the ability to reduce or increase the portfolio's sensitivity to changes in bond yields. Bond yields refer to the interest received from a fixed income security, which is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. Bond yields typically move in the opposite direction to bond prices.

We are retaining a short duration position in the fund, which makes the portfolio less sensitive to the prospect of rising interest rates. In our opinion, interest rates are likely to rise further in the medium term. The longer the duration, the more sensitive a bond is to movements in interest rates.

We can invest a small portion of the fund in high grade credit. We added a Nordic Investment Bank new issue, thus adding to our exposure in supranationals and increasing diversification in the portfolio. We extended our investment term in European Investment Bank, which was due to mature in August, as we favour the issuer. We also added some new high-quality and government-backed corporate bonds to replace bonds issued by Transport for London that matured during the review period.

In other transactions, we sold our remaining holdings in Treasury Inflation-Protected Securities (TIPS), which had performed well. TIPS are US inflation-linked bonds where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. We invested the proceeds into regular UK government bonds of a similar duration.

Outlook

Progress has been made in the Brexit negotiations, although significant issues, such as Irish border control, have yet to be resolved. Also unclear is the final nature of economic relations between the UK and the European Union and the implications for the domestic economy.

The BoE has reduced its growth forecast for 2018, as weak business confidence continues to affect key sectors of the economy. We think that inflation will drift back towards its 2% target over the coming months, although going forward levels could be vulnerable to higher oil prices and energy bills.

Investors tend to favour gilts and index-linked gilts during times of economic and political uncertainty, as such assets are generally seen as low risk. Against the current backdrop of weaker economic activity and continued Brexit-related uncertainty, we believe UK government bond prices could be supported by demand for gilts.

Matthew Russell

Fund manager

An employee of M&G Limited which is an associate of M&G Securities Limited.

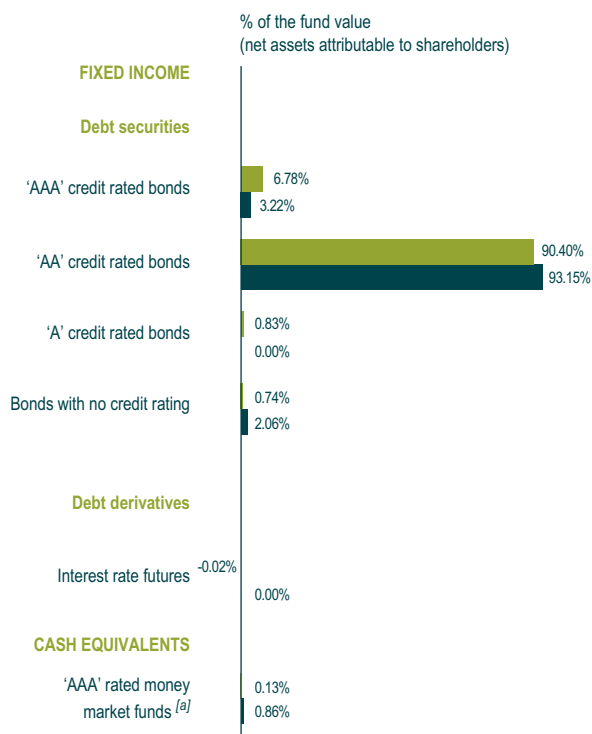
Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial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

M&G Gilt & Fixed Interest Income Fund

Authorised Corporate Director's Report

Investment review

Classification of investments



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

■ 31 May 2018
■ 31 May 2017

Source: M&G

Investments

Portfolio statement

| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|--|----------------|---------------|---------------|
| FIXED INCOME | 589,214 | 98.73 | 98.43 |
| Debt securities | 589,360 | 98.75 | 98.43 |
| 'AAA' credit rated bonds | 40,479 | 6.78 | 3.22 |
| £10,000,000 European Investment Bank 1.125% 2021 | 10,036 | 1.68 | |
| £7,000,000 European Investment Bank 2.5% 2022 | 7,384 | 1.24 | |
| £3,500,000 FMS Wertmanagement 1.125% 2023 | 3,475 | 0.58 | |
| £12,000,000 KfW 5.55% 2021 | 13,626 | 2.28 | |
| £6,000,000 Nordic Investment Bank 1.125% 2023 | 5,958 | 1.00 | |
| 'AA' credit rated bonds | 539,471 | 90.40 | 93.15 |
| £6,556,813 CTRL Section 1 Finance 5.234% 2035 | 8,268 | 1.39 | |
| £7,000,000 Finland (Republic of) 1.625% 2020 | 7,122 | 1.19 | |
| £6,000,000 Network Rail Infrastructure Finance 4.375% 2030 | 7,754 | 1.30 | |
| £6,000,000 NRW Bank 1% 2022 | 5,960 | 1.00 | |
| £5,000,000 Transport for London 3.875% 2042 | 6,282 | 1.05 | |
| £76,200,000 Treasury 1.5% 2026 | 77,969 | 13.07 | |
| £53,950,000 Treasury 1.5% 2047 | 51,286 | 8.59 | |
| £47,000,000 Treasury 1.75% 2057 | 49,440 | 8.28 | |
| £42,000,000 Treasury 2.25% 2023 | 44,786 | 7.51 | |
| £18,000,000 Treasury 2.5% 2065 | 23,946 | 4.01 | |
| £60,000,000 Treasury 3.75% 2020 | 64,237 | 10.76 | |
| £15,000,000 Treasury 4% 2022 | 16,813 | 2.82 | |
| £9,000,000 Treasury 4.25% 2046 | 14,110 | 2.37 | |
| £5,000,000 Treasury 4.5% 2034 | 7,044 | 1.18 | |
| £9,000,000 Treasury 4.5% 2042 | 13,978 | 2.34 | |
| £25,000,000 Treasury 4.75% 2020 | 26,840 | 4.50 | |
| £21,325,000 Treasury 4.75% 2030 | 29,266 | 4.90 | |
| £58,000,000 Treasury 6% 2028 | 84,370 | 14.14 | |
| 'A' credit rated bonds | 4,977 | 0.83 | 0.00 |
| £5,000,000 Deutsche Pfandbriefbank 1% 2020 | 4,977 | 0.83 | |
| Bonds with no credit rating | 4,433 | 0.74 | 2.06 |
| £4,392,000 PRS Finance 1.75% 2026 | 4,433 | 0.74 | |
| Debt derivatives | (146) | (0.02) | 0.00 |
| Interest rate futures | (146) | (0.02) | 0.00 |
| (330) UK Long Gilt Bond Sep 2018 | (146) | (0.02) | |
| Portfolio of investments | 589,214 | 98.73 | 98.43 |
| CASH EQUIVALENTS | 805 | 0.13 | 0.86 |
| 'AAA' rated money market funds ^[a] | 805 | 0.13 | 0.86 |
| 805,000 Northern Trust Global Fund - Sterling | 805 | 0.13 | |
| Total portfolio (notes 2c & 2d on page 7) | 590,019 | 98.86 | 99.29 |
| Net other assets / (liabilities) | 6,777 | 1.14 | 0.71 |
| Net assets attributable to shareholders | 596,796 | 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.

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 show the performance for two of the fund's share classes – Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

We show performance for these two share classes because:

- The performance of the Sterling Class 'A' (Accumulation) share is what most individuals investing directly with M&G have received. It has the highest ongoing charge of all the sterling share classes. Performance is shown after deduction of this charge. All UK investors in the fund therefore received this performance or better.
- The performance of the Sterling Class 'I' (Accumulation) share is the most appropriate to compare with the average performance of the fund's comparative sector. It is the share class used by the Investment Association in the calculation of the comparative sector's average performance. This share class is available for direct investment with M&G subject to minimum investment criteria, or via third parties who may charge additional fees. The performance shown takes the deduction of the ongoing charge for this share class into account but it does not take account of charges applied by any other party through which you may have invested.

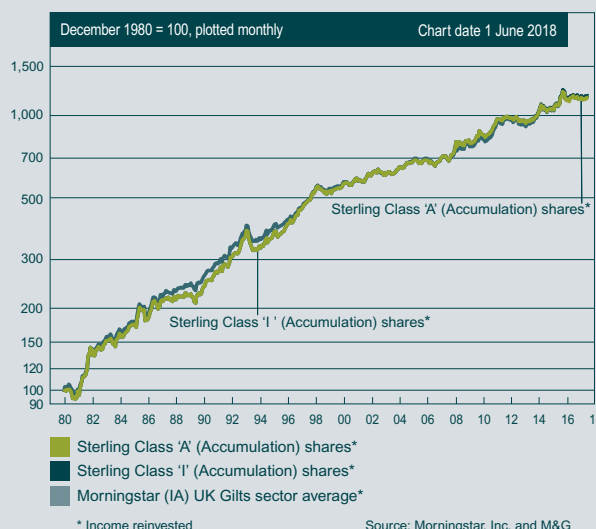
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

| Fund net asset value | | | |
|----------------------------|---------------|---------------|---------------|
| as at 31 May | 2018 £'000 | 2017 £'000 | 2016 £'000 |
| Fund net asset value (NAV) | 596,796 | 648,310 | 674,624 |

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 and Sterling Class 'I' (Accumulation) shares.



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

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

Long-term performance by share class

| | One year 01.06.17 % [a] | Three years 01.06.15 % p.a. | Five years 03.06.13 % p.a. | Since launch % p.a. |
|---------------------|----------------------------------|--------------------------------------|-------------------------------------|---------------------------|
| Sterling [b] | | | | |
| Class 'A' | -0.9 | +3.3 | +3.8 | +6.8 [c] |
| Class 'I' | -0.6 | +3.5 | +4.0 | +2.9 [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.

M&G Gilt & Fixed Interest Income 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:

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

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

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where 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.

For this fund there is no difference between operating charges and ongoing charges figures, unless disclosed under the specific share class performance table.

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 or by calling M&G Customer Relations.

Portfolio transaction costs

| as at 31 May | 2018 | 2017 | 2016 | Average ^[a] |
|--------------------------------------|------|------|------|------------------------|
| Indirect portfolio transaction costs | % | % | % | % |
| Average portfolio dealing spread | 0.08 | 0.07 | 0.08 | 0.08 |

^[a] Average of first three columns.

M&G Gilt & Fixed Interest Income Fund

Financial highlights

Specific share class performance

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

Sterling Class 'A' Income share performance

The share class was launched on 9 December 1980.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 100.31 | 94.61 | 91.64 |
| Return before operating charges and after direct portfolio transaction costs | (0.16) | 7.67 | 4.71 |
| Operating charges | (0.89) | (0.91) | (0.84) |
| Return after operating charges | (1.05) | 6.76 | 3.87 |
| Distributions | (1.19) | (1.06) | (0.90) |
| Closing NAV | 98.07 | 100.31 | 94.61 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.00 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.91 | 0.91 | 0.91 |
| Return after operating charges | -1.05 | +7.15 | +4.22 |
| Distribution yield ^[c] | 1.28 | 1.16 | 0.81 |
| Effect on yield of charges offset against capital | 0.90 | 0.90 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 69,191 | 81,898 | 91,193 |
| Closing NAV percentage of total fund NAV (%) | 11.59 | 12.63 | 13.52 |
| Number of shares | 70,551,081 | 81,642,684 | 96,391,838 |
| Highest share price (UK p) | 100.37 | 105.49 | 96.51 |
| Lowest share price (UK p) | 95.01 | 95.31 | 88.65 |

Sterling Class 'A' Accumulation share performance

The share class was launched on 9 December 1980.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 562.03 | 524.72 | 504.34 |
| Return before operating charges and after direct portfolio transaction costs | (0.83) | 42.64 | 26.00 |
| Operating charges | (5.01) | (5.04) | (4.62) |
| Return after operating charges | (5.84) | 37.60 | 21.38 |
| Distributions | (1.75) | (2.62) | (4.99) |
| Retained distributions | 1.75 | 2.33 | 3.99 |
| Closing NAV | 556.19 | 562.03 | 524.72 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.00 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.91 | 0.91 | 0.91 |
| Return after operating charges | -1.04 | +7.17 | +4.24 |
| Distribution yield | 0.40 | 0.27 | 0.81 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 332,613 | 351,649 | 335,616 |
| Closing NAV percentage of total fund NAV (%) | 55.74 | 54.24 | 49.75 |
| Number of shares | 59,802,398 | 62,567,997 | 63,961,600 |
| Highest share price (UK p) | 564.05 | 585.09 | 533.28 |
| Lowest share price (UK p) | 535.55 | 528.62 | 487.87 |

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 1,139.58 | 1,072.94 | 1,039.30 |
| Return before operating charges and after direct portfolio transaction costs | (1.76) | 87.01 | 53.45 |
| Operating charges | (7.35) | (7.45) | (6.94) |
| Return after operating charges | (9.11) | 79.56 | 46.51 |
| Distributions | (13.55) | (12.92) | (12.87) |
| Closing NAV | 1,116.92 | 1,139.58 | 1,072.94 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.00 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.66 | 0.66 | 0.66 |
| Return after operating charges | -0.80 | +7.42 | +4.48 |
| Distribution yield ^[c] | 1.28 | 1.16 | 1.06 |
| Effect on yield of charges offset against capital | 0.65 | 0.65 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 40,417 | 43,948 | 47,015 |
| Closing NAV percentage of total fund NAV (%) | 6.77 | 6.78 | 6.97 |
| Number of shares | 3,618,641 | 3,856,533 | 4,381,877 |
| Highest share price (UK p) | 1,141.00 | 1,197.04 | 1,094.97 |
| Lowest share price (UK p) | 1,081.32 | 1,080.95 | 1,005.59 |

M&G Gilt & Fixed Interest Income Fund

Financial highlights

Specific share class performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

| for the year to 31 May | 2018 | 2017 | 2016 |
|--|-------------|-------------|-------------|
| Change in NAV per share | UK p | UK p | UK p |
| Opening NAV | 1,197.44 | 1,115.43 | 1,069.97 |
| Return before operating charges and after direct portfolio transaction costs | (1.73) | 90.68 | 55.26 |
| Operating charges | (7.75) | (7.77) | (7.14) |
| Return after operating charges | (9.48) | 82.91 | 48.12 |
| Distributions | (6.67) | (8.51) | (13.30) |
| Retained distributions | 6.67 | 7.61 | 10.64 |
| Closing NAV | 1,187.96 | 1,197.44 | 1,115.43 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.00 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.66 | 0.66 | 0.66 |
| Return after operating charges | -0.79 | +7.43 | +4.50 |
| Distribution yield | 0.65 | 0.51 | 1.06 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 154,575 | 170,815 | 200,800 |
| Closing NAV percentage of total fund NAV (%) | 25.90 | 26.35 | 29.76 |
| Number of shares | 13,011,801 | 14,265,003 | 18,001,958 |
| Highest share price (UK p) | 1,202.56 | 1,244.42 | 1,132.94 |
| Lowest share price (UK p) | 1,143.07 | 1,123.71 | 1,035.27 |

^[a] In respect of direct portfolio transaction costs.

^[b] As a percentage of average net asset value.

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

M&G Gilt & Fixed Interest Income Fund

Financial statements and notes

Financial statements

| Statement of total return | | | | | |
|---|------|---------|-----------------|---------|---------------|
| for the year to 31 May | Note | 2018 | | 2017 | |
| | | £'000 | £'000 | £'000 | £'000 |
| Income | | | | | |
| Net capital gains / (losses) | 3 | | (9,122) | | 43,670 |
| Revenue | 5 | 7,460 | | 9,383 | |
| Expenses | 6 | (5,017) | | (5,565) | |
| Net revenue / (expense) before taxation | | 2,443 | | 3,818 | |
| Taxation | 7 | 0 | | (5) | |
| Net revenue / (expense) after taxation | | | 2,443 | | 3,813 |
| Total return before distributions | | | (6,679) | | 47,483 |
| Distributions | 8 | | (3,388) | | (4,520) |
| Change in net assets attributable to shareholders from investment activities | | | (10,067) | | 42,963 |

| Statement of change in net assets attributable to shareholders | | | | | |
|--|--|-----------|----------------|-----------|----------------|
| for the year to 31 May | | 2018 | | 2017 | |
| | | £'000 | £'000 | £'000 | £'000 |
| Opening net assets attributable to shareholders | | | 648,310 | | 674,624 |
| Amounts received on issue of shares | | 65,884 | | 38,857 | |
| Amounts paid on cancellation of shares | | (109,331) | | (110,877) | |
| | | | (43,447) | | (72,020) |
| Dilution adjustments | | | 46 | | 61 |
| Change in net assets attributable to shareholders from investment activities (see above) | | | (10,067) | | 42,963 |
| Retained distributions on Accumulation shares | | | 1,947 | | 2,677 |
| Unclaimed distributions | | | 7 | | 5 |
| Closing net assets attributable to shareholders | | | 596,796 | | 648,310 |

| Balance sheet | | | |
|--|------|----------------|----------------|
| as at 31 May | Note | 2018 | 2017 |
| | | £'000 | £'000 |
| Assets | | | |
| Fixed assets | | | |
| Investments | | 590,165 | 643,731 |
| Current assets | | | |
| Debtors | 9 | 6,739 | 5,077 |
| Cash and bank balances | 10 | 950 | 2,874 |
| Total assets | | 597,854 | 651,682 |
| Liabilities | | | |
| Investment liabilities | | (146) | (30) |
| Creditors | | | |
| Bank overdrafts | | (92) | 0 |
| Distribution payable | | (348) | (411) |
| Other creditors | 11 | (472) | (2,931) |
| Total liabilities | | (1,058) | (3,372) |
| Net assets attributable to shareholders | | 596,796 | 648,310 |

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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

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

3 Net capital gains / (losses)

| for the year to 31 May | 2018 | 2017 |
|-------------------------------------|----------------|---------------|
| | £'000 | £'000 |
| Non-derivative securities | (9,254) | 46,663 |
| Derivative contracts | 117 | (2,479) |
| Currency gains / (losses) | 20 | (510) |
| Transaction charges | (5) | (4) |
| Net capital gains / (losses) | (9,122) | 43,670 |

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 15.

| for the year to 31 May | 2018 | | 2017 | |
|---|-------------|-------------|-------------|-------------|
| | £'000 | | £'000 | |
| a) Purchases | | | | |
| Debt securities ^[a] | 701,505 | | 1,056,242 | |
| b) Sales | | | | |
| Debt securities ^[a] | 733,712 | | 1,120,576 | |
| c) Direct portfolio transaction costs | 2018 | % of | 2017 | % of |
| | £'000 | average NAV | £'000 | average NAV |
| Commissions paid | | | | |
| Derivatives | 1 | 0.00 | 1 | 0.00 |
| Total direct portfolio transaction costs | 1 | 0.00 | 1 | 0.00 |
| d) Indirect portfolio transaction costs | | % | | % |
| Portfolio dealing spread ^[b] | | 0.08 | | 0.07 |

^[a] These transaction types do not attract direct portfolio transaction costs.

^[b] Average portfolio dealing spread at the balance sheet date.

5 Revenue

| for the year to 31 May | 2018 | 2017 |
|-----------------------------|--------------|--------------|
| | £'000 | £'000 |
| Derivative revenue | (106) | (12) |
| Interest distributions | 16 | 17 |
| Interest on debt securities | 7,550 | 9,378 |
| Total revenue | 7,460 | 9,383 |

M&G Gilt & Fixed Interest Income Fund

Financial statements and notes

Notes to the financial statements

6 Expenses

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Payable to the ACD or associate | | |
| Annual management charge | 4,050 | 4,488 |
| Administration charge | 912 | 1,017 |
| | 4,962 | 5,505 |
| Payable to the Depositary or associate | | |
| Depositary's charge (including VAT) | 41 | 44 |
| Other expenses | | |
| Audit fee (including VAT) | 10 | 12 |
| Safe custody charge | 4 | 4 |
| | 14 | 16 |
| Total expenses | 5,017 | 5,565 |

7 Taxation

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| a) Analysis of charge in the year | | |
| Corporation tax | 0 | 0 |
| Prior year adjustment | 0 | 5 |
| Deferred tax (note 7c) | 0 | 0 |
| Total taxation | 0 | 5 |
| b) Factors affecting taxation charge for the year | | |
| Net revenue / (expense) before taxation | 2,443 | 3,818 |
| Corporation tax at 20% | 489 | 764 |
| Effects of: | | |
| Interest distributions | (489) | (764) |
| Prior year adjustment | 0 | 5 |
| Total tax charge (note 7a) | 0 | 5 |
| c) Provision for deferred taxation | | |
| Provision at the start of the year | 0 | 0 |
| Deferred tax in profit and loss account (note 7a) | 0 | 0 |
| Provision at the end of the year | 0 | 0 |

The fund has not recognised a deferred tax asset in the current financial year (2017: same).

Interest distributions have been made in respect of all distributions during the current and preceding periods. Income tax at 20% was accounted for on shareholders' behalf to HM Revenue & Customs up to 30 November 2016.

8 Distributions

| | 2018 | | 2017 | |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| for the year to 31 May | Inc ^[a] £'000 | Acc ^[b] £'000 | Inc ^[a] £'000 | Acc ^[b] £'000 |
| Interest distributions | | | | |
| First interim | 371 | 518 | 196 | 779 |
| Second interim | 349 | 459 | 286 | 573 |
| Third interim | 334 | 445 | 423 | 702 |
| Final | 348 | 525 | 411 | 623 |
| Total net distributions | | 3,349 | | 3,993 |
| Income tax deducted at source | | 0 | | 464 |
| Interest distributions | | 3,349 | | 4,457 |
| Income deducted on cancellation of shares | | 83 | | 90 |
| Income received on issue of shares | | (44) | | (27) |
| Distributions | | 3,388 | | 4,520 |
| Net revenue / (expense) per statement of total return | | 2,443 | | 3,813 |
| Expenses offset against capital | | 945 | | 707 |
| Distributions | | 3,388 | | 4,520 |

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

9 Debtors

| as at 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Amounts receivable on issues of shares | 530 | 0 |
| Debt security interest receivable | 6,208 | 5,076 |
| Distributions receivable | 1 | 1 |
| Total debtors | 6,739 | 5,077 |

10 Cash and bank balances

| as at 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Amounts held at futures clearing houses and collateral manager | 950 | 0 |
| Cash held as bank balances | 0 | 2,874 |
| Total cash and bank balances | 950 | 2,874 |

11 Other creditors

| as at 31 May | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| ACD's annual management charge payable | 108 | 107 |
| Administration charge payable | 24 | 24 |
| Amounts payable on cancellation of shares | 320 | 0 |
| Derivative expense payable | 6 | 0 |
| Expenses payable | 14 | 13 |
| Purchases awaiting settlement | 0 | 2,787 |
| Total other creditors | 472 | 2,931 |

12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2017: same).

M&G Gilt & Fixed Interest Income Fund

Financial statements and notes

Notes to the financial statements

13 Shares in issue

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

| Share class | Opening 01.06.17 | Movements | | Closing 31.05.18 |
|------------------------|---------------------|-----------|--------------|---------------------|
| | | Issued | Cancelled | |
| Sterling | | | | |
| Class 'A' Income | 81,642,684 | 2,230,365 | (13,321,968) | 70,551,081 |
| Class 'A' Accumulation | 62,567,997 | 7,728,513 | (10,494,112) | 59,802,398 |
| Class 'I' Income | 3,856,533 | 476,536 | (714,428) | 3,618,641 |
| Class 'I' Accumulation | 14,265,003 | 1,376,899 | (2,630,101) | 13,011,801 |

14 Charging structure

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

| Share class | Entry charge % | Exit charge % | Annual management charge % |
|-----------------|----------------------|---------------------|-------------------------------------|
| Sterling | | | |
| Class 'A' | nil | n/a | 0.75 |
| Class 'I' | nil | n/a | 0.50 |

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 48.21% (2017: 14.05%) of the fund's shares.

16 Events after the balance sheet date

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

17 Fair value analysis

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

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

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

Level 2: Valuation technique using observable market data

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

Level 3: Valuation technique using unobservable inputs

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

| | Assets 2018 £'000 | Liabilities 2018 £'000 | Assets 2017 £'000 | Liabilities 2017 £'000 |
|---------------------------|-------------------------|------------------------------|-------------------------|------------------------------|
| as at 31 May | | | | |
| Basis of valuation | | | | |
| Level 1 | 504,085 | (146) | 573,349 | 0 |
| Level 2 | 86,080 | 0 | 70,382 | (30) |
| Level 3 | 0 | 0 | 0 | 0 |
| | 590,165 | (146) | 643,731 | (30) |

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

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 8 and 9.

M&G Gilt & Fixed Interest Income Fund

Financial statements and notes

Notes to the financial statements

19 Market risk sensitivity and exposure

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

The VaR limit set during the financial year to 31 May 2018 was 15% (2017:15%).

The lowest, highest and average VaR, as well as utilisation of VaR with reference to the limit above, are calculated during the financial years ended 31 May 2018 and 31 May 2017.

| for the year to 31 May | 2018 % of VaR | 2018 Utilisation of VaR [a] 15% | 2017 % of VaR | 2017 Utilisation of VaR [a] 15% |
|------------------------|------------------|--|------------------|--|
| Lowest | 3.30 | 22.01 | 3.88 | 25.84 |
| Highest | 5.01 | 33.41 | 6.23 | 41.56 |
| Average | 3.93 | 26.19 | 5.20 | 34.66 |

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

20 Credit risk

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

| as at 31 May | 2018 £'000 | 2017 £'000 |
|-----------------------------|----------------|----------------|
| Investment grade securities | 584,927 | 624,796 |
| Unrated securities | 4,433 | 13,352 |
| Other investments | 659 | 5,553 |
| Total | 590,019 | 643,701 |

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

| as at 31 May 2018 | Forward currency contracts £'000 | Futures £'000 |
|-------------------------------|---|------------------|
| Bank of America Merrill Lynch | 0 | (146) |
| Total | 0 | (146) |

| as at 31 May 2017 | Forward currency contracts £'000 | Futures £'000 |
|-------------------|---|------------------|
| J.P.Morgan | (30) | 0 |
| Total | (30) | 0 |

21 Leverage risk

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

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

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 31 May 2018 and 31 May 2017 are disclosed in the table below.

| for the year to 31 May | 2018 £'000 | 2018 % | 2017 [a] £'000 | 2017 [a] % |
|------------------------|---------------|-----------|-------------------|---------------|
| Lowest | 0 | 0 | 16,383 | 3 |
| Highest | 40,742 | 7 | 60,504 | 11 |
| Average | 18,871 | 3 | 25,423 | 4 |

[a] Leverage has been calculated using the Gross Sum of Notional Approach for derivative positions only (including forward currency) and excludes all physical holdings. The prior period leverage disclosures have been restated to conform with the revisions to the current period leverage calculation.

22 Interest distribution tables

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

| Quarterly distribution periods | Start | End | Xd | Payment |
|--------------------------------|----------|----------|----------|----------|
| First interim | 01.06.17 | 31.08.17 | 01.09.17 | 31.10.17 |
| Second interim | 01.09.17 | 30.11.17 | 01.12.17 | 31.01.18 |
| Third interim | 01.12.17 | 28.02.18 | 01.03.18 | 30.04.18 |
| Final | 01.03.18 | 31.05.18 | 01.06.18 | 31.07.18 |

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

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

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

| Sterling Class 'A' Income shares | | | | |
|---|----------------|---------------------------------|-------------------------------------|--------|
| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
| | p | p | p | p |
| First interim | 0.2139 | 0.0870 | 0.3009 | 0.1216 |
| Second interim | 0.1759 | 0.1161 | 0.2920 | 0.2060 |
| Third interim | 0.1323 | 0.1546 | 0.2869 | 0.3229 |
| Final | 0.0526 | 0.2591 | 0.3117 | 0.3301 |

M&G Gilt & Fixed Interest Income Fund

Financial statements and notes

Notes to the financial statements

22 Interest distribution tables (continued)

| Sterling Class 'A' Accumulation shares | | | | |
|---|----------------|----------------------|----------------------|----------------------|
| Interest distributions for the year to 31 May | Group 2 | | Group 1 & 2 | |
| | Income 2018 | Equalisation 2018 | Distribution 2018 | Distribution 2017 |
| | p | p | p | p |
| First interim | 0.1978 | 0.2601 | 0.4579 | 0.6748 |
| Second interim | 0.1731 | 0.2332 | 0.4063 | 0.4820 |
| Third interim | 0.0748 | 0.3242 | 0.3990 | 0.6229 |
| Final | 0.3481 | 0.1390 | 0.4871 | 0.5508 |

| Sterling Class 'I' Income shares | | | | |
|---|----------------|----------------------|----------------------|----------------------|
| Interest distributions for the year to 31 May | Group 2 | | Group 1 & 2 | |
| | Income 2018 | Equalisation 2018 | Distribution 2018 | Distribution 2017 |
| | p | p | p | p |
| First interim | 1.6473 | 1.7728 | 3.4201 | 1.9428 |
| Second interim | 1.5272 | 1.7921 | 3.3193 | 2.5284 |
| Third interim | 1.3490 | 1.9165 | 3.2655 | 3.6622 |
| Final | 1.2682 | 2.2802 | 3.5484 | 3.6704 |

| Sterling Class 'I' Accumulation shares | | | | |
|---|----------------|----------------------|----------------------|----------------------|
| Interest distributions for the year to 31 May | Group 2 | | Group 1 & 2 | |
| | Income 2018 | Equalisation 2018 | Distribution 2018 | Distribution 2017 |
| | p | p | p | p |
| First interim | 0.6544 | 1.0485 | 1.7029 | 2.0196 |
| Second interim | 0.7509 | 0.8466 | 1.5975 | 1.6140 |
| Third interim | 0.6846 | 0.8889 | 1.5735 | 2.0197 |
| Final | 0.8412 | 0.9551 | 1.7963 | 1.9532 |

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 managers concentrate 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.

Risk profile

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

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

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

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

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



The above number:

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

Investment review

As at 1 June 2018, for the year ended 31 May 2018

Performance against objective

Between 1 June 2017 (the start of the review period) and 1 June 2018, the M&G Global High Yield Bond Fund delivered a mixed performance in terms of the total return (the combination of income and growth of capital) across different share classes. Whereas the US dollar and sterling share classes produced a small positive return, the euro and Swiss franc share classes posted a broadly flat or negative return.*

In this reporting period, the fund has not met its objective of providing income** and capital growth, although it has 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 'Fund performance' section of this report. This fund provides a variable level of income.

Investment performance

The 12 months under review were a mixed period for high yield bonds. A generally positive backdrop for the first six months has been followed by a more mixed environment so far in 2018. (High yield bonds are loans paying fixed interest issued by companies with a low credit rating, which are considered riskier than those issued by companies with a high credit rating. They therefore pay a higher rate of interest than their more highly rated counterparts, to compensate investors for the greater possibility that the issuer might be unable to meet its obligations, or in other words, default.)

Initially, investor sentiment was supported by a gradually improving economic backdrop and supportive actions from the world's central banks. For the first time in many years, there was evidence of a synchronised upswing in global economic growth, with much of the improvement in data coming from outside the US. The relatively steady returns produced by high yield bonds contrasted with the more mixed performance across other fixed income assets, as the prospect of rising global interest rates and an end to current stimulus measures weighed on sentiment. In this respect, high yield bonds benefited from their relatively low sensitivity to movements in interest rates.

M&G Global High Yield Bond Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

However, a period of heightened volatility in financial markets in February and March 2018 triggered a sharp rise in yields on high yield bonds, and a resultant widening in the difference between yields on high yield bonds and government bonds. (Bond yields refer 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.) As bond yields move inversely to bond prices, the rise in yields meant that prices on high yield bonds fell. The shift in market environment appeared to be prompted by rising US interest rate expectations and fears of a trade war between the US and many of its trading partners.

After a brief respite in April, high yield bonds struggled again in May. In particular, Italian political developments and volatility in emerging market assets caused European and emerging market high yield markets to underperform. Despite this more recent weakness, global high yield bonds recorded a positive return over the 12-month period.

Fund performance was varied across share classes. Whereas the US dollar and sterling share classes produced a positive return, the euro and Swiss franc share classes posted a broadly flat or a small negative return. The sterling share classes performed broadly in line with their comparative sector, the IA £ High Yield sector.

While careful selection of individual bond issues generally proved beneficial, this was offset by the fund's cautious positioning towards higher rated high yield bonds, in an environment where investors generally favoured riskier assets.

From a country allocation perspective, the fund's smaller exposure to US high yield bonds (which performed more strongly than European high yield bonds) held back returns. However, the fund's modest exposure to emerging market high yield bonds was beneficial.

In terms of sectors, the fund benefited from having only a small exposure to the UK retail sector, which is facing headwinds from the recent fall in sterling and a slowdown in consumer spending. The fund's larger exposure to healthcare also aided returns. However, the fund's cautious allocation to the energy sector meant that it was unable to fully benefit from the positive performance seen there.

Investment activities

There were no significant changes to fund positioning and we maintain our preference for defensive companies offering resilient cashflows irrespective of the economic environment, such as healthcare and cable businesses. Notable holdings in these sectors include Tenet Healthcare and Valeant Pharmaceuticals and Italian mobile operator Wind Tre.

We remain cautiously positioned in the energy and commodity sectors, maintaining only a modest exposure. Following very strong gains over the past couple of years, we think many of the bond issues in these sectors no longer provide sufficient compensation for the risks. Nevertheless, we increased our position in US shale producer Oasis Petroleum, which is now one of our bigger exploration and production holdings.

In regional allocation terms, we have continued to reduce the fund's US exposure, as we believe the recent outperformance of the US market versus its European counterpart justifies a more balanced outlook towards these two regions.

On this basis, we reduced the fund's exposure to several US dollar-denominated bonds, which we believed were starting to look expensive following strong performance, including a number of banking holdings such as Bank of America and J.P. Morgan. Elsewhere, we sold out of US drug store chain Rite-Aid, after its bonds rallied sharply on the back of the announcement that the company would merge with Albertsons.

Following these changes, amongst others, the fund's US exposure at the end of the review period was around 36%, down from 46% at the beginning of June 2017.

We also maintain a relatively modest exposure to emerging markets, where we believe valuations generally look expensive after strong performance over the past couple of years. However, following the sell-off in emerging market bonds towards the end of the review period, we bought into bonds issued by Yingde, a Chinese industrial gas company.

We continue to find attractive opportunities in the primary market and we purchased newly issued bonds from a variety of companies, including UK-based Sainsbury's bank, Helsinki-based paper and packaging business Stora Enso, Canadian aerospace company Bombardier and US chicken producer Pilgrim's Pride.

In other activity, we reduced the fund's position in Swiss telecom operator Matterhorn on concerns that merger and acquisition activity in its local market could mean it is in a weaker competitive position.

Fund duration (a measure of a bond fund's sensitivity to movements in interest rates) rose marginally over the 12 months and stood at around 3.5 years as at the end of May. With the prospect of a further rise in US interest rates and a pick-up in global inflation, we believe a cautious stance is warranted.

Outlook

In the current environment, where interest rates are low and many assets are generating a low prospective return, or yield, we think high yield bonds continue to offer an attractive source of income. We believe these assets remain fairly priced in the context of the current low default environment and against a backdrop of gradual economic expansion.

However, at this stage of the market cycle we believe a cautious approach is warranted, and we maintain our preference for companies with stable cashflows and strong balance sheets, which should be able to perform in a variety of economic conditions. With valuations in parts of the high yield market at heightened levels, we also believe that careful individual bond selection and in-depth company analysis will become increasingly important.

In our view, high yield investing is as much about avoiding the losers as about picking the winners. On this basis, we remain cautiously positioned on the retail sector. UK fashion retailers particularly have been experiencing higher input costs as a result of the depreciation in sterling, coupled with a sharp slowdown in consumer spending. The sector is also facing longer term structural headwinds, as shoppers move increasingly 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.

M&G Global High Yield Bond Fund

Authorised Corporate Director's Report

Investment review

Outlook (continued)

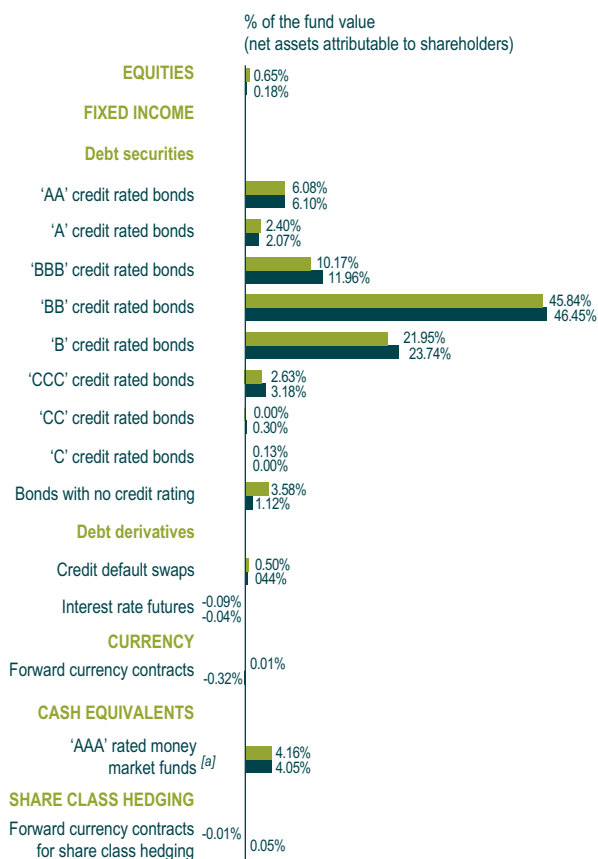
While there is less scope for a repeat of the strong gains seen in recent years, we do not believe high yield valuations are unjustified, given the benign economic environment. With company default rates expected to remain at low levels, we think investors are still being overcompensated for lending to high yield businesses.

Stefan Isaacs & James Tomlins
Co-fund managers

Employees of 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.

Classification of investments



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

■ 31 May 2018
■ 31 May 2017

Source: M&G

Investments

Portfolio statement

| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|---|------------------|--------------|--------------|
| EQUITIES | 7,607 | 0.65 | 0.18 |
| 119,586 Chaparral Energy 'A' | 1,853 | 0.16 | |
| 28,922 Chaparral Energy 'B' | 423 | 0.04 | |
| 704,212 Codere | 5,039 | 0.43 | |
| 50,673,446 New World Resources ^[a] | 0 | 0.00 | |
| 9,768 Patterson-UTI Energy | 157 | 0.01 | |
| 11,963 Sandridge Energy | 132 | 0.01 | |
| 10,357 Sandridge Energy wts. 2022 A | 2 | 0.00 | |
| 4,361 Sandridge Energy wts. 2022 B | 1 | 0.00 | |
| FIXED INCOME | 1,093,074 | 93.19 | 95.32 |
| Debt securities | 1,088,170 | 92.78 | 94.92 |
| 'AA' credit rated bonds | 71,329 | 6.08 | 6.10 |
| £51,000,000 Treasury 1.25% 2018 | 51,054 | 4.35 | |
| £20,000,000 Treasury 1.75% 2019 | 20,275 | 1.73 | |
| 'A' credit rated bonds | 28,159 | 2.40 | 2.07 |
| €5,000,000 ABN AMRO Bank Var. Rate Perp. (4.75%) | 4,247 | 0.36 | |
| €4,200,000 Banco Bilbao Vizcaya Argentaria Var. Rate Perp. (7%) | 3,780 | 0.32 | |
| €13,900,000 Banco Santander Var. Rate Perp. (6.25%) | 12,465 | 1.06 | |
| €2,475,000 HSBC Holdings Var. Rate Perp. (4.75%) | 2,206 | 0.19 | |
| \$1,980,000 HSBC Holdings Var. Rate Perp. (6%) | 1,423 | 0.12 | |
| £1,195,000 Society of Lloyds Var. Rate 2047 (4.875%) | 1,286 | 0.11 | |
| €3,000,000 Total Var. Rate Perp. (3.369%) | 2,752 | 0.24 | |
| 'BBB' credit rated bonds | 119,236 | 10.17 | 11.96 |
| €2,000,000 América Móvil Var. Rate 2073 (6.375%) | 2,035 | 0.17 | |
| €1,350,000 American International Group Var. Rate 2067 (4.875%) | 1,106 | 0.10 | |
| \$5,000,000 ArcelorMittal 8% 2039 | 4,330 | 0.37 | |
| \$2,500,000 Arconic 5.95% 2037 | 1,815 | 0.16 | |
| €1,600,000 Banco Sabadell Var. Rate Perp. (6.5%) | 1,421 | 0.12 | |
| \$10,000,000 Bank of America Var. Rate Perp. 5.875% | 7,409 | 0.63 | |
| £3,250,000 BHP Billiton Finance Var. Rate 2077 (6.5%) | 3,676 | 0.31 | |
| €2,500,000 Commerzbank 7.75% 2021 | 2,581 | 0.22 | |
| \$6,000,000 Commerzbank 8.125% 2023 | 5,150 | 0.44 | |
| \$2,500,000 CoreStates Capital III FRN 2027 | 1,770 | 0.15 | |
| \$6,963,000 Diamond 1 and 2 Finance 5.45% 2023 | 5,492 | 0.47 | |
| \$2,000,000 Fresenius Medical Care II 5.875% 2022 | 1,601 | 0.14 | |
| £3,500,000 GKN Holdings 3.375% 2032 | 3,611 | 0.31 | |
| \$10,000,000 HCA 4.5% 2027 | 7,094 | 0.61 | |
| \$5,000,000 HCA 4.75% 2023 | 3,758 | 0.32 | |
| \$2,863,000 HCA 5% 2024 | 2,158 | 0.18 | |
| \$3,190,000 HCA 5.5% 2047 | 2,217 | 0.19 | |
| \$1,536,000 HCA 6.5% 2020 | 1,203 | 0.10 | |
| \$10,000,000 JPMorgan Chase Var. Rate Perp. (7.9%) | 7,542 | 0.64 | |
| \$5,000,000 Lear 5.25% 2025 | 3,905 | 0.33 | |
| \$2,500,000 Lear 5.375% 2024 | 1,949 | 0.17 | |
| £3,000,000 Legal & General Group 5.375% 2045 | 3,285 | 0.28 | |
| \$12,000,000 MPLX LP 4.5% 2023 | 9,257 | 0.79 | |
| €7,500,000 MPT Operating Partnership 3.325% 2025 | 6,696 | 0.57 | |
| \$5,355,000 Qwest 6.875% 2033 | 3,773 | 0.32 | |

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| Portfolio statement (continued) | | | |
|--|----------------|--------------|--------------|
| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
| 'BBB' credit rated bonds (continued) | | | |
| \$10,000,000 Sabine Pass Liquefaction 5.625% 2025 | 8,005 | 0.68 | |
| \$4,750,000 S-JETS 2017-1 5.682% 2042 | 3,599 | 0.31 | |
| \$8,000,000 Syngenta Finance 5.182% 2028 | 5,870 | 0.50 | |
| €5,885,000 UniCredit Var. Rate Perp. (5.375%) | 4,679 | 0.40 | |
| \$3,000,000 ZF North American Capital 4.75% 2025 | 2,249 | 0.19 | |
| | 537,568 | 45.84 | 46.45 |
| 'BB' credit rated bonds | | | |
| €3,350,000 Adient Global Holdings 3.5% 2024 | 2,862 | 0.24 | |
| \$3,042,000 AES 6% 2026 | 2,334 | 0.20 | |
| \$3,500,000 Antero Midstream Partners 5.375% 2024 | 2,576 | 0.22 | |
| €2,540,000 Aramark International Finance 3.125% 2025 | 2,269 | 0.19 | |
| €2,700,000 Ardagh Packaging Finance 2.75% 2024 | 2,371 | 0.20 | |
| €1,294,000 Arena Luxembourg Finance 2.875% 2024 | 1,125 | 0.10 | |
| £2,175,000 Arrow Global Finance 5.125% 2024 | 2,106 | 0.18 | |
| €6,000,000 Arrow Global Finance FRN 2025 | 5,103 | 0.44 | |
| \$6,000,000 Avis Budget Car Rental 5.25% 2025 | 4,175 | 0.36 | |
| €5,426,000 Axalta Coating System 3.75% 2025 | 4,928 | 0.42 | |
| €2,695,000 Axalta Coating System 4.25% 2024 | 2,473 | 0.21 | |
| \$5,000,000 Ball Corporation 4% 2023 | 3,674 | 0.31 | |
| €3,736,000 Belden 3.375% 2027 | 3,146 | 0.27 | |
| €1,500,000 Belden 3.875% 2028 | 1,262 | 0.11 | |
| €4,722,000 Cable Communications Systems 5% 2023 | 4,348 | 0.37 | |
| €5,000,000 CaixaBank Var. Rate Perp. (5.25%) | 4,062 | 0.35 | |
| €5,000,000 CaixaBank Var. Rate. Perp. (6.75%) | 4,687 | 0.40 | |
| €8,000,000 Casino Guichard Perrachon 3.248% 2024 | 7,145 | 0.61 | |
| \$10,000,000 CCO Holdings Capital 5.125% 2027 | 6,995 | 0.60 | |
| \$11,000,000 CCO Holdings Capital 5.75% 2026 | 8,043 | 0.69 | |
| €3,692,000 Cemex 2.75% 2024 | 3,136 | 0.27 | |
| \$4,000,000 Cemex 5.7% 2025 | 2,948 | 0.25 | |
| \$7,000,000 Centene 4.75% 2025 | 5,200 | 0.44 | |
| \$2,333,000 Centene 6.125% 2024 | 1,834 | 0.16 | |
| €3,300,000 Chemours 4% 2026 | 2,858 | 0.24 | |
| \$5,000,000 Cheniere Corpus Christi 5.875% 2025 | 3,902 | 0.33 | |
| \$2,000,000 Cheniere Energy Partners 5.25% 2025 | 1,451 | 0.12 | |
| \$2,500,000 Citigroup Var. Rate Perp. (5.9%) | 1,897 | 0.16 | |
| \$10,000,000 Citigroup Var. Rate Perp. (5.95%) | 7,589 | 0.65 | |
| €1,936,000 Colfax 3.25% 2025 | 1,703 | 0.15 | |
| \$2,800,000 Crédit Agricole Var. Rate Perp. (7.875%) | 2,187 | 0.19 | |
| \$1,500,000 Credit Suisse Var. Rate Perp. (6.25%) | 1,117 | 0.10 | |
| \$1,500,000 Credit Suisse Var. Rate Perp. (7.125%) | 1,145 | 0.10 | |
| \$4,759,000 Credit Suisse Var. Rate Perp. (7.5%) | 3,743 | 0.32 | |
| €6,750,000 Crown European Holdings 3.375% 2025 | 6,002 | 0.51 | |
| \$7,447,000 CSC Holdings 5.5% 2027 | 5,300 | 0.45 | |
| €3,586,000 Darling Global Finance 3.625% 2026 | 3,149 | 0.27 | |
| £3,162,634 Delamare Finance 5.5457% 2029 | 3,553 | 0.30 | |
| \$3,500,000 Diamond 1 and 2 Finance 5.875% 2021 | 2,690 | 0.23 | |
| £1,000,000 Drax Finco 4.25% 2022 | 1,006 | 0.09 | |
| \$3,000,000 Drax Finco 6.625% 2025 | 2,267 | 0.19 | |

Portfolio statement (continued)

| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|---|---------------|-----------|-----------|
| 'BB' credit rated bonds (continued) | | | |
| €3,531,000 Dufry Finance 4.5% 2023 | 3,207 | 0.27 | |
| \$6,000,000 Energy Transfer Equity 5.875% 2024 | 4,669 | 0.40 | |
| €2,581,000 Equinix 2.875% 2024 | 2,239 | 0.19 | |
| \$8,000,000 Fiat Chrysler Automobiles 5.25% 2023 | 6,043 | 0.52 | |
| \$3,000,000 Freeport-McMoRan 3.55% 2022 | 2,159 | 0.18 | |
| \$4,000,000 Freeport-McMoRan 3.875% 2023 | 2,865 | 0.24 | |
| \$11,000,000 Freeport-McMoRan 5.4% 2034 | 7,539 | 0.64 | |
| €7,000,000 Gestamp Funding Luxembourg 3.5% 2023 | 6,287 | 0.54 | |
| \$2,500,000 Goodyear Tire & Rubber 5% 2026 | 1,767 | 0.15 | |
| €4,267,000 Greif Luxembourg Finance 7.375% 2021 | 4,420 | 0.38 | |
| €2,258,000 Grupo Antolin 3.25% 2024 | 1,960 | 0.17 | |
| €5,000,000 Grupo Antolin 3.375% 2026 | 4,156 | 0.35 | |
| \$6,649,000 Grupo Kuo SAB de 5.75% 2027 | 4,723 | 0.40 | |
| \$1,500,000 Grupo Unicomer 7.875% 2024 | 1,184 | 0.10 | |
| \$9,839,000 Hanesbrands 4.625% 2024 | 7,200 | 0.61 | |
| \$2,500,000 Hanesbrands 4.875% 2026 | 1,809 | 0.15 | |
| \$3,333,000 Hilton Worldwide Finance 4.625% 2025 | 2,417 | 0.21 | |
| €2,392,000 IHO Verwaltungen 2.75% Pik 2021 (formerly Schaeffler Verwaltung Zwei 2.75% Pik 2021) | 2,129 | 0.18 | |
| \$5,692,000 Inretail Pharma 5.375% 2023 | 4,315 | 0.37 | |
| \$10,000,000 International Game Technology 6.25% 2022 | 7,725 | 0.66 | |
| €1,600,000 Intesa Sanpaolo 3.928% 2026 | 1,437 | 0.12 | |
| €1,400,000 Intesa Sanpaolo 6.625% 2023 | 1,430 | 0.12 | |
| €5,000,000 Intesa Sanpaolo Var. Rate Perp. (6.25%) | 4,374 | 0.37 | |
| €4,504,000 Intesa Sanpaolo Var. Rate Perp. (7%) | 4,110 | 0.35 | |
| €2,111,000 Intesa Sanpaolo Var. Rate Perp. (7.75%) | 2,049 | 0.17 | |
| €4,603,000 Intrum 3.125% 2024 | 3,927 | 0.34 | |
| €3,164,000 Jaguar Land Rover 2.2% 2024 | 2,742 | 0.23 | |
| €15,000,000 KBC Groep Var. Rate Perp. (5.625%) | 13,437 | 1.15 | |
| €5,000,000 Levi Strauss & Co. 3.375% 2027 | 4,417 | 0.38 | |
| \$3,000,000 Levi Strauss & Co. 5% 2025 | 2,269 | 0.19 | |
| €2,888,000 Lloyds Banking Var. Rate Perp. (6.375%) | 2,701 | 0.23 | |
| £3,000,000 Lloyds Banking Var. Rate Perp. (7%) | 3,098 | 0.26 | |
| €1,683,000 Louvre Bidco 4.25% 2024 | 1,427 | 0.12 | |
| \$8,000,000 Nabors Industries 5.75% 2025 | 5,716 | 0.49 | |
| €2,000,000 National Westminster Bank Var. Rate Perp. (6.625%) | 1,735 | 0.15 | |
| £3,000,000 Nationwide Building Society Var. Rate Perp. (6.875%) | 3,093 | 0.26 | |
| \$7,500,000 Neptune Finco 6.625% 2025 | 5,754 | 0.49 | |
| €4,000,000 New Areva Holdings 4.875% 2024 (formerly Areva 4.875% 2024) | 3,776 | 0.32 | |
| \$1,250,000 Newfield Exploration 5.375% 2026 | 958 | 0.08 | |
| €5,651,000 Nomad Foods 3.25% 2024 | 4,979 | 0.42 | |
| \$3,000,000 Oasis Petroleum 6.25% 2026 | 2,241 | 0.19 | |
| \$6,623,000 Oasis Petroleum 6.875% 2022 | 5,048 | 0.43 | |
| €4,791,000 OI European Group 3.125% 2024 | 4,259 | 0.36 | |
| \$10,000,000 Olin 5% 2030 | 7,075 | 0.60 | |
| \$4,056,000 Owens Brockway 5% 2022 | 3,051 | 0.26 | |
| \$3,000,000 Parsley Energy 5.375% 2025 | 2,218 | 0.19 | |
| \$1,500,000 Parsley Energy 5.625% 2027 | 1,109 | 0.10 | |
| \$5,000,000 Petrobras Global Finance 5.75% 2029 | 3,371 | 0.29 | |
| £6,000,000 Petrobras Global Finance 6.625% 2034 | 6,180 | 0.53 | |
| \$12,156,000 Petrobras Global Finance 7.375% 2027 | 9,313 | 0.79 | |

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| Portfolio statement (continued) | | | | |
|---|------------|--------|--------|--|
| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % | |
| 'BB' credit rated bonds (continued) | | | | |
| \$8,000,000 Pilgrim's Pride 5.75% 2025 | 5,804 | 0.49 | | |
| €7,000,000 Progroup FRN 2024 | 6,106 | 0.52 | | |
| €14,046,000 Quintiles IMS 3.25% 2025 | 12,143 | 1.04 | | |
| €2,000,000 Quintiles IMS 3.5% 2024 | 1,777 | 0.15 | | |
| \$5,000,000 Rede D'or Finance 4.95% 2028 | 3,366 | 0.29 | | |
| €2,517,000 Rexel 3.5% 2023 | 2,277 | 0.19 | | |
| \$3,000,000 Royal Bank of Scotland 6% 2023 | 2,394 | 0.20 | | |
| \$3,530,000 Royal Bank of Scotland 6.1% 2023 | 2,803 | 0.24 | | |
| \$5,500,000 Sable International Finance 6.875% 2022 | 4,299 | 0.37 | | |
| \$10,000,000 Sally Holdings 5.625% 2025 | 7,008 | 0.60 | | |
| \$5,000,000 Sealed Air 5.125% 2024 | 3,804 | 0.33 | | |
| \$4,000,000 Service Corporation International 5.375% 2024 | 3,033 | 0.26 | | |
| \$3,703,000 Shea Homes 6.125% 2025 | 2,780 | 0.24 | | |
| €5,961,000 Silgan Holdings 3.25% 2025 | 5,311 | 0.45 | | |
| \$12,934,000 Sirius XM Radio 5% 2027 | 9,090 | 0.78 | | |
| \$4,000,000 SM Energy 5% 2024 | 2,837 | 0.24 | | |
| €2,475,000 Smurfit Kappa Acquisitions 2.375% 2024 | 2,215 | 0.19 | | |
| \$7,000,000 Société Générale Var. Rate Perp. (7.875%) | 5,471 | 0.47 | | |
| \$13,000,000 Southwestern Energy 7.75% 2027 | 10,081 | 0.86 | | |
| €2,381,000 Stora Enso 2.5% 2027 | 2,125 | 0.18 | | |
| €2,215,000 Stora Enso 2.5% 2028 | 1,959 | 0.17 | | |
| \$3,500,000 Stora Enso 7.25% 2036 | 3,161 | 0.27 | | |
| €2,700,000 TA Manufacturing 3.625% 2023 | 2,400 | 0.20 | | |
| €3,998,000 Telecom Italia 2.5% 2023 | 3,600 | 0.31 | | |
| €1,250,000 Telecom Italia 7.75% 2033 | 1,545 | 0.13 | | |
| €641,700 Telenet Finance VI 4.875% 2027 | 609 | 0.05 | | |
| \$5,000,000 Tenet Healthcare 4.375% 2021 | 3,701 | 0.32 | | |
| \$2,500,000 Tenet Healthcare 4.5% 2021 | 1,861 | 0.16 | | |
| \$2,118,000 Tenet Healthcare 4.625% 2024 | 1,525 | 0.13 | | |
| \$4,000,000 Tenet Healthcare 6% 2020 | 3,091 | 0.26 | | |
| £830,000 Tesco 6.125% 2022 | 948 | 0.08 | | |
| \$6,667,000 Teva Pharmaceutical Finance 4.1% 2046 | 3,620 | 0.31 | | |
| €1,451,000 Teva Pharmaceutical Finance 4.5% 2025 | 1,302 | 0.11 | | |
| \$1,667,000 T-Mobile USA 5.125% 2025 | 1,248 | 0.11 | | |
| \$3,000,000 T-Mobile USA 6% 2024 | 2,333 | 0.20 | | |
| \$3,000,000 T-Mobile USA 6.375% 2025 | 2,343 | 0.20 | | |
| €4,000,000 UBS Var. Rate Perp. (5.75%) | 3,816 | 0.33 | | |
| \$6,000,000 UBS Var. Rate Perp. (7%) | 4,651 | 0.40 | | |
| \$8,000,000 United Rentals North America 4.875% 2028 | 5,597 | 0.48 | | |
| €9,951,000 Unitymedia 3.5% 2027 | 9,164 | 0.78 | | |
| €7,333,000 Unitymedia 4% 2025 | 6,734 | 0.58 | | |
| \$2,046,000 Unitymedia 5% 2025 | 1,558 | 0.13 | | |
| €2,000,000 Unitymedia 6.25% 2029 | 1,972 | 0.17 | | |
| \$6,667,000 Videotron 5.375% 2024 | 5,073 | 0.43 | | |
| £4,286,000 Virgin Media Secured Finance 6.25% 2029 | 4,510 | 0.38 | | |
| \$3,918,000 Vrio Finco 1 LLC 6.25% 2023 | 2,951 | 0.25 | | |
| £6,300,000 William Hill 4.875% 2023 | 6,494 | 0.55 | | |
| €2,500,000 Wind Tre 3.125% 2025 | 1,833 | 0.16 | | |
| \$766,000 Wind Tre 5% 2026 | 456 | 0.04 | | |
| €9,720,000 Wind Tre FRN 2024 | 7,193 | 0.61 | | |
| \$10,500,000 WPX Energy 5.25% 2024 | 7,795 | 0.66 | | |
| €1,522,000 Ziggo 3.75% 2025 | 1,333 | 0.11 | | |

Portfolio statement (continued)

| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|--|------------|--------|--------|
| 'B' credit rated bonds | | | |
| | 257,491 | 21.95 | 23.74 |
| \$7,000,000 1011778 BC ULC / New Red Finance 5% 2025 | 4,962 | 0.42 | |
| €3,588,000 Adler Pelzer Holding 4.125% 2024 (formerly HP Pelzer 4.125% 2024) | 3,176 | 0.27 | |
| £3,114,000 AMC Entertainment Holdings 6.375% 2024 | 3,168 | 0.27 | |
| €10,000,000 ARD Finance 6.625% 2023 | 9,042 | 0.77 | |
| £1,196,000 Ardagh Packaging Finance 4.75% 2027 | 1,154 | 0.10 | |
| €6,880,519 Argentina (Republic of) 7.82% 2033 | 6,413 | 0.55 | |
| £3,279,000 Barclays Var. Rate Perp. (5.875%) | 3,150 | 0.27 | |
| \$3,000,000 Barclays Var. Rate Perp. (7.875%) | 2,351 | 0.20 | |
| \$5,600,000 Bombardier 5.75% 2022 | 4,196 | 0.36 | |
| €1,800,000 Bombardier 6.125% 2021 | 1,731 | 0.15 | |
| €4,195,000 Burger King France 6% 2024 | 3,919 | 0.33 | |
| £6,767,000 Cabot Financial Luxembourg 7.5% 2023 | 7,072 | 0.60 | |
| €3,000,000 Cabot Financial Luxembourg FRN 2021 | 2,666 | 0.23 | |
| \$10,000,000 Caesars Resort Collection 5.25% 2025 | 7,138 | 0.61 | |
| \$2,500,000 Calumet Specialty Products 6.5% 2021 | 1,850 | 0.16 | |
| \$3,000,000 Carrizo Oil & Gas 6.25% 2023 | 2,284 | 0.19 | |
| €4,746,000 Catalent Pharma Solutions 4.75% 2024 | 4,358 | 0.37 | |
| €1,839,000 CMA CGM 5.25% 2025 | 1,391 | 0.12 | |
| €5,000,000 CMF 9% 2022 | 3,723 | 0.32 | |
| £1,000,000 Cognita Financing 7.75% 2021 | 1,027 | 0.09 | |
| \$5,500,000 Community Health Systems 5.125% 2021 | 3,892 | 0.33 | |
| \$3,000,000 Covey Park Energy 7.5% 2025 | 2,246 | 0.19 | |
| £2,439,000 CPUK Finance 4.25% 2047 | 2,451 | 0.21 | |
| \$1,750,000 Crown Amers 4.25% 2026 | 1,187 | 0.10 | |
| \$5,000,000 DaVita 5% 2025 (formerly DaVita Healthcare 5% 2025) | 3,545 | 0.30 | |
| \$2,500,000 DaVita 5.125% 2024 (formerly DaVita Healthcare 5.125% 2024) | 1,822 | 0.16 | |
| €2,184,000 Diamond (BC) 5.625% 2025 | 1,695 | 0.14 | |
| €2,857,000 eircom Finance 4.5% 2022 | 2,553 | 0.22 | |
| €3,077,000 Gamenet Group FRN 2023 | 2,624 | 0.22 | |
| £4,000,000 Garfunkelux Holdco 8.5% 2022 | 4,043 | 0.34 | |
| €6,500,000 HEMA Bondco FRN 2022 | 5,563 | 0.47 | |
| \$3,000,000 Hertz 6.25% 2022 | 2,020 | 0.17 | |
| £7,000,000 Iceland Bondco 4.625% 2025 | 6,309 | 0.54 | |
| €2,000,000 Ineos 5.375% 2024 | 1,828 | 0.16 | |
| \$3,667,000 Kindred Healthcare 8% 2020 | 2,930 | 0.25 | |
| \$1,833,000 Kindred Healthcare 8.75% 2023 | 1,451 | 0.12 | |
| €2,500,000 LGE HoldCo VI 7.125% 2024 | 2,353 | 0.20 | |
| €4,568,000 LSF10 Wolverine Investments 5% 2024 | 4,014 | 0.34 | |
| \$8,956,000 MARB BondCo 6.875% 2025 | 6,281 | 0.54 | |
| €7,125,000 Matterhorn Telecom 3.875% 2022 | 6,308 | 0.54 | |
| €642,857 Matterhorn Telecom FRN 2023 | 563 | 0.05 | |
| \$2,679,000 Natwest Markets Var. Rate Perp. (7.5%) | 2,077 | 0.18 | |
| \$1,400,000 Natwest Markets Var. Rate Perp. (8%) | 1,134 | 0.10 | |
| \$4,203,000 Neptune Finco 10.875% 2025 | 3,654 | 0.31 | |
| €4,484,000 Netflix 3.625% 2027 | 3,892 | 0.33 | |
| €7,039,000 Nexi Capital FRN 2023 | 6,046 | 0.52 | |
| €4,425,000 Nidda Healthcare 3.5% 2024 | 3,761 | 0.32 | |
| €5,000,000 Paprec Holding FRN 2025 | 4,405 | 0.38 | |
| €5,000,000 Picard Groupe FRN 2023 | 4,315 | 0.37 | |
| £4,358,000 Premier Foods Finance 6.25% 2023 | 4,353 | 0.37 | |
| £3,253,000 Premier Foods Finance FRN 2022 | 3,273 | 0.28 | |
| \$1,000,000 Reynolds Group FRN 2021 | 757 | 0.06 | |
| €2,950,000 Royal Bank of Scotland 5.5% Perp. | 2,595 | 0.22 | |
| €2,770,000 Schmolz+Bickenbach 5.625% 2022 | 2,501 | 0.21 | |

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| Portfolio statement (continued) | | | | |
|---|---------------|-------------|-------------|--|
| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % | |
| 'B' credit rated bonds (continued) | | | | |
| €5,000,000 Scientific Games International 5.5% 2026 | 4,218 | 0.36 | | |
| €6,614,000 Selecta Group 5.875% 2024 | 5,607 | 0.48 | | |
| €6,000,000 SFR Group 5.625% 2024 (formerly Numericable Group 5.625% 2024) | 5,473 | 0.47 | | |
| \$1,984,000 SFR Group 7.375% 2026 (formerly Numericable 7.375% 2026) | 1,441 | 0.12 | | |
| \$10,855,000 Sprint Corporation 7.875% 2023 | 8,478 | 0.72 | | |
| £2,581,000 Stonegate Pub Company Financing 4.875% 2022 | 2,550 | 0.22 | | |
| €2,194,000 Tele Columbus 3.875% 2025 | 1,854 | 0.16 | | |
| \$4,000,000 Tesla 5.3% 2025 | 2,610 | 0.22 | | |
| \$4,000,000 THC Escrow Corporation II 5.125% 2025 | 2,907 | 0.25 | | |
| €5,000,000 United Group 4.875% 2024 | 4,476 | 0.38 | | |
| €3,976,000 Unitymedia 3.75% 2027 | 3,656 | 0.31 | | |
| €9,681,000 Valeant Pharmaceuticals 4.5% 2023 | 8,017 | 0.68 | | |
| \$2,625,000 Valeant Pharmaceuticals 5.625% 2021 | 1,951 | 0.17 | | |
| \$3,000,000 Valeant Pharmaceuticals 6.75% 2021 | 2,282 | 0.19 | | |
| €1,225,000 Vallourec 6.375% 2023 | 1,064 | 0.09 | | |
| €2,842,000 Vallourec 6.625% 2022 | 2,550 | 0.22 | | |
| €1,000,000 Veritas 7.5% 2023 | 876 | 0.07 | | |
| \$13,000,000 VTR Finance 6.875% 2024 | 9,879 | 0.84 | | |
| \$767,000 Windstream Services / Windstream Finance 8.625% 2025 | 536 | 0.05 | | |
| \$5,000,000 Yingde Gases Investment 6.25% 2023 | 3,551 | 0.30 | | |
| \$429,000 Zigo Bond Finance 5.875% 2025 | 303 | 0.03 | | |
| 'CCC' credit rated bonds | 30,922 | 2.63 | 3.18 | |
| \$3,000,000 Alice Financing 7.625% 2025 | 2,115 | 0.18 | | |
| \$1,267,000 Altice Financing 8.125% 2024 | 974 | 0.08 | | |
| \$1,386,000 California Resources 8% 2022 | 919 | 0.08 | | |
| \$1,724,000 Carlson Travel 9.5% 2024 | 1,171 | 0.10 | | |
| \$6,000,000 Crimson Merger 6.625% 2022 | 4,395 | 0.37 | | |
| \$3,000,000 Everest Acquisition Finance 6.375% 2023 | 1,448 | 0.12 | | |
| £2,261,000 House of Fraser Funding FRN 2020 | 1,696 | 0.14 | | |
| £3,000,000 New Look Secured Issuer 6.5% 2022 | 1,302 | 0.11 | | |
| €3,378,000 NewCo 8% 2022 | 2,988 | 0.26 | | |
| €3,800,000 Swissport Financing 9.75% 2022 | 3,546 | 0.30 | | |
| €3,252,000 Unilabs Subholding 5.75% 2025 | 2,761 | 0.24 | | |
| SEK73,330,000 Verisure Midholding FRN 2023 | 6,258 | 0.53 | | |
| \$3,117,000 Windstream Services 6.375% 2023 | 1,349 | 0.12 | | |
| 'CC' credit rated bonds | 0 | 0.00 | 0.30 | |
| 'C' credit rated bonds | 1,489 | 0.13 | 0.00 | |
| \$3,750,000 Community Health Systems 6.875% 2022 | 1,489 | 0.13 | | |

Portfolio statement (continued)

| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|---|------------------|---------------|---------------|
| Bonds with no credit rating | 41,976 | 3.58 | 1.12 |
| €1,457,000 Assicurazioni Generali Var. Rate 2047 (5.5%) | 1,389 | 0.12 | |
| £1,100,000 Assicurazioni Generali Var. Rate Perp. (6.416%) | 1,144 | 0.10 | |
| £6,000,000 Care UK Health FRN 2019 | 5,941 | 0.50 | |
| £3,000,000 Cattles 1% 2049 | 6 | 0.00 | |
| £1,225,000 Heathrow Finance 3.875% 2027 | 1,168 | 0.10 | |
| €3,847,784 Hellas Telecom III 1% 2049 ^[b] | 0 | 0.00 | |
| \$5,000,000 Jones Energy Holdings 6.75% 2022 | 2,295 | 0.20 | |
| \$636,516 K2016470219 South Africa 3% 2022 ^[a] | 4 | 0.00 | |
| ZAR8,630,204 K2016470219 South Africa 3% 2022 ^[a] | 0 | 0.00 | |
| £2,651,000 Kirs Midco 3 8.375% 2023 | 2,743 | 0.23 | |
| \$6,900,000 Liquid Telecom Finance 8.5% 2022 | 5,362 | 0.46 | |
| £5,000,000 Ocado Group 4% 2024 | 5,000 | 0.43 | |
| \$1,103,000 Puma International Financing 5% 2026 | 771 | 0.06 | |
| \$4,000,000 Puma International Financing 5.125% 2024 | 2,892 | 0.25 | |
| €7,000,000 Rabobank Var. Rate Perp. (6.625%) | 6,927 | 0.59 | |
| £2,310,000 Sainsbury's Bank Var. Rate 2027 (6%) | 2,440 | 0.21 | |
| \$5,300,000 Sandridge Energy 7.5% 2021 ^[b] | 0 | 0.00 | |
| \$1,000,000 Seventy Seven Energy 6.5% 2022 ^[b] | 0 | 0.00 | |
| £4,167,000 Viridian Group Finance 4.75% 2024 | 3,894 | 0.33 | |
| Debt derivatives | 4,904 | 0.41 | 0.40 |
| Credit default swaps | 5,916 | 0.50 | 0.44 |
| \$(5,000,000) Glencore Finance Europe Jun 2022 | 683 | 0.05 | |
| \$(3,000,000) HCA Pay 5.5% Receive VAR Jun 2047 | 234 | 0.02 | |
| \$(27,440,000) Markit CDX North American High Yield Series 26 5 Year Jun 2021 | 1,462 | 0.12 | |
| €(29,700,000) Markit CDX North American High Yield Series 28 5 Year Jun 2022 | 1,608 | 0.14 | |
| €(17,000,000) Markit CDX North American High Yield Series 29 5 Year Dec 2022 | 838 | 0.07 | |
| €(11,000,000) Markit iTraxx Europe Xover Series 26 5 Year Dec 2021 | 959 | 0.08 | |
| €(3,000,000) Selecta Group Dec 2021 | 195 | 0.02 | |
| €(5,000,000) Telecom Italia Dec 2021 | (63) | 0.00 | |
| Interest rate futures | (1,012) | (0.09) | (0.04) |
| (558) EuroBobl June 2018 | (898) | (0.08) | |
| (17) EuroBuxl June 2018 | (114) | (0.01) | |
| CURRENCY | 8 | 0.01 | (0.32) |
| Forward currency contracts | 8 | 0.01 | (0.32) |
| €10,939,620 Bought for £9,559,712 (expires 27.06.18) | 32 | 0.00 | |
| €(483,512,653) Sold for £422,141,187 (expires 27.06.18) | (1,805) | (0.15) | |
| CHF67,631 Bought for £51,348 (expires 27.06.18) | 0 | 0.00 | |
| SEK(73,583,728) Sold for £6,226,334 (expires 27.06.18) | (58) | 0.00 | |
| \$(677,154,973) Sold for £509,408,358 (expires 27.06.18) | 1,839 | 0.16 | |
| Portfolio of investments | 1,100,689 | 93.85 | 95.18 |

M&G Global High Yield Bond Fund

Authorised Corporate Director's Report

Investments

| Portfolio statement (continued) | | | |
|--|------------------|---------------|---------------|
| as at 31 May | 2018 | 2018 | 2017 |
| Holding | £'000 | % | % |
| CASH EQUIVALENTS | 48,772 | 4.16 | 4.05 |
| 'AAA' rated money market funds ^[c] | 48,772 | 4.16 | 4.05 |
| 48,772,000 Northern Trust Global Fund - Sterling | 48,772 | 4.16 | |
| SHARE CLASS HEDGING | (107) | (0.01) | 0.05 |
| Forward currency contracts for share class hedging | (107) | (0.01) | 0.05 |
| €28,132,185 Bought for £24,750,591 (expires 27.06.18) | (84) | (0.01) | |
| €(292,367) Sold for £255,468 (expires 27.06.18) | (1) | 0.00 | |
| CHF(459) Sold for £350 (expires 27.06.18) | 0 | 0.00 | |
| \$47,086,121 Bought for £35,316,527 (expires 27.06.18) | (23) | 0.00 | |
| \$(143,985) Sold for £108,533 (expires 27.06.18) | 1 | 0.00 | |
| Total portfolio (notes 2c & 2d on page 7) | 1,149,354 | 98.00 | 99.28 |
| Net other assets / (liabilities) | 23,437 | 2.00 | 0.72 |
| Net assets attributable to shareholders | 1,172,791 | 100.00 | 100.00 |

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.

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 show the performance for two of the fund's share classes – Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

We show performance for these two share classes because:

- The performance of the Sterling Class 'A' (Accumulation) share is what most individuals investing directly with M&G have received. It has the highest ongoing charge of all the sterling share classes. Performance is shown after deduction of this charge. All UK investors in the fund therefore received this performance or better.
- The performance of the Sterling Class 'I' (Accumulation) share is the most appropriate to compare with the average performance of the fund's comparative sector. It is the share class used by the Investment Association in the calculation of the comparative sector's average performance. This share class is available for direct investment with M&G subject to minimum investment criteria, or via third parties who may charge additional fees. The performance shown takes the deduction of the ongoing charge for this share class into account but it does not take account of charges applied by any other party through which you may have invested.

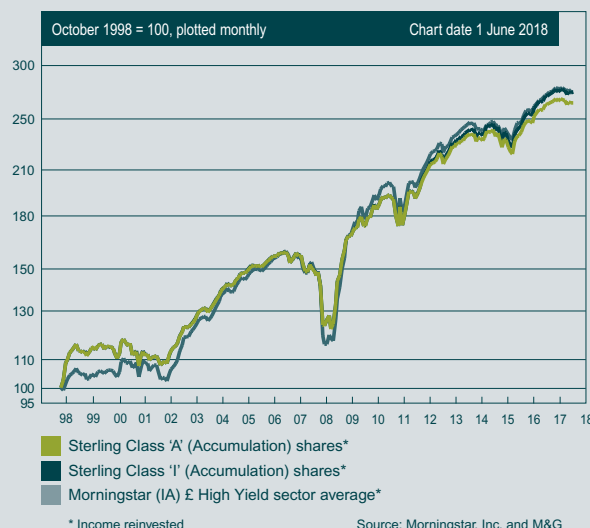
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

| Fund net asset value | | | |
|----------------------------|---------------|---------------|---------------|
| as at 31 May | 2018 £'000 | 2017 £'000 | 2016 £'000 |
| Fund net asset value (NAV) | 1,172,791 | 1,185,263 | 1,133,409 |

Performance since launch

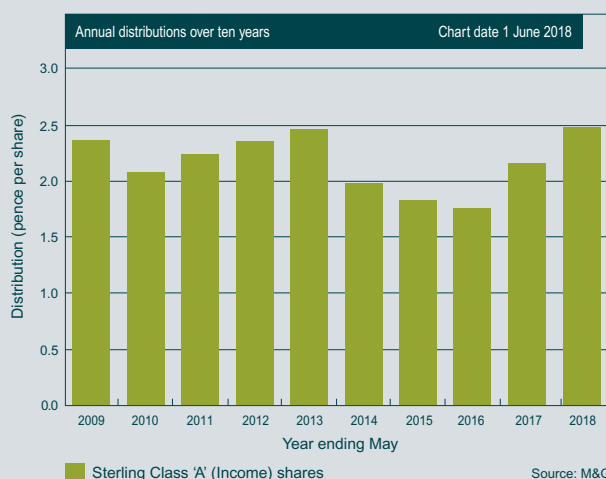
To give an indication of how the fund has performed since launch, the chart below shows total return of Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

Distribution

The charts below show the annual distribution of Sterling Class 'A' (Income) shares over the last ten years and Sterling Class 'I' (Income) shares since launch.



M&G Global High Yield Bond Fund

Financial highlights

Fund performance

Distribution (continued)



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

Long-term performance by share class

| | One year 01.06.17 % [a] | Three years 01.06.15 % p.a. | Five years 03.06.13 % p.a. | Since launch % p.a. |
|------------------------|----------------------------------|--------------------------------------|-------------------------------------|---------------------------|
| Euro [b] | | | | |
| Class 'A-H' | -0.3 | +2.6 | +3.6 | +5.0 [c] |
| Class 'B-H' | -0.9 | +2.0 | n/a | +3.4 [d] |
| Class 'C-H' | +0.2 | +3.2 | +4.3 | +5.6 [c] |
| Sterling [e] | | | | |
| Class 'A' | +0.7 | +3.1 | +3.8 | +5.8 [f] |
| Class 'I' | +1.3 | +3.6 | +4.3 | +5.6 [g] |
| Class 'R' | +0.9 | +3.3 | +4.0 | +5.3 [g] |
| Class 'X' | +0.7 | +3.1 | +3.8 | +5.0 [h] |
| Swiss franc [b] | | | | |
| Class 'A-H' | -0.7 | n/a | n/a | +4.1 [i] |
| Class 'C-H' | -0.1 | n/a | n/a | +4.7 [i] |
| US dollar [b] | | | | |
| Class 'A-H' | +2.1 | +4.0 | +4.7 | +5.8 [c] |
| Class 'C-H' | +2.7 | +5.1 | +5.6 | +6.7 [c] |

[a] Absolute basis.

[b] Price to price with gross income reinvested.

[c] 10 December 2010, the launch date of the share class.

[d] 26 July 2013, the launch date of the share class.

[e] Price to price with income reinvested.

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

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

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

[i] 25 September 2015, 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:

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Share class hedging:** Charge paid to M&G for currency hedging services to minimise exchange rate risk for the share class.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

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

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where 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.

For this fund there is no difference between operating charges and ongoing charges figures, unless disclosed under the specific share class performance table.

M&G Global High Yield Bond 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. 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 or by calling M&G Customer Relations.

| Portfolio transaction costs | | | | |
|--------------------------------------|------|------|------|------------------------|
| as at 31 May | 2018 | 2017 | 2016 | Average ^[a] |
| Indirect portfolio transaction costs | % | % | % | % |
| Average portfolio dealing spread | 0.79 | 0.65 | 0.94 | 0.79 |

^[a] 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.

Euro Class 'A-H' Income share performance

The share class was launched on 12 July 2013.

| for the year to 31 May Change in NAV per share | 2018 Euro ¢ | 2017 Euro ¢ | 2016 Euro ¢ |
|--|----------------|----------------|----------------|
| Opening NAV | 1,201.13 | 1,149.55 | 1,214.53 |
| Return before operating charges and after direct portfolio transaction costs | 11.25 | 126.88 | 2.10 |
| Operating charges | (17.02) | (16.98) | (16.40) |
| Return after operating charges | (5.77) | 109.90 | (14.30) |
| Distributions | (57.03) | (58.32) | (50.68) |
| Closing NAV | 1,138.33 | 1,201.13 | 1,149.55 |
| Direct portfolio transaction costs | Euro ¢ | Euro ¢ | Euro ¢ |
| Costs before dilution adjustments | 0.01 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.01 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 1.43 | 1.43 | 1.43 |
| Return after operating charges | -0.48 | +9.56 | -1.18 |
| Distribution yield ^[c] | 4.98 | 4.60 | 4.35 |
| Effect on yield of charges offset against capital | 1.42 | 1.42 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 5,226 | 2,597 | 1,878 |
| Closing NAV percentage of total fund NAV (%) | 0.45 | 0.22 | 0.17 |
| Number of shares | 523,902 | 247,564 | 214,088 |
| Highest share price (Euro ¢) | 1,211.34 | 1,214.59 | 1,224.16 |
| Lowest share price (Euro ¢) | 1,149.90 | 1,136.70 | 1,063.80 |

M&G Global High Yield Bond Fund

Financial highlights

Specific share class performance

Euro Class 'A-H' Accumulation share performance

The share class was launched on 10 December 2010.

| for the year to 31 May Change in NAV per share | 2018 Euro ¢ | 2017 Euro ¢ | 2016 Euro ¢ |
|--|----------------|----------------|----------------|
| Opening NAV | 1,436.33 | 1,309.19 | 1,324.79 |
| Return before operating charges and after direct portfolio transaction costs | 12.61 | 147.07 | 2.35 |
| Operating charges | (20.82) | (19.93) | (17.95) |
| Return after operating charges | (8.21) | 127.14 | (15.60) |
| Distributions | (49.11) | (54.79) | (56.08) |
| Retained distributions | 49.11 | 54.79 | 56.08 |
| Closing NAV | 1,428.12 | 1,436.33 | 1,309.19 |
| Direct portfolio transaction costs | Euro ¢ | Euro ¢ | Euro ¢ |
| Costs before dilution adjustments | 0.01 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.01 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 1.43 | 1.43 | 1.43 |
| Return after operating charges | -0.57 | +9.71 | -1.18 |
| Distribution yield | 3.55 | 3.21 | 4.35 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 5,814 | 4,681 | 2,021 |
| Closing NAV percentage of total fund NAV (%) | 0.50 | 0.39 | 0.18 |
| Number of shares | 464,564 | 373,107 | 202,355 |
| Highest share price (Euro ¢) | 1,475.04 | 1,445.60 | 1,335.26 |
| Lowest share price (Euro ¢) | 1,430.80 | 1,294.54 | 1,194.63 |

Euro Class 'B-H' Income share performance

The share class was launched on 11 September 2015.

| for the year to 31 May Change in NAV per share | 2018 Euro ¢ | 2017 Euro ¢ | 2016 Euro ¢ |
|--|----------------|----------------|----------------|
| Opening NAV | 1,019.40 | 976.74 | 1,000.00 |
| Return before operating charges and after direct portfolio transaction costs | 7.81 | 110.41 | 18.91 |
| Operating charges | (19.40) | (19.86) | (13.37) |
| Return after operating charges | (11.59) | 90.55 | 5.54 |
| Distributions | (48.22) | (47.89) | (28.80) |
| Closing NAV | 959.59 | 1,019.40 | 976.74 |
| Direct portfolio transaction costs | Euro ¢ | Euro ¢ | Euro ¢ |
| Costs before dilution adjustments | 0.00 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 1.93 | 1.93 | 1.91 |
| Return after operating charges | -1.14 | +9.27 | +0.55 |
| Distribution yield ^[c] | 4.98 | 4.60 | 3.86 |
| Effect on yield of charges offset against capital | 1.92 | 1.92 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 902 | 492 | 37 |
| Closing NAV percentage of total fund NAV (%) | 0.08 | 0.04 | 0.00 |
| Number of shares | 107,312 | 55,237 | 5,007 |
| Highest share price (Euro ¢) | 1,026.44 | 1,029.24 | 1,000.59 |
| Lowest share price (Euro ¢) | 969.36 | 965.50 | 903.83 |

Euro Class 'B-H' Accumulation share performance

The share class was launched on 26 July 2013.

| for the year to 31 May Change in NAV per share | 2018 Euro ¢ | 2017 Euro ¢ | 2016 Euro ¢ |
|--|----------------|----------------|----------------|
| Opening NAV | 1,177.11 | 1,078.17 | 1,096.11 |
| Return before operating charges and after direct portfolio transaction costs | 10.06 | 121.36 | 3.26 |
| Operating charges | (22.95) | (22.42) | (21.20) |
| Return after operating charges | (12.89) | 98.94 | (17.94) |
| Distributions | (34.22) | (39.34) | 41.46 |
| Retained distributions | 34.22 | 39.34 | (41.46) |
| Closing NAV | 1,164.22 | 1,177.11 | 1,078.17 |
| Direct portfolio transaction costs | Euro ¢ | Euro ¢ | Euro ¢ |
| Costs before dilution adjustments | 0.01 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.01 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 1.93 | 1.93 | 1.92 |
| Return after operating charges | -1.09 | +9.18 | -1.64 |
| Distribution yield | 3.05 | 2.72 | 3.85 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 1,174 | 1,308 | 220 |
| Closing NAV percentage of total fund NAV (%) | 0.10 | 0.11 | 0.02 |
| Number of shares | 115,046 | 127,242 | 26,761 |
| Highest share price (Euro ¢) | 1,204.80 | 1,184.70 | 1,104.75 |
| Lowest share price (Euro ¢) | 1,170.63 | 1,065.22 | 985.30 |

Euro Class 'C-H' Income share performance

The share class was launched on 8 August 2014.

| for the year to 31 May Change in NAV per share | 2018 Euro ¢ | 2017 Euro ¢ | 2016 Euro ¢ |
|--|----------------|----------------|----------------|
| Opening NAV | 1,292.92 | 1,232.73 | 1,302.63 |
| Return before operating charges and after direct portfolio transaction costs | 11.50 | 135.79 | 2.24 |
| Operating charges | (10.75) | (10.53) | (10.15) |
| Return after operating charges | 0.75 | 125.26 | (7.91) |
| Distributions | (61.67) | (65.07) | (61.99) |
| Closing NAV | 1,232.00 | 1,292.92 | 1,232.73 |
| Direct portfolio transaction costs | Euro ¢ | Euro ¢ | Euro ¢ |
| Costs before dilution adjustments | 0.01 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.01 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.83 | 0.83 | 0.82 |
| Return after operating charges | +0.06 | +10.16 | -0.61 |
| Distribution yield ^[c] | 4.99 | 4.61 | 4.98 |
| Effect on yield of charges offset against capital | 0.82 | 0.82 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 2,895 | 13 | 11 |
| Closing NAV percentage of total fund NAV (%) | 0.25 | 0.00 | 0.00 |
| Number of shares | 268,213 | 1,182 | 1,182 |
| Highest share price (Euro ¢) | 1,307.11 | 1,307.39 | 1,312.96 |
| Lowest share price (Euro ¢) | 1,244.51 | 1,219.46 | 1,141.01 |

M&G Global High Yield Bond Fund

Financial highlights

Specific share class performance

Euro Class 'C-H' Accumulation share performance

The share class was launched on 10 December 2010.

| for the year to 31 May Change in NAV per share | 2018 Euro ¢ | 2017 Euro ¢ | 2016 Euro ¢ |
|--|----------------|----------------|----------------|
| Opening NAV | 1,492.79 | 1,351.63 | 1,359.10 |
| Return before operating charges and after direct portfolio transaction costs | 12.35 | 153.00 | 3.62 |
| Operating charges | (12.59) | (11.84) | (11.09) |
| Return after operating charges | (0.24) | 141.16 | (7.47) |
| Distributions | (60.25) | (65.35) | 66.12 |
| Retained distributions | 60.25 | 65.35 | (66.12) |
| Closing NAV | 1,492.55 | 1,492.79 | 1,351.63 |
| Direct portfolio transaction costs | Euro ¢ | Euro ¢ | Euro ¢ |
| Costs before dilution adjustments | 0.01 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.01 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.83 | 0.83 | 0.83 |
| Return after operating charges | -0.02 | +10.44 | -0.55 |
| Distribution yield | 4.15 | 3.79 | 4.97 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 8,150 | 9,127 | 6,040 |
| Closing NAV percentage of total fund NAV (%) | 0.69 | 0.77 | 0.53 |
| Number of shares | 623,147 | 699,990 | 585,710 |
| Highest share price (Euro ¢) | 1,538.68 | 1,502.33 | 1,369.86 |
| Lowest share price (Euro ¢) | 1,487.93 | 1,336.28 | 1,231.21 |

Sterling Class 'A' Income share performance

The share class was launched on 1 October 2002.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 51.46 | 48.73 | 51.12 |
| Return before operating charges and after direct portfolio transaction costs | 0.97 | 5.96 | 0.47 |
| Operating charges | (0.72) | (0.71) | (0.69) |
| Return after operating charges | 0.25 | 5.25 | (0.22) |
| Distributions | (2.46) | (2.52) | (2.17) |
| Closing NAV | 49.25 | 51.46 | 48.73 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.00 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 1.41 | 1.41 | 1.41 |
| Return after operating charges | +0.49 | +10.77 | -0.42 |
| Distribution yield ^[c] | 4.99 | 4.68 | 4.24 |
| Effect on yield of charges offset against capital | 1.40 | 1.40 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 88,585 | 107,731 | 101,416 |
| Closing NAV percentage of total fund NAV (%) | 7.55 | 9.09 | 8.95 |
| Number of shares | 179,851,159 | 209,367,545 | 208,137,424 |
| Highest share price (UK p) | 52.06 | 52.03 | 51.53 |
| Lowest share price (UK p) | 49.75 | 48.12 | 44.91 |

Sterling Class 'A' Accumulation share performance

The share class was launched on 1 October 2002.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 129.44 | 117.38 | 118.83 |
| Return before operating charges and after direct portfolio transaction costs | 2.44 | 14.58 | 1.20 |
| Operating charges | (1.86) | (1.75) | (1.62) |
| Return after operating charges | 0.58 | 12.83 | (0.42) |
| Distributions | (4.48) | (5.00) | (5.14) |
| Retained distributions | 4.48 | 4.23 | 4.11 |
| Closing NAV | 130.02 | 129.44 | 117.38 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.00 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 1.41 | 1.41 | 1.41 |
| Return after operating charges | +0.45 | +10.93 | -0.36 |
| Distribution yield | 3.58 | 3.28 | 4.24 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 259,871 | 247,752 | 203,053 |
| Closing NAV percentage of total fund NAV (%) | 22.16 | 20.90 | 17.92 |
| Number of shares | 199,863,410 | 191,398,631 | 172,983,940 |
| Highest share price (UK p) | 133.76 | 130.28 | 119.78 |
| Lowest share price (UK p) | 129.08 | 115.91 | 106.95 |

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 1,091.29 | 1,029.25 | 1,079.91 |
| Return before operating charges and after direct portfolio transaction costs | 20.83 | 126.04 | 9.78 |
| Operating charges | (8.85) | (8.67) | (8.34) |
| Return after operating charges | 11.98 | 117.37 | 1.44 |
| Distributions | (52.35) | (55.33) | (52.10) |
| Closing NAV | 1,050.92 | 1,091.29 | 1,029.25 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.01 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.01 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.81 | 0.81 | 0.81 |
| Return after operating charges | +1.10 | +11.40 | +0.13 |
| Distribution yield ^[c] | 4.99 | 4.67 | 4.83 |
| Effect on yield of charges offset against capital | 0.80 | 0.80 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 125,311 | 126,452 | 116,951 |
| Closing NAV percentage of total fund NAV (%) | 10.68 | 10.67 | 10.32 |
| Number of shares | 11,923,918 | 11,587,355 | 11,362,754 |
| Highest share price (UK p) | 1,106.95 | 1,103.54 | 1,088.49 |
| Lowest share price (UK p) | 1,061.50 | 1,016.73 | 948.82 |

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.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 1,351.18 | 1,219.04 | 1,228.23 |
| Return before operating charges and after direct portfolio transaction costs | 25.42 | 151.83 | 12.56 |
| Operating charges | (11.21) | (10.48) | (9.68) |
| Return after operating charges | 14.21 | 141.35 | 2.88 |
| Distributions | (55.22) | (59.83) | (60.35) |
| Retained distributions | 55.22 | 50.62 | 48.28 |
| Closing NAV | 1,365.39 | 1,351.18 | 1,219.04 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|------|------|------|
| Costs before dilution adjustments | 0.01 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.01 | 0.00 | 0.00 |

| Performance and charges | % | % | % |
|---|-------|--------|-------|
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.81 | 0.81 | 0.81 |
| Return after operating charges | +1.05 | +11.60 | +0.23 |
| Distribution yield | 4.18 | 3.88 | 4.83 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |

Other information

| | | | |
|--|-----------|-----------|-----------|
| Closing NAV (£'000) | 121,298 | 102,614 | 82,839 |
| Closing NAV percentage of total fund NAV (%) | 10.34 | 8.66 | 7.31 |
| Number of shares | 8,883,780 | 7,594,372 | 6,795,435 |
| Highest share price (UK p) | 1,401.66 | 1,359.96 | 1,237.98 |
| Lowest share price (UK p) | 1,348.33 | 1,204.20 | 1,109.12 |

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 108.88 | 102.93 | 108.00 |
| Return before operating charges and after direct portfolio transaction costs | 2.09 | 12.60 | 0.98 |
| Operating charges | (1.27) | (1.24) | (1.20) |
| Return after operating charges | 0.82 | 11.36 | (0.22) |
| Distributions | (5.21) | (5.41) | (4.85) |
| Closing NAV | 104.49 | 108.88 | 102.93 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|------|------|------|
| Costs before dilution adjustments | 0.00 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 0.00 |

| Performance and charges | % | % | % |
|---|-------|--------|-------|
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 1.16 | 1.16 | 1.16 |
| Return after operating charges | +0.75 | +11.04 | -0.20 |
| Distribution yield ^[c] | 4.99 | 4.68 | 4.49 |
| Effect on yield of charges offset against capital | 1.15 | 1.15 | 0.00 |

Other information

| | | | |
|--|------------|-----------|-----------|
| Closing NAV (£'000) | 13,273 | 1,932 | 1,781 |
| Closing NAV percentage of total fund NAV (%) | 1.13 | 0.16 | 0.16 |
| Number of shares | 12,703,313 | 1,774,478 | 1,730,602 |
| Highest share price (UK p) | 110.28 | 110.10 | 108.85 |
| Lowest share price (UK p) | 105.54 | 101.66 | 94.88 |

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 133.23 | 120.56 | 121.81 |
| Return before operating charges and after direct portfolio transaction costs | 2.54 | 14.99 | 1.23 |
| Operating charges | (1.61) | (1.48) | (1.37) |
| Return after operating charges | 0.93 | 13.51 | (0.14) |
| Distributions | (4.96) | (5.46) | (5.56) |
| Retained distributions | 4.96 | 4.62 | 4.45 |
| Closing NAV | 134.16 | 133.23 | 120.56 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|------|------|------|
| Costs before dilution adjustments | 0.00 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 0.00 |

| Performance and charges | % | % | % |
|---|-------|--------|-------|
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 1.16 | 1.16 | 1.16 |
| Return after operating charges | +0.70 | +11.21 | -0.11 |
| Distribution yield | 3.83 | 3.53 | 4.50 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |

Other information

| | | | |
|--|-----------|---------|--------|
| Closing NAV (£'000) | 13,233 | 177 | 119 |
| Closing NAV percentage of total fund NAV (%) | 1.13 | 0.01 | 0.01 |
| Number of shares | 9,863,114 | 132,883 | 98,597 |
| Highest share price (UK p) | 137.89 | 134.10 | 122.81 |
| Lowest share price (UK p) | 132.90 | 119.07 | 109.78 |

Sterling Class 'X' Income share performance

The share class was launched on 16 October 1998.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 51.47 | 48.74 | 51.14 |
| Return before operating charges and after direct portfolio transaction costs | 0.98 | 5.96 | 0.46 |
| Operating charges | (0.72) | (0.71) | (0.69) |
| Return after operating charges | 0.26 | 5.25 | (0.23) |
| Distributions | (2.46) | (2.52) | (2.17) |
| Closing NAV | 49.27 | 51.47 | 48.74 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|------|------|------|
| Costs before dilution adjustments | 0.00 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 0.00 |

| Performance and charges | % | % | % |
|---|-------|--------|-------|
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 1.41 | 1.41 | 1.41 |
| Return after operating charges | +0.51 | +10.77 | -0.44 |
| Distribution yield ^[c] | 4.99 | 4.68 | 4.24 |
| Effect on yield of charges offset against capital | 1.40 | 1.40 | 0.00 |

Other information

| | | | |
|--|-------------|-------------|-------------|
| Closing NAV (£'000) | 397,647 | 475,069 | 481,413 |
| Closing NAV percentage of total fund NAV (%) | 33.90 | 40.09 | 42.47 |
| Number of shares | 807,032,081 | 922,936,923 | 987,667,099 |
| Highest share price (UK p) | 52.08 | 52.05 | 51.55 |
| Lowest share price (UK p) | 49.77 | 48.13 | 44.93 |

M&G Global High Yield Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Accumulation share performance

The share class was launched on 16 October 1998.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 129.54 | 117.46 | 118.92 |
| Return before operating charges and after direct portfolio transaction costs | 2.45 | 14.59 | 1.20 |
| Operating charges | (1.87) | (1.73) | (1.63) |
| Return after operating charges | 0.58 | 12.86 | (0.43) |
| Distributions | (4.49) | (5.02) | (5.14) |
| Retained distributions | 4.49 | 4.24 | 4.11 |
| Closing NAV | 130.12 | 129.54 | 117.46 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.00 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 1.41 | 1.41 | 1.41 |
| Return after operating charges | +0.45 | +10.95 | -0.36 |
| Distribution yield | 3.58 | 3.28 | 4.24 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 94,493 | 69,764 | 134,345 |
| Closing NAV percentage of total fund NAV (%) | 8.06 | 5.89 | 11.85 |
| Number of shares | 72,618,561 | 53,854,389 | 114,371,357 |
| Highest share price (UK p) | 133.86 | 130.38 | 119.86 |
| Lowest share price (UK p) | 129.18 | 115.99 | 107.02 |

Swiss franc Class 'A-H' Accumulation share performance

The share class was launched on 25 September 2015.

| for the year to 31 May Change in NAV per share | 2018 Swiss ¢ | 2017 Swiss ¢ | 2016 Swiss ¢ |
|--|-----------------|-----------------|-----------------|
| Opening NAV | 1,114.44 | 1,021.19 | 1,000.00 |
| Return before operating charges and after direct portfolio transaction costs | 5.68 | 108.50 | 30.78 |
| Operating charges | (16.02) | (15.25) | (9.59) |
| Return after operating charges | (10.34) | 93.25 | 21.19 |
| Distributions | (38.31) | (42.58) | (33.37) |
| Retained distributions | 38.31 | 42.58 | 33.37 |
| Closing NAV | 1,104.10 | 1,114.44 | 1,021.19 |
| Direct portfolio transaction costs | Swiss ¢ | Swiss ¢ | Swiss ¢ |
| Costs before dilution adjustments | 0.01 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.01 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 1.42 | 1.42 | 1.42 |
| Return after operating charges | -0.93 | +9.13 | +2.12 |
| Distribution yield | 3.48 | 3.21 | 4.28 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 25 | 27 | 21 |
| Closing NAV percentage of total fund NAV (%) | 0.00 | 0.00 | 0.00 |
| Number of shares | 3,000 | 3,000 | 3,000 |
| Highest share price (Swiss ¢) | 1,141.58 | 1,121.69 | 1,023.49 |
| Lowest share price (Swiss ¢) | 1,109.39 | 1,009.48 | 933.37 |

Swiss franc Class 'C-H' Accumulation share performance

The share class was launched on 25 September 2015.

| for the year to 31 May Change in NAV per share | 2018 Swiss ¢ | 2017 Swiss ¢ | 2016 Swiss ¢ |
|--|-----------------|-----------------|-----------------|
| Opening NAV | 1,126.22 | 1,024.94 | 1,000.00 |
| Return before operating charges and after direct portfolio transaction costs | 5.63 | 110.14 | 30.51 |
| Operating charges | (9.37) | (8.86) | (5.57) |
| Return after operating charges | (3.74) | 101.28 | 24.94 |
| Distributions | (45.69) | (49.37) | (37.85) |
| Retained distributions | 45.69 | 49.37 | 37.85 |
| Closing NAV | 1,122.48 | 1,126.22 | 1,024.94 |
| Direct portfolio transaction costs | Swiss ¢ | Swiss ¢ | Swiss ¢ |
| Costs before dilution adjustments | 0.01 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.01 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.82 | 0.82 | 0.82 |
| Return after operating charges | -0.33 | +9.88 | +2.49 |
| Distribution yield | 4.07 | 3.79 | 4.97 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 26 | 27 | 21 |
| Closing NAV percentage of total fund NAV (%) | 0.00 | 0.00 | 0.00 |
| Number of shares | 3,001 | 3,001 | 3,001 |
| Highest share price (Swiss ¢) | 1,158.44 | 1,133.53 | 1,027.11 |
| Lowest share price (Swiss ¢) | 1,122.11 | 1,014.51 | 935.25 |

US dollar Class 'A-H' Income share performance

The share class was launched on 8 August 2014.

| for the year to 31 May Change in NAV per share | 2018 US ¢ | 2017 US ¢ | 2016 US ¢ |
|--|--------------|--------------|--------------|
| Opening NAV | 1,315.16 | 1,238.31 | 1,299.63 |
| Return before operating charges and after direct portfolio transaction costs | 44.48 | 158.68 | 11.16 |
| Operating charges | (18.88) | (18.76) | (17.86) |
| Return after operating charges | 25.60 | 139.92 | (6.70) |
| Distributions | (63.32) | (63.07) | (54.62) |
| Closing NAV | 1,277.44 | 1,315.16 | 1,238.31 |
| Direct portfolio transaction costs | US ¢ | US ¢ | US ¢ |
| Costs before dilution adjustments | 0.01 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.01 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 1.43 | 1.43 | 1.42 |
| Return after operating charges | +1.95 | +11.30 | -0.52 |
| Distribution yield ^[c] | 4.93 | 4.62 | 4.29 |
| Effect on yield of charges offset against capital | 1.42 | 1.42 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 470 | 474 | 203 |
| Closing NAV percentage of total fund NAV (%) | 0.04 | 0.04 | 0.02 |
| Number of shares | 49,071 | 46,235 | 23,944 |
| Highest share price (US ¢) | 1,337.68 | 1,329.97 | 1,309.98 |
| Lowest share price (US ¢) | 1,289.84 | 1,226.22 | 1,141.73 |

M&G Global High Yield Bond Fund

Financial highlights

Specific share class performance

US dollar Class 'A-H' Accumulation share performance

The share class was launched on 10 December 2010.

| for the year to 31 May Change in NAV per share | 2018 US ¢ | 2017 US ¢ | 2016 US ¢ |
|--|--------------|--------------|--------------|
| Opening NAV | 1,488.21 | 1,336.10 | 1,347.24 |
| Return before operating charges and after direct portfolio transaction costs | 50.12 | 172.77 | 7.16 |
| Operating charges | (21.82) | (20.66) | (18.30) |
| Return after operating charges | 28.30 | 152.11 | (11.14) |
| Distributions | (51.61) | (55.80) | (56.19) |
| Retained distributions | 51.61 | 55.80 | 56.19 |
| Closing NAV | 1,516.51 | 1,488.21 | 1,336.10 |
| Direct portfolio transaction costs | US ¢ | US ¢ | US ¢ |
| Costs before dilution adjustments | 0.01 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.01 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 1.43 | 1.43 | 1.48 |
| Return after operating charges | +1.90 | +11.38 | -0.83 |
| Distribution yield | 3.52 | 3.22 | 4.20 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 1,723 | 1,974 | 850 |
| Closing NAV percentage of total fund NAV (%) | 0.15 | 0.17 | 0.08 |
| Number of shares | 151,383 | 170,305 | 93,002 |
| Highest share price (US ¢) | 1,551.23 | 1,497.88 | 1,357.93 |
| Lowest share price (US ¢) | 1,486.14 | 1,321.57 | 1,214.46 |

US dollar Class 'C-H' Income share performance

The share class was launched on 8 August 2014.

| for the year to 31 May Change in NAV per share | 2018 US ¢ | 2017 US ¢ | 2016 US ¢ |
|--|--------------|--------------|--------------|
| Opening NAV | 1,349.19 | 1,265.98 | 1,328.97 |
| Return before operating charges and after direct portfolio transaction costs | 45.31 | 161.49 | 11.15 |
| Operating charges | (11.27) | (11.00) | (10.59) |
| Return after operating charges | 34.04 | 150.49 | 0.56 |
| Distributions | (65.14) | (67.28) | (63.55) |
| Closing NAV | 1,318.09 | 1,349.19 | 1,265.98 |
| Direct portfolio transaction costs | US ¢ | US ¢ | US ¢ |
| Costs before dilution adjustments | 0.01 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.01 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.83 | 0.83 | 0.82 |
| Return after operating charges | +2.52 | +11.89 | +0.04 |
| Distribution yield ^[c] | 4.93 | 4.61 | 4.90 |
| Effect on yield of charges offset against capital | 0.82 | 0.82 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 115 | 122 | 39 |
| Closing NAV percentage of total fund NAV (%) | 0.01 | 0.01 | 0.00 |
| Number of shares | 11,599 | 11,599 | 4,499 |
| Highest share price (US ¢) | 1,375.65 | 1,364.36 | 1,339.58 |
| Lowest share price (US ¢) | 1,329.89 | 1,254.19 | 1,167.49 |

US dollar Class 'C-H' Accumulation share performance

The share class was launched on 10 December 2010.

| for the year to 31 May Change in NAV per share | 2018 US ¢ | 2017 US ¢ | 2016 US ¢ |
|--|--------------|--------------|--------------|
| Opening NAV | 1,568.21 | 1,388.09 | 1,385.88 |
| Return before operating charges and after direct portfolio transaction costs | 51.78 | 193.16 | 13.46 |
| Operating charges | (13.39) | (13.04) | (11.25) |
| Return after operating charges | 38.39 | 180.12 | 2.21 |
| Distributions | (64.20) | (66.70) | (66.88) |
| Retained distributions | 64.20 | 66.70 | 66.88 |
| Closing NAV | 1,606.60 | 1,568.21 | 1,388.09 |
| Direct portfolio transaction costs | US ¢ | US ¢ | US ¢ |
| Costs before dilution adjustments | 0.01 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.01 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.83 | 0.84 | 0.82 |
| Return after operating charges | +2.45 | +12.98 | +0.16 |
| Distribution yield | 4.11 | 3.81 | 4.88 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 32,560 | 32,930 | 151 |
| Closing NAV percentage of total fund NAV (%) | 2.78 | 2.78 | 0.01 |
| Number of shares | 2,700,750 | 2,695,872 | 15,877 |
| Highest share price (US ¢) | 1,640.64 | 1,578.39 | 1,396.41 |
| Lowest share price (US ¢) | 1,567.07 | 1,373.68 | 1,258.92 |

^[a] In respect of direct portfolio transaction costs.

^[b] As a percentage of average net asset value.

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

M&G Global High Yield Bond Fund

Financial statements and notes

Financial statements

Statement of total return

| for the year to 31 May | Note | 2018 £'000 | 2017 £'000 |
|---|------|-----------------|----------------|
| Income | | | |
| Net capital gains / (losses) | 3 | (36,405) | 72,508 |
| Revenue | 5 | 57,037 | 64,278 |
| Expenses | 6 | (14,927) | (15,119) |
| Net revenue / (expense) before taxation | | 42,110 | 49,159 |
| Taxation | 7 | (191) | (465) |
| Net revenue / (expense) after taxation | | 41,919 | 48,694 |
| Total return before distributions | | 5,514 | 121,202 |
| Distributions | 8 | (50,754) | (54,857) |
| Change in net assets attributable to shareholders from investment activities | | (45,240) | 66,345 |

Statement of change in net assets attributable to shareholders

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|--|------------------|------------------|
| Opening net assets attributable to shareholders | 1,185,263 | 1,133,409 |
| Amounts received on issue of shares | 180,611 | 232,071 |
| Amounts paid on cancellation of shares | (166,274) | (264,329) |
| | 14,337 | (32,258) |
| Dilution adjustments | 532 | 1,491 |
| Change in net assets attributable to shareholders from investment activities (see above) | (45,240) | 66,345 |
| Retained distributions on Accumulation shares | 17,881 | 16,259 |
| Unclaimed distributions | 18 | 17 |
| Closing net assets attributable to shareholders | 1,172,791 | 1,185,263 |

Balance sheet

| as at 31 May | Note | 2018 £'000 | 2017 £'000 |
|--|------|------------------|------------------|
| Assets | | | |
| Fixed assets | | | |
| Investments | | 1,152,400 | 1,181,133 |
| Current assets | | | |
| Debtors | 9 | 35,293 | 16,303 |
| Cash and bank balances | 10 | 2,796 | 11,514 |
| Total assets | | 1,190,489 | 1,208,950 |
| Liabilities | | | |
| Investment liabilities | | (3,046) | (4,395) |
| Creditors | | | |
| Bank overdrafts | | (2,358) | (10,567) |
| Distribution payable | | (2,932) | (3,359) |
| Other creditors | 11 | (9,362) | (5,366) |
| Total liabilities | | (17,698) | (23,687) |
| Net assets attributable to shareholders | | 1,172,791 | 1,185,263 |

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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

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

3 Net capital gains / (losses)

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|-------------------------------------|-----------------|---------------|
| Non-derivative securities | (49,598) | 188,088 |
| Derivative contracts | (9,900) | (102,045) |
| Currency gains / (losses) | 23,105 | (13,522) |
| Transaction charges | (12) | (13) |
| Net capital gains / (losses) | (36,405) | 72,508 |

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on pages 31 and 32.

| for the year to 31 May | 2018 £'000 | % of transaction | 2017 £'000 | % of transaction |
|--------------------------------|----------------|---------------------|----------------|---------------------|
| a) Purchases | | | | |
| Equities | 2,847 | | 350 | |
| Debt securities ^[a] | 469,447 | | 476,646 | |
| Total purchases | 472,294 | | 476,996 | |

| | | | | |
|---|----------------|------|----------------|------|
| b) Sales | | | | |
| Equities | 1,885 | | 61 | |
| Equities before transaction costs | 1,886 | | 61 | |
| Commissions | (1) | 0.05 | 0 | 0.00 |
| Equities after transaction costs | 1,885 | | 61 | |
| Debt securities ^[a] | 397,684 | | 543,064 | |
| Other transaction types | | | | |
| Corporate actions | 52,547 | | 16,851 | |
| Total sales | 452,116 | | 559,976 | |

| c) Direct portfolio transaction costs | 2018 £'000 | % of average NAV | 2017 £'000 | % of average NAV |
|---|---------------|---------------------|---------------|---------------------|
| Commissions paid | | | | |
| Equities | 1 | 0.00 | 0 | 0.00 |
| Derivatives | 5 | 0.00 | 1 | 0.00 |
| Total commissions paid | 6 | 0.00 | 1 | 0.00 |
| Total direct portfolio transaction costs | 6 | 0.00 | 1 | 0.00 |

| | | | | |
|--|--|------|--|------|
| d) Indirect portfolio transaction costs | | % | | % |
| Portfolio dealing spread ^[b] | | 0.79 | | 0.65 |

^[a] These transaction types do not attract direct portfolio transaction costs.

^[b] Average portfolio dealing spread at the balance sheet date.

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5 Revenue

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Bank interest | 43 | 64 |
| Derivative revenue | 3,300 | 5,002 |
| Dividends from equity investments: non-taxable | 1 | 0 |
| Interest distributions | 198 | 187 |
| Interest on debt securities | 53,495 | 59,025 |
| Total revenue | 57,037 | 64,278 |

6 Expenses

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Payable to the ACD or associate | | |
| Annual management charge | 12,982 | 13,211 |
| Administration charge | 1,768 | 1,756 |
| Share class hedging charge | 11 | 6 |
| | 14,761 | 14,973 |
| Payable to the Depositary or associate | | |
| Depositary's charge (including VAT) | 59 | 59 |
| Other expenses | | |
| Audit fee (including VAT) | 12 | 15 |
| Interest payable | 54 | 39 |
| Legal fees | 0 | 1 |
| Safe custody charge | 41 | 32 |
| | 107 | 87 |
| Total expenses | 14,927 | 15,119 |

7 Taxation

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| a) Analysis of charge in the year | | |
| Corporation tax | 0 | 0 |
| Withholding tax | 191 | 465 |
| Deferred tax (note 7c) | 0 | 0 |
| Total taxation | 191 | 465 |
| b) Factors affecting taxation charge for the year | | |
| Net revenue / (expense) before taxation | 42,110 | 49,159 |
| Corporation tax at 20% | 8,422 | 9,832 |
| Effects of: | | |
| Interest distributions | (8,423) | (9,832) |
| Withholding tax | 191 | 465 |
| Additional created income generated from conversions | 1 | 0 |
| Total tax charge (note 7a) | 191 | 465 |
| c) Provision for deferred taxation | | |
| Provision at the start of the year | 0 | 0 |
| Deferred tax in profit and loss account (note 7a) | 0 | 0 |
| Provision at the end of the year | 0 | 0 |

The fund does not have an unrecognised deferred tax asset at the year end (2017: same).

Interest distributions have been made in respect of all distributions during the current and preceding periods. Income tax at 20% was accounted for on shareholders' behalf to HM Revenue & Customs up to 28 February 2017.

8 Distributions

| | 2018 | | 2017 | |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| for the year to 31 May | Inc ^[a] £'000 | Acc ^[b] £'000 | Inc ^[a] £'000 | Acc ^[b] £'000 |
| Interest distributions | | | | |
| First interim | 2,764 | 1,362 | 2,443 | 1,540 |
| Second interim | 2,896 | 1,448 | 2,141 | 1,368 |
| Third interim | 3,054 | 1,575 | 2,103 | 1,362 |
| Fourth interim | 2,262 | 1,079 | 1,912 | 1,308 |
| Fifth interim | 2,971 | 1,545 | 2,970 | 1,535 |
| Sixth interim | 2,638 | 1,364 | 2,346 | 1,073 |
| Seventh interim | 2,690 | 1,452 | 2,576 | 1,248 |
| Eighth interim | 2,684 | 1,420 | 2,668 | 1,360 |
| Ninth interim | 2,728 | 1,613 | 2,356 | 1,159 |
| Tenth interim | 2,482 | 1,449 | 3,072 | 1,524 |
| Eleventh interim | 2,820 | 1,678 | 2,384 | 1,112 |
| Final | 2,932 | 1,896 | 3,359 | 1,670 |
| Total net distributions | | 50,802 | | 46,589 |
| Income tax deducted at source | | 0 | | 8,195 |
| Interest distributions | | 50,802 | | 54,784 |
| Income deducted on cancellation of shares | | 318 | | 519 |
| Income received on issue of shares | | (366) | | (446) |
| Distributions | | 50,754 | | 54,857 |
| Net revenue / (expense) per statement of total return | | 41,919 | | 48,694 |
| Expenses offset against capital | | 8,835 | | 6,162 |
| Undistributed income brought forward | | 1 | | 2 |
| Undistributed income carried forward | | (1) | | (1) |
| Distributions | | 50,754 | | 54,857 |

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

9 Debtors

| as at 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Amounts receivable on issues of shares | 3,062 | 492 |
| Currency deals outstanding | 103 | 66 |
| Debt security interest receivable | 14,211 | 15,125 |
| Derivative revenue receivable | 699 | 566 |
| Distributions receivable | 20 | 9 |
| Sales awaiting settlement | 17,110 | 0 |
| Withholding tax recoverable | 88 | 45 |
| Total debtors | 35,293 | 16,303 |

10 Cash and bank balances

| as at 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Amounts held at futures clearing houses and collateral manager | 1,806 | 9,478 |
| Cash held as bank balances | 990 | 2,036 |
| Total cash and bank balances | 2,796 | 11,514 |

11 Other creditors

| as at 31 May | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| ACD's annual management charge payable | 353 | 327 |
| Administration charge payable | 48 | 17 |
| Amounts payable on cancellation of shares | 1,563 | 409 |
| Currency deals outstanding | 103 | 66 |
| Derivative expense payable | 41 | 16 |
| Expenses payable | 27 | 53 |
| Purchases awaiting settlement | 7,227 | 4,478 |
| Total other creditors | 9,362 | 5,366 |

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12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2017: same).

13 Shares in issue

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

| Share class | Opening 01.06.17 | Movements | | Closing 31.05.18 |
|--------------------------|---------------------|------------|---------------|---------------------|
| | | Issued | Cancelled | |
| Euro | | | | |
| Class 'A-H' Income | 247,564 | 334,730 | (58,392) | 523,902 |
| Class 'A-H' Accumulation | 373,107 | 279,314 | (187,857) | 464,564 |
| Class 'B-H' Income | 55,237 | 60,227 | (8,152) | 107,312 |
| Class 'B-H' Accumulation | 127,242 | 69,336 | (81,532) | 115,046 |
| Class 'C-H' Income | 1,182 | 268,607 | (1,576) | 268,213 |
| Class 'C-H' Accumulation | 699,990 | 256,067 | (332,910) | 623,147 |
| Sterling | | | | |
| Class 'A' Income | 209,367,545 | 5,670,298 | (35,186,684) | 179,851,159 |
| Class 'A' Accumulation | 191,398,631 | 49,320,086 | (40,855,307) | 199,863,410 |
| Class 'I' Income | 11,587,355 | 1,236,946 | (900,383) | 11,923,918 |
| Class 'I' Accumulation | 7,594,372 | 1,888,717 | (599,309) | 8,883,780 |
| Class 'R' Income | 1,774,478 | 11,555,700 | (626,865) | 12,703,313 |
| Class 'R' Accumulation | 132,883 | 9,909,047 | (178,816) | 9,863,114 |
| Class 'X' Income | 922,936,923 | 8,349,183 | (124,254,025) | 807,032,081 |
| Class 'X' Accumulation | 53,854,389 | 21,043,112 | (2,278,940) | 72,618,561 |
| Swiss franc | | | | |
| Class 'A-H' Accumulation | 3,000 | 0 | 0 | 3,000 |
| Class 'C-H' Accumulation | 3,001 | 0 | 0 | 3,001 |
| US dollar | | | | |
| Class 'A-H' Income | 46,235 | 12,140 | (9,304) | 49,071 |
| Class 'A-H' Accumulation | 170,305 | 23,492 | (42,414) | 151,383 |
| Class 'C-H' Income | 11,599 | 0 | 0 | 11,599 |
| Class 'C-H' Accumulation | 2,695,872 | 29,952 | (25,074) | 2,700,750 |

14 Charging structure

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

| Share class | Entry charge % | Exit charge % | Annual management charge % | Share class hedging charge % |
|--------------------|----------------------|---------------------|-------------------------------------|---------------------------------------|
| Euro | | | | |
| Class 'A-H' | 4.00 | n/a | 1.25 | [a] |
| Class 'B-H' | nil | n/a | 1.75 | [a] |
| Class 'C-H' | 1.25 | n/a | 0.65 | [a] |
| Sterling | | | | |
| Class 'A' | nil | n/a | 1.25 | n/a |
| Class 'I' | nil | n/a | 0.65 | n/a |
| Class 'R' | nil | n/a | 1.00 | n/a |
| Class 'X' | nil | n/a | 1.25 | n/a |
| Swiss franc | | | | |
| Class 'A-H' | 4.00 | n/a | 1.25 | [a] |
| Class 'C-H' | 1.25 | n/a | 0.65 | [a] |
| US dollar | | | | |
| Class 'A-H' | 4.00 | n/a | 1.25 | [a] |
| Class 'C-H' | 1.25 | n/a | 0.65 | [a] |

[a] This charge may vary between 0.01% and 0.055%.

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 15.05% (2017: 7.57%) of the fund's shares.

16 Events after the balance sheet date

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

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17 Fair value analysis

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

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

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

Level 2: Valuation technique using observable market data

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

Level 3: Valuation technique using unobservable inputs

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

| as at 31 May | Assets | Liabilities | Assets | Liabilities |
|--------------------|------------------|----------------|------------------|----------------|
| Basis of valuation | 2018 | 2018 | 2017 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Level 1 | 73,471 | (1,012) | 74,468 | (419) |
| Level 2 | 1,078,500 | (2,034) | 1,106,665 | (3,976) |
| Level 3 | 429 | 0 | 0 | 0 |
| | 1,152,400 | (3,046) | 1,181,133 | (4,395) |

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

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 8 and 9.

19 Market risk sensitivity and exposure

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

The VaR limit set during the financial year to 31 May 2018 was 12% (2017: 12%).

The lowest, highest and average VaR, as well as utilisation of VaR with reference to the limit above, are calculated during the financial years ended 31 May 2018 and 31 May 2017.

| | 2018 | 2018 | 2017 | 2017 |
|------------------------|----------|---------------------------------------|----------|---------------------------------------|
| for the year to 31 May | % of VaR | Utilisation of VaR ^[a] 12% | % of VaR | Utilisation of VaR ^[a] 12% |
| Lowest | 2.47 | 20.59 | 3.32 | 27.67 |
| Highest | 3.82 | 31.80 | 5.60 | 46.65 |
| Average | 2.97 | 24.77 | 4.35 | 36.25 |

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

20 Credit risk

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

| as at 31 May | 2018 | 2017 |
|-----------------------------------|------------------|------------------|
| | £'000 | £'000 |
| Investment grade securities | 218,724 | 238,691 |
| Below investment grade securities | 827,470 | 873,089 |
| Unrated securities | 41,976 | 13,257 |
| Other investments | 61,184 | 51,701 |
| Total | 1,149,354 | 1,176,738 |

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

| as at 31 May 2018 | Swaps | Forward currency contracts | Futures |
|-------------------------------|--------------|----------------------------|----------------|
| | £'000 | £'000 | £'000 |
| Bank of America Merrill Lynch | (63) | 0 | (1,012) |
| BNP Paribas | 683 | 0 | 0 |
| Citigroup | 965 | (58) | 0 |
| Goldman Sachs | 838 | 0 | 0 |
| HSBC | 0 | 28 | 0 |
| J.P.Morgan | 3,493 | 0 | 0 |
| State Street Bank | 0 | (100) | 0 |
| UBS | 0 | 31 | 0 |
| Total | 5,916 | (99) | (1,012) |

| as at 31 May 2017 | Swaps | Forward currency contracts | Futures |
|-------------------------------|--------------|----------------------------|--------------|
| | £'000 | £'000 | £'000 |
| Bank of America Merrill Lynch | (111) | 0 | (419) |
| BNP Paribas | 687 | 0 | 0 |
| Citigroup | 702 | 0 | 0 |
| J.P.Morgan | 3,978 | (1,100) | 0 |
| State Street Bank | 0 | (2,201) | 0 |
| Total | 5,256 | (3,301) | (419) |

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21 Leverage risk

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

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

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 31 May 2018 and 31 May 2017 are disclosed in the table below.

| for the year to 31 May | 2018 £'000 | 2018 % | 2017 [a] £'000 | 2017 [a] % |
|------------------------|---------------|-----------|-------------------|---------------|
| Lowest | 1,023,257 | 85 | 951,493 | 83 |
| Highest | 3,016,179 | 255 | 2,074,653 | 174 |
| Average | 1,180,004 | 100 | 1,108,599 | 95 |

[a] Leverage has been calculated using the Gross Sum of Notional Approach for derivative positions only (including forward currency) and excludes all physical holdings. The prior period leverage disclosures have been restated to conform with the revisions to the current period leverage calculation.

22 Exchange rate risk for hedged share classes

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

23 Interest distribution tables

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

| Monthly distribution periods | | | | |
|------------------------------|----------|----------|----------|----------|
| | Start | End | Xd | Payment |
| First interim | 01.06.17 | 30.06.17 | 03.07.17 | 31.07.17 |
| Second interim | 01.07.17 | 31.07.17 | 01.08.17 | 31.08.17 |
| Third interim | 01.08.17 | 31.08.17 | 01.09.17 | 30.09.17 |
| Fourth interim | 01.09.17 | 30.09.17 | 02.10.17 | 31.10.17 |
| Fifth interim | 01.10.17 | 31.10.17 | 01.11.17 | 30.11.17 |
| Sixth interim | 01.11.17 | 30.11.17 | 01.12.17 | 31.12.17 |
| Seventh interim | 01.12.17 | 31.12.17 | 02.01.18 | 31.01.18 |
| Eighth interim | 01.01.18 | 31.01.18 | 01.02.18 | 28.02.18 |
| Ninth interim | 01.02.18 | 28.02.18 | 01.03.18 | 31.03.18 |
| Tenth interim | 01.03.18 | 31.03.18 | 02.04.18 | 30.04.18 |
| Eleventh interim | 01.04.18 | 30.04.18 | 01.05.18 | 31.05.18 |
| Final | 01.05.18 | 31.05.18 | 01.06.18 | 30.06.18 |

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

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

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

Euro Class 'A-H' Income share performance

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|----------------|---------------------------------|-------------------------------------|--------|
| | £ | £ | £ | £ |
| First interim | 2.4527 | 2.0296 | 4.4823 | 4.7649 |
| Second interim | 1.9932 | 2.9971 | 4.9903 | 3.9874 |
| Third interim | 2.7043 | 2.4166 | 5.1209 | 4.1478 |
| Fourth interim | 1.9264 | 1.9917 | 3.9181 | 3.8709 |
| Fifth interim | 1.8154 | 3.3548 | 5.1702 | 6.0554 |
| Sixth interim | 1.8891 | 2.6598 | 4.5489 | 5.0194 |
| Seventh interim | 2.1731 | 2.4970 | 4.6701 | 5.4039 |
| Eighth interim | 2.3036 | 2.3912 | 4.6948 | 5.4093 |
| Ninth interim | 2.9090 | 1.8350 | 4.7440 | 4.8832 |
| Tenth interim | 0.8005 | 3.6173 | 4.4178 | 5.1072 |
| Eleventh interim | 1.7892 | 3.2554 | 5.0446 | 4.0363 |
| Final | 3.2650 | 1.9679 | 5.2329 | 5.6296 |

Euro Class 'A-H' Accumulation share performance

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|----------------|---------------------------------|-------------------------------------|--------|
| | £ | £ | £ | £ |
| First interim | 2.6549 | 1.2194 | 3.8743 | 5.4280 |
| Second interim | 2.7982 | 1.3213 | 4.1195 | 4.5902 |
| Third interim | 3.7204 | 0.7039 | 4.4243 | 4.7597 |
| Fourth interim | 1.2437 | 1.8537 | 3.0974 | 4.4580 |
| Fifth interim | 2.1740 | 2.2878 | 4.4618 | 5.3779 |
| Sixth interim | 2.4622 | 1.3821 | 3.8443 | 4.2289 |
| Seventh interim | 2.2275 | 1.8378 | 4.0653 | 4.7164 |
| Eighth interim | 1.5424 | 2.3440 | 3.8864 | 4.6230 |
| Ninth interim | 2.5016 | 1.7724 | 4.2740 | 4.1844 |
| Tenth interim | 1.5643 | 2.2686 | 3.8329 | 4.3665 |
| Eleventh interim | 0.5280 | 3.9480 | 4.4760 | 3.2458 |
| Final | 2.8615 | 1.8921 | 4.7536 | 4.8073 |

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23 Interest distribution tables (continued)

Euro Class 'B-H' Income share performance

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | Group 1 & 2 Distribution 2017 |
|---|----------------|---------------------------------|-------------------------------------|-------------------------------------|
| | € | € | € | € |
| First interim | 2.1338 | 1.7295 | 3.8633 | 3.6673 |
| Second interim | 2.2267 | 1.9469 | 4.1736 | 3.0272 |
| Third interim | 0.9986 | 3.3331 | 4.3317 | 3.0725 |
| Fourth interim | 1.1751 | 2.1417 | 3.3168 | 2.8742 |
| Fifth interim | 2.3417 | 2.0335 | 4.3752 | 5.1543 |
| Sixth interim | 2.9549 | 0.8890 | 3.8439 | 4.2616 |
| Seventh interim | 0.9729 | 2.9715 | 3.9444 | 4.5881 |
| Eighth interim | 2.3805 | 1.5854 | 3.9659 | 4.5922 |
| Ninth interim | 0.3128 | 3.6923 | 4.0051 | 4.1416 |
| Tenth interim | 1.2418 | 2.4880 | 3.7298 | 4.3307 |
| Eleventh interim | 2.6181 | 1.6375 | 4.2556 | 3.4221 |
| Final | 3.6045 | 0.8077 | 4.4122 | 4.7624 |

Euro Class 'B-H' Accumulation share performance

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | Group 1 & 2 Distribution 2017 |
|---|----------------|---------------------------------|-------------------------------------|-------------------------------------|
| | € | € | € | € |
| First interim | 1.3230 | 1.3785 | 2.7015 | 4.0348 |
| Second interim | 2.1675 | 0.7045 | 2.8720 | 3.3281 |
| Third interim | 2.3492 | 0.7655 | 3.1147 | 3.4080 |
| Fourth interim | 1.2229 | 0.8380 | 2.0609 | 3.2035 |
| Fifth interim | 1.8891 | 1.2401 | 3.1292 | 3.9336 |
| Sixth interim | 0.9175 | 1.7417 | 2.6592 | 3.0113 |
| Seventh interim | 0.9917 | 1.8589 | 2.8506 | 3.4089 |
| Eighth interim | 0.4882 | 2.1450 | 2.6332 | 3.3137 |
| Ninth interim | 2.0730 | 0.9650 | 3.0380 | 2.9818 |
| Tenth interim | 1.0558 | 1.6039 | 2.6597 | 3.1034 |
| Eleventh interim | 2.5356 | 0.5989 | 3.1345 | 2.2175 |
| Final | 1.0017 | 2.3614 | 3.3631 | 3.3973 |

Euro Class 'C-H' Income share performance

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | Group 1 & 2 Distribution 2017 |
|---|----------------|---------------------------------|-------------------------------------|-------------------------------------|
| | € | € | € | € |
| First interim | 4.7332 | 0.0000 | 4.7332 | 5.6611 |
| Second interim | 5.5086 | 0.0000 | 5.5086 | 4.8808 |
| Third interim | 5.5696 | 0.0000 | 5.5696 | 5.1324 |
| Fourth interim | 4.2548 | 0.0000 | 4.2548 | 4.7793 |
| Fifth interim | 5.5769 | 0.0000 | 5.5769 | 6.5214 |
| Sixth interim | 4.9097 | 0.0000 | 4.9097 | 5.3854 |
| Seventh interim | 2.4763 | 2.5553 | 5.0316 | 5.8041 |
| Eighth interim | 5.0670 | 0.0000 | 5.0670 | 5.8148 |
| Ninth interim | 3.4056 | 1.7200 | 5.1256 | 5.2478 |
| Tenth interim | 4.7771 | 0.0000 | 4.7771 | 5.4761 |
| Eleventh interim | 5.4561 | 0.0000 | 5.4561 | 4.3107 |
| Final | 5.6619 | 0.0000 | 5.6619 | 6.0557 |

Euro Class 'C-H' Accumulation share performance

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | Group 1 & 2 Distribution 2017 |
|---|----------------|---------------------------------|-------------------------------------|-------------------------------------|
| | € | € | € | € |
| First interim | 1.3726 | 3.3724 | 4.7450 | 6.2600 |
| Second interim | 0.8606 | 4.1856 | 5.0462 | 5.4320 |
| Third interim | 0.2536 | 5.1130 | 5.3666 | 5.6789 |
| Fourth interim | 3.3469 | 0.6029 | 3.9498 | 5.2873 |
| Fifth interim | 1.3908 | 4.0570 | 5.4478 | 6.2932 |
| Sixth interim | 3.4283 | 1.3275 | 4.7558 | 5.0908 |
| Seventh interim | 3.8386 | 1.1268 | 4.9654 | 5.6231 |
| Eighth interim | 1.8547 | 3.0278 | 4.8825 | 5.5414 |
| Ninth interim | 2.4142 | 2.7342 | 5.1484 | 5.0258 |
| Tenth interim | 1.8940 | 2.8304 | 4.7244 | 5.2540 |
| Eleventh interim | 1.8582 | 3.6080 | 5.4662 | 4.0465 |
| Final | 3.7963 | 1.9572 | 5.7535 | 5.8179 |

Sterling Class 'A' Income share performance

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | Group 1 & 2 Distribution 2017 |
|---|----------------|---------------------------------|-------------------------------------|-------------------------------------|
| | p | p | p | p |
| First interim | 0.1036 | 0.0964 | 0.2000 | 0.1668 |
| Second interim | 0.0831 | 0.1277 | 0.2108 | 0.1464 |
| Third interim | 0.0996 | 0.1237 | 0.2233 | 0.1436 |
| Fourth interim | 0.0764 | 0.0899 | 0.1663 | 0.1312 |
| Fifth interim | 0.1018 | 0.1182 | 0.2200 | 0.2092 |
| Sixth interim | 0.0970 | 0.0998 | 0.1968 | 0.1664 |
| Seventh interim | 0.1208 | 0.0799 | 0.2007 | 0.1832 |
| Eighth interim | 0.0656 | 0.1359 | 0.2015 | 0.1904 |
| Ninth interim | 0.0988 | 0.1080 | 0.2068 | 0.1688 |
| Tenth interim | 0.0548 | 0.1348 | 0.1896 | 0.2204 |
| Eleventh interim | 0.1002 | 0.1170 | 0.2172 | 0.1713 |
| Final | 0.1030 | 0.1248 | 0.2278 | 0.2413 |

Sterling Class 'A' Accumulation share performance

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | Group 1 & 2 Distribution 2017 |
|---|----------------|---------------------------------|-------------------------------------|-------------------------------------|
| | p | p | p | p |
| First interim | 0.0552 | 0.3020 | 0.3572 | 0.4016 |
| Second interim | 0.1785 | 0.1988 | 0.3773 | 0.3540 |
| Third interim | 0.1126 | 0.2981 | 0.4107 | 0.3480 |
| Fourth interim | 0.1935 | 0.0836 | 0.2771 | 0.3196 |
| Fifth interim | 0.1135 | 0.2866 | 0.4001 | 0.3948 |
| Sixth interim | 0.0967 | 0.2562 | 0.3529 | 0.2936 |
| Seventh interim | 0.1283 | 0.2412 | 0.3695 | 0.3364 |
| Eighth interim | 0.1424 | 0.2101 | 0.3525 | 0.3464 |
| Ninth interim | 0.0785 | 0.3161 | 0.3946 | 0.3060 |
| Tenth interim | 0.1177 | 0.2304 | 0.3481 | 0.4001 |
| Eleventh interim | 0.1830 | 0.2238 | 0.4068 | 0.2900 |
| Final | 0.1127 | 0.3252 | 0.4379 | 0.4375 |

M&G Global High Yield Bond Fund

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23 Interest distribution tables (continued)

Sterling Class 'I' Income share performance

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | Group 1 & 2 Distribution 2017 |
|---|-------------|---------------------------|-------------------------------|-------------------------------|
| | p | p | p | p |
| First interim | 1.5639 | 2.6781 | 4.2420 | 3.9232 |
| Second interim | 1.8616 | 2.6128 | 4.4744 | 3.4896 |
| Third interim | 2.0606 | 2.6823 | 4.7429 | 3.4948 |
| Fourth interim | 1.6062 | 1.9281 | 3.5343 | 3.1972 |
| Fifth interim | 3.5114 | 1.1645 | 4.6759 | 4.4284 |
| Sixth interim | 1.2774 | 2.9107 | 4.1881 | 3.5100 |
| Seventh interim | 2.0344 | 2.2354 | 4.2698 | 3.8800 |
| Eighth interim | 1.7068 | 2.5790 | 4.2858 | 4.0276 |
| Ninth interim | 1.4500 | 2.9561 | 4.4061 | 3.5752 |
| Tenth interim | 1.5249 | 2.5173 | 4.0422 | 4.6651 |
| Eleventh interim | 2.0023 | 2.6300 | 4.6323 | 3.6311 |
| Final | 2.0009 | 2.8540 | 4.8549 | 5.1277 |

Sterling Class 'I' Accumulation share performance

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | Group 1 & 2 Distribution 2017 |
|---|-------------|---------------------------|-------------------------------|-------------------------------|
| | p | p | p | p |
| First interim | 2.0180 | 2.3640 | 4.3820 | 4.6452 |
| Second interim | 1.5905 | 3.0451 | 4.6356 | 4.1468 |
| Third interim | 2.7339 | 2.2550 | 4.9889 | 4.1672 |
| Fourth interim | 0.7944 | 2.7606 | 3.5550 | 3.8256 |
| Fifth interim | 2.0302 | 2.8805 | 4.9107 | 4.6320 |
| Sixth interim | 1.8471 | 2.5300 | 4.3771 | 3.5568 |
| Seventh interim | 2.2603 | 2.2704 | 4.5307 | 4.0148 |
| Eighth interim | 1.6804 | 2.7658 | 4.4462 | 4.1532 |
| Ninth interim | 2.2355 | 2.5414 | 4.7769 | 3.6920 |
| Tenth interim | 1.9379 | 2.3702 | 4.3081 | 4.8269 |
| Eleventh interim | 2.6417 | 2.3530 | 4.9947 | 3.6386 |
| Final | 2.3888 | 2.9261 | 5.3149 | 5.3179 |

Sterling Class 'R' Income share performance

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | Group 1 & 2 Distribution 2017 |
|---|-------------|---------------------------|-------------------------------|-------------------------------|
| | p | p | p | p |
| First interim | 0.1449 | 0.2783 | 0.4232 | 0.3688 |
| Second interim | 0.0000 | 0.4463 | 0.4463 | 0.3256 |
| Third interim | 0.1737 | 0.2992 | 0.4729 | 0.3228 |
| Fourth interim | 0.1167 | 0.2355 | 0.3522 | 0.2952 |
| Fifth interim | 0.2423 | 0.2235 | 0.4658 | 0.4424 |
| Sixth interim | 0.1909 | 0.2263 | 0.4172 | 0.3516 |
| Seventh interim | 0.2589 | 0.1663 | 0.4252 | 0.3872 |
| Eighth interim | 0.2935 | 0.1331 | 0.4266 | 0.4028 |
| Ninth interim | 0.2099 | 0.2286 | 0.4385 | 0.3568 |
| Tenth interim | 0.0985 | 0.3037 | 0.4022 | 0.4659 |
| Eleventh interim | 0.1905 | 0.2703 | 0.4608 | 0.3625 |
| Final | 0.2579 | 0.2249 | 0.4828 | 0.5115 |

Sterling Class 'R' Accumulation share performance

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | Group 1 & 2 Distribution 2017 |
|---|-------------|---------------------------|-------------------------------|-------------------------------|
| | p | p | p | p |
| First interim | 0.3100 | 0.0847 | 0.3947 | 0.4320 |
| Second interim | 0.4173 | 0.0000 | 0.4173 | 0.3828 |
| Third interim | 0.4515 | 0.0000 | 0.4515 | 0.3804 |
| Fourth interim | 0.3125 | 0.0000 | 0.3125 | 0.3488 |
| Fifth interim | 0.0827 | 0.3592 | 0.4419 | 0.4276 |
| Sixth interim | 0.1919 | 0.1998 | 0.3917 | 0.3224 |
| Seventh interim | 0.1895 | 0.2185 | 0.4080 | 0.3672 |
| Eighth interim | 0.1661 | 0.2280 | 0.3941 | 0.3784 |
| Ninth interim | 0.1384 | 0.2946 | 0.4330 | 0.3356 |
| Tenth interim | 0.1532 | 0.2328 | 0.3860 | 0.4385 |
| Eleventh interim | 0.0858 | 0.3636 | 0.4494 | 0.3238 |
| Final | 0.2289 | 0.2522 | 0.4811 | 0.4808 |

Sterling Class 'X' Income share performance

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | Group 1 & 2 Distribution 2017 |
|---|-------------|---------------------------|-------------------------------|-------------------------------|
| | p | p | p | p |
| First interim | 0.0022 | 0.1978 | 0.2000 | 0.1668 |
| Second interim | 0.0338 | 0.1771 | 0.2109 | 0.1464 |
| Third interim | 0.0112 | 0.2122 | 0.2234 | 0.1436 |
| Fourth interim | 0.0075 | 0.1589 | 0.1664 | 0.1312 |
| Fifth interim | 0.0433 | 0.1767 | 0.2200 | 0.2096 |
| Sixth interim | 0.0082 | 0.1887 | 0.1969 | 0.1660 |
| Seventh interim | 0.0054 | 0.1954 | 0.2008 | 0.1836 |
| Eighth interim | 0.0110 | 0.1907 | 0.2017 | 0.1904 |
| Ninth interim | 0.0058 | 0.2011 | 0.2069 | 0.1684 |
| Tenth interim | 0.0326 | 0.1572 | 0.1898 | 0.2207 |
| Eleventh interim | 0.0146 | 0.2027 | 0.2173 | 0.1714 |
| Final | 0.0108 | 0.2169 | 0.2277 | 0.2420 |

Sterling Class 'X' Accumulation share performance

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | Group 1 & 2 Distribution 2017 |
|---|-------------|---------------------------|-------------------------------|-------------------------------|
| | p | p | p | p |
| First interim | 0.2796 | 0.0776 | 0.3572 | 0.4020 |
| Second interim | 0.2049 | 0.1729 | 0.3778 | 0.3540 |
| Third interim | 0.1028 | 0.3082 | 0.4110 | 0.3484 |
| Fourth interim | 0.0394 | 0.2380 | 0.2774 | 0.3192 |
| Fifth interim | 0.1107 | 0.2897 | 0.4004 | 0.3956 |
| Sixth interim | 0.2193 | 0.1339 | 0.3532 | 0.2952 |
| Seventh interim | 0.1150 | 0.2548 | 0.3698 | 0.3364 |
| Eighth interim | 0.2050 | 0.1479 | 0.3529 | 0.3460 |
| Ninth interim | 0.1614 | 0.2336 | 0.3950 | 0.3156 |
| Tenth interim | 0.2710 | 0.0775 | 0.3485 | 0.4003 |
| Eleventh interim | 0.2469 | 0.1603 | 0.4072 | 0.2902 |
| Final | 0.1349 | 0.3029 | 0.4378 | 0.4386 |

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23 Interest distribution tables (continued)

| Swiss franc Class 'A-H' Accumulation share performance | | | | |
|--|-------------|---------------------------|-------------------------------|--------|
| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
| | € | € | € | € |
| First interim | 2.9941 | 0.0000 | 2.9941 | 4.1491 |
| Second interim | 3.2574 | 0.0000 | 3.2574 | 3.5311 |
| Third interim | 3.5257 | 0.0000 | 3.5257 | 3.7272 |
| Fourth interim | 2.4300 | 0.0000 | 2.4300 | 3.4802 |
| Fifth interim | 3.4870 | 0.0000 | 3.4870 | 4.1609 |
| Sixth interim | 3.0050 | 0.0000 | 3.0050 | 3.2717 |
| Seventh interim | 3.1564 | 0.0000 | 3.1564 | 3.6600 |
| Eighth interim | 3.0076 | 0.0000 | 3.0076 | 3.6210 |
| Ninth interim | 3.2796 | 0.0000 | 3.2796 | 3.2521 |
| Tenth interim | 3.0165 | 0.0000 | 3.0165 | 3.4350 |
| Eleventh interim | 3.5006 | 0.0000 | 3.5006 | 2.5393 |
| Final | 3.6520 | 0.0000 | 3.6520 | 3.7553 |

| Swiss franc Class 'C-H' Accumulation share performance | | | | |
|--|-------------|---------------------------|-------------------------------|--------|
| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
| | € | € | € | € |
| First interim | 3.5684 | 0.0000 | 3.5684 | 4.6703 |
| Second interim | 3.8750 | 0.0000 | 3.8750 | 4.0478 |
| Third interim | 4.1438 | 0.0000 | 4.1438 | 4.3246 |
| Fourth interim | 3.0019 | 0.0000 | 3.0019 | 4.0265 |
| Fifth interim | 4.1425 | 0.0000 | 4.1425 | 4.7442 |
| Sixth interim | 3.6149 | 0.0000 | 3.6149 | 3.8219 |
| Seventh interim | 3.7527 | 0.0000 | 3.7527 | 4.2154 |
| Eighth interim | 3.6701 | 0.0000 | 3.6701 | 4.2238 |
| Ninth interim | 3.8576 | 0.0000 | 3.8576 | 3.7977 |
| Tenth interim | 3.6155 | 0.0000 | 3.6155 | 4.0193 |
| Eleventh interim | 4.1490 | 0.0000 | 4.1490 | 3.0661 |
| Final | 4.3035 | 0.0000 | 4.3035 | 4.4171 |

| US dollar Class 'A-H' Income share performance | | | | |
|--|-------------|---------------------------|-------------------------------|--------|
| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
| | € | € | € | € |
| First interim | 4.9256 | 0.0000 | 4.9256 | 5.1391 |
| Second interim | 2.4130 | 3.2058 | 5.6188 | 4.2420 |
| Third interim | 5.6942 | 0.0000 | 5.6942 | 4.4964 |
| Fourth interim | 4.3120 | 0.0000 | 4.3120 | 4.1640 |
| Fifth interim | 1.6242 | 4.0385 | 5.6627 | 6.4888 |
| Sixth interim | 3.5918 | 1.4636 | 5.0554 | 5.2592 |
| Seventh interim | 3.7113 | 1.4740 | 5.1853 | 5.7310 |
| Eighth interim | 5.2702 | 0.0000 | 5.2702 | 6.0401 |
| Ninth interim | 5.2358 | 0.0000 | 5.2358 | 5.2193 |
| Tenth interim | 4.9789 | 0.0000 | 4.9789 | 5.6660 |
| Eleventh interim | 5.6076 | 0.0000 | 5.6076 | 4.4054 |
| Final | 4.9658 | 0.8062 | 5.7720 | 6.2141 |

| US dollar Class 'A-H' Accumulation share performance | | | | |
|--|-------------|---------------------------|-------------------------------|--------|
| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
| | € | € | € | € |
| First interim | 3.5557 | 0.4716 | 4.0273 | 5.5456 |
| Second interim | 2.6800 | 1.7294 | 4.4094 | 4.2063 |
| Third interim | 4.4653 | 0.2163 | 4.6816 | 4.8759 |
| Fourth interim | 0.5551 | 2.6763 | 3.2314 | 4.5422 |
| Fifth interim | 1.7408 | 2.8586 | 4.5994 | 5.4383 |
| Sixth interim | 4.0568 | 0.0000 | 4.0568 | 4.1519 |
| Seventh interim | 0.0000 | 4.2852 | 4.2852 | 4.6935 |
| Eighth interim | 4.1526 | 0.0000 | 4.1526 | 4.9033 |
| Ninth interim | 3.6914 | 0.7608 | 4.4522 | 4.2108 |
| Tenth interim | 4.0980 | 0.0000 | 4.0980 | 4.5973 |
| Eleventh interim | 3.5782 | 1.1127 | 4.6909 | 3.3423 |
| Final | 1.9935 | 2.9274 | 4.9209 | 5.2879 |

| US dollar Class 'C-H' Income share performance | | | | |
|--|-------------|---------------------------|-------------------------------|--------|
| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
| | € | € | € | € |
| First interim | 5.1200 | 0.0000 | 5.1200 | 5.8764 |
| Second interim | 5.6958 | 0.0000 | 5.6958 | 5.0253 |
| Third interim | 5.8480 | 0.0000 | 5.8480 | 5.3179 |
| Fourth interim | 4.4313 | 0.0000 | 4.4313 | 4.9130 |
| Fifth interim | 5.8204 | 0.0000 | 5.8204 | 6.6612 |
| Sixth interim | 5.1990 | 0.0000 | 5.1990 | 5.3829 |
| Seventh interim | 5.3362 | 0.0000 | 5.3362 | 5.8702 |
| Eighth interim | 5.4238 | 0.0000 | 5.4238 | 6.1874 |
| Ninth interim | 5.3951 | 0.0000 | 5.3951 | 5.3536 |
| Tenth interim | 5.1326 | 0.0000 | 5.1326 | 5.8068 |
| Eleventh interim | 5.7824 | 0.0000 | 5.7824 | 4.5142 |
| Final | 5.9561 | 0.0000 | 5.9561 | 6.3664 |

| US dollar Class 'C-H' Accumulation share performance | | | | |
|--|-------------|---------------------------|-------------------------------|--------|
| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
| | € | € | € | € |
| First interim | 5.0013 | 0.0000 | 5.0013 | 6.4363 |
| Second interim | 5.4586 | 0.0000 | 5.4586 | 5.5294 |
| Third interim | 5.7464 | 0.0000 | 5.7464 | 5.8648 |
| Fourth interim | 4.1739 | 0.0000 | 4.1739 | 5.0021 |
| Fifth interim | 3.5120 | 2.1973 | 5.7093 | 5.8408 |
| Sixth interim | 5.0809 | 0.0000 | 5.0809 | 5.1732 |
| Seventh interim | 5.2976 | 0.0000 | 5.2976 | 5.7061 |
| Eighth interim | 4.0683 | 1.2039 | 5.2722 | 5.8994 |
| Ninth interim | 2.9325 | 2.5215 | 5.4540 | 5.2145 |
| Tenth interim | 5.1162 | 0.0000 | 5.1162 | 5.6183 |
| Eleventh interim | 1.0406 | 4.7798 | 5.8204 | 4.2328 |
| Final | 3.2515 | 2.8141 | 6.0656 | 6.1823 |

M&G Global High Yield Bond Fund

Financial statements and notes

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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.

Risk profile

The fund invests mainly in fixed interest assets that would be expected to perform well in an inflationary environment, such as inflation-linked bonds issued by companies and governments. It is therefore subject to the price volatility of the global bond market as well as the performance of individual issuers.

The fund's focus is on investment grade, or high-quality, debt securities that are normally traded with relative ease. The fund's exposure to index-linked bonds may be achieved either directly or through derivatives. In association with the use of derivatives, including those instruments not traded through an exchange, collateral is deposited in order to mitigate the risk that a counterparty may default on its obligations or become insolvent.

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

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



The above number:

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

Investment review

As at 1 June 2018, for the year ended 31 May 2018

Performance against objective

Between 1 June 2017 (the start of the review period) and 1 June 2018, the M&G Index-Linked Bond Fund's Sterling Class 'A' and 'I' share classes delivered a total return (the combination of income and growth of capital) of -1.3% and -1.2%, respectively. This was broadly in line with the average return from the fund's peer group, the IA UK Index Linked Gilts sector, which was -1.3% over the same period.

In this reporting period, the fund has not met its objective of providing income and capital growth, although it has 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.

Investment performance

Expected and actual rising interest rates due to firmer inflation remained key themes for investors during the 12 months to 1 June 2018. In the bond markets, actual or potential increases in inflation or interest rates typically dampen sentiment towards government bonds. Bonds are loans in the form of a security, usually issued by a government (government bonds) or company (corporate bonds), which normally pay a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

In the important US market, the Federal Reserve confirmed three interest rate increases of 0.25 percentage points each during 2017. A further increase of the same magnitude was made in March 2018 and again shortly after the end of the review period. The moves added to the gradual steps taken by the US central bank in recent years to lift rates against the backdrop of strengthening economic growth and inflation.

M&G Index-Linked Bond Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

Improving economic growth was also evident in the eurozone, but the European Central Bank (ECB) held interest rates unchanged. However, expectations in financial markets are that the significant economic stimulus policies that have been operated by the ECB for some time would soon be scaled back. These measures are largely designed to keep interest rates low.

UK inflation moved higher throughout much of 2017, with the Consumer Prices Index (CPI) reaching a peak of 3.1% in November. The Bank of England (BoE) raised interest rates for the first time in 10 years. A further increase was expected in May but the central bank held rates unchanged. Inflationary pressures subsequently eased, with CPI standing at 2.4% in May 2018. This pullback was largely expected, mainly as the impact of sterling's devaluation immediately following the Brexit referendum fell out of the comparison. The decline in inflation was faster than some commentators had expected and this, together with broadly flat economic growth in the first quarter of 2018, contributed to the BoE's decision.

The prospect of a gradual increase in global inflation and the withdrawal of central bank stimulus measures weighed on government bond prices for much of the period. During February and March, as concerns over rising US interest rates and fears of a trade war led to a sell-off in global stockmarkets, conventional and index-linked government bonds benefited from their perceived safe-haven qualities. (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.) These moves were partly reversed in April as investor sentiment recovered. However, in May sentiment took another downturn, due to heightened political risk in Italy. This led to another rally as UK conventional and index-linked gilts were perceived as relative safe havens.

Index-linked government bonds declined modestly overall over the 12-month period under review, while conventional bonds made small gains.

Investment activities

The fund's performance is affected by its 'duration', which refers to the ability to reduce or increase the portfolio's sensitivity to changes in interest rates. Generally, bonds with shorter duration are less sensitive to changes in interest rates than bonds with longer duration. While we maintained a long duration position in absolute terms over the entire 12-month period, at times we held a shorter duration position relative to a comparable index, making it modestly less sensitive to the prospect of rising interest rates.

We maintain a preference for index-linked bonds with a long time until final repayment (also referred to as longer dated bonds), especially those maturing in 35-40 years, due to an expected relative lack of new issuance in this area, which could lead to higher prices. Meanwhile, we have minimal exposure to index-linked bonds maturing in 20-30 years, as we find valuations less compelling.

While the fund is able to hold selected index-linked corporate bonds, we reduced some positions during the reporting period, as we believed that these now offered less compelling value. These included bonds from UK Power Network and electricity firm Kelda.

Over the review period, we continued to find 'relative value' opportunities within the index-linked gilt market, focusing on buying the index-linked gilts that appear most attractively priced. For example, in April, we sold some positions in index-linked bonds maturing in 30 years in order to buy some maturing in 20 and 40 years and take advantage of attractive valuations.

Outlook

Progress has been made in the Brexit negotiations, although significant issues, such as Irish border control, have yet to be resolved. The final nature of economic relations between the UK and the European Union and the implications for the domestic economy are also unclear.

The BoE has reduced its growth forecast for 2018, as weak business confidence continues to affect key sectors of the economy. We think that inflation will drift back towards its 2% target over the coming months, although future levels could be vulnerable to higher oil prices and energy bills.

Investors tend to favour gilts and index-linked gilts during times of economic and political uncertainty, as such assets are generally seen as low risk. Against the current backdrop of weaker economic activity and continued Brexit-related uncertainty, we believe UK government bond prices could be supported by demand for gilts.

Ben Lord

Fund manager

An employee of M&G Limited which is an associate of M&G Securities Limited.

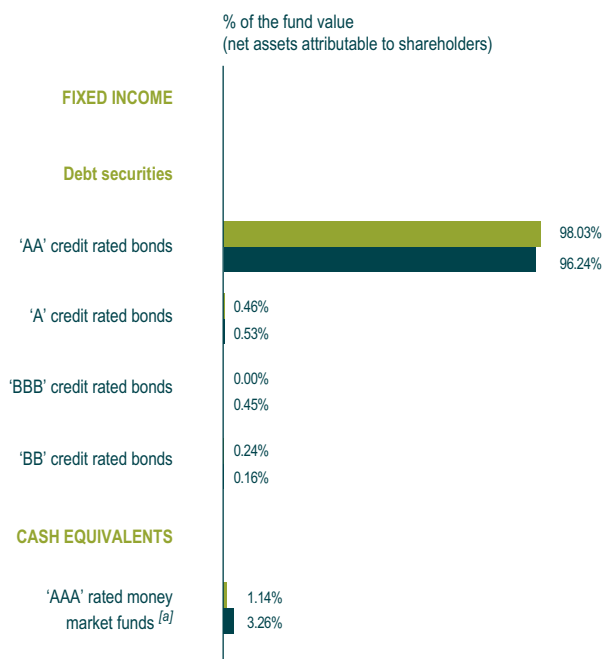
Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial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

M&G Index-Linked Bond Fund

Authorised Corporate Director's Report

Investment review

Classification of investments



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

■ 31 May 2018
■ 31 May 2017

Source: M&G

Investments

Portfolio statement

| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|--|----------------|---------------|---------------|
| FIXED INCOME | 310,096 | 98.73 | 97.38 |
| Debt securities | 310,096 | 98.73 | 97.38 |
| 'AA' credit rated bonds | 307,922 | 98.03 | 96.24 |
| £1,000,000 Network Rail Infrastructure Finance 1.9618% IL 2025 | 1,901 | 0.61 | |
| £40,600,000 Treasury 0.125% IL 2024 | 52,550 | 16.73 | |
| £11,000,000 Treasury 0.125% IL 2029 | 15,633 | 4.98 | |
| £10,900,000 Treasury 0.125% IL 2036 | 16,068 | 5.12 | |
| £16,653,000 Treasury 0.125% IL 2048 | 27,863 | 8.87 | |
| £18,805,000 Treasury 0.125% IL 2058 | 39,484 | 12.57 | |
| £4,605,048 Treasury 0.125% IL 2065 | 10,943 | 3.48 | |
| £8,495,000 Treasury 0.125% IL 2068 | 22,082 | 7.03 | |
| £5,913,000 Treasury 0.375% IL 2062 | 15,564 | 4.95 | |
| £9,250,000 Treasury 0.75% IL 2047 | 23,181 | 7.38 | |
| £5,210,000 Treasury 1.25% IL 2027 | 9,799 | 3.12 | |
| £3,260,000 Treasury 1.25% IL 2055 | 11,505 | 3.66 | |
| £5,252,000 Treasury 1.875% IL 2022 | 8,453 | 2.69 | |
| £925,000 Treasury 2% IL 2035 | 2,470 | 0.79 | |
| £625,500 Treasury 2.5% IL 2020 | 2,265 | 0.72 | |
| £7,288,000 Treasury 2.5% IL 2024 | 26,396 | 8.40 | |
| £6,000,000 Treasury 4.125% IL 2030 | 21,765 | 6.93 | |
| 'A' credit rated bonds | 1,431 | 0.46 | 0.53 |
| £450,000 DWR Cymru Financing 1.859% IL 2048 | 969 | 0.31 | |
| £200,000 National Grid Electricity Transmission 2.817% IL 2032 | 462 | 0.15 | |
| 'BBB' credit rated bonds | 0 | 0.00 | 0.45 |
| 'BB' credit rated bonds | 743 | 0.24 | 0.16 |
| £500,000 Tesco 1.982% IL 2036 | 743 | 0.24 | |
| Portfolio of investments | 310,096 | 98.73 | 97.38 |
| CASH EQUIVALENTS | 3,588 | 1.14 | 3.26 |
| 'AAA' rated money market funds ^[a] | 3,588 | 1.14 | 3.26 |
| 3,588,000 Northern Trust Global Fund - Sterling | 3,588 | 1.14 | |
| Total portfolio (notes 2c & 2d on page 7) | 313,684 | 99.87 | 100.64 |
| Net other assets / (liabilities) | 410 | 0.13 | (0.64) |
| Net assets attributable to shareholders | 314,094 | 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.

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 show the performance for two of the fund's share classes – Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

We show performance for these two share classes because:

- The performance of the Sterling Class 'A' (Accumulation) share is what most individuals investing directly with M&G have received. It has the highest ongoing charge of all the sterling share classes. Performance is shown after deduction of this charge. All UK investors in the fund therefore received this performance or better.
- The performance of the Sterling Class 'I' (Accumulation) share is the most appropriate to compare with the average performance of the fund's comparative sector. It is the share class used by the Investment Association in the calculation of the comparative sector's average performance. This share class is available for direct investment with M&G subject to minimum investment criteria, or via third parties who may charge additional fees. The performance shown takes the deduction of the ongoing charge for this share class into account but it does not take account of charges applied by any other party through which you may have invested.

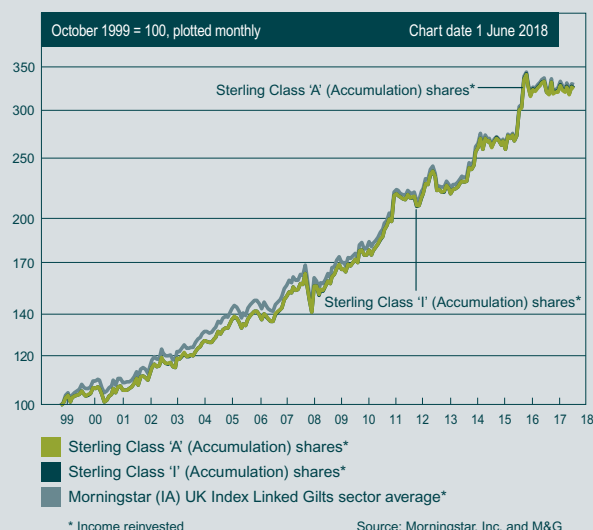
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

| Fund net asset value | | | |
|----------------------------|---------|---------|---------|
| | 2018 | 2017 | 2016 |
| as at 31 May | £'000 | £'000 | £'000 |
| Fund net asset value (NAV) | 314,094 | 400,111 | 350,272 |

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 and Sterling Class 'I' (Accumulation) shares.



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

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

| Long-term performance by share class | | | | |
|--------------------------------------|-------------------------------|-----------------------------------|----------------------------------|------------------------|
| | One year 01.06.17 % [a] | Three years 01.06.15 % p.a. | Five years 03.06.13 % p.a. | Since launch % p.a. |
| Sterling [b] | | | | |
| Class 'A' | -1.3 | +6.5 | +6.9 | +6.5 [c] |
| Class 'I' | -1.2 | +6.6 | +7.0 | +7.3 [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.

M&G Index-Linked 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:

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

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

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where 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.

For this fund there is no difference between operating charges and ongoing charges figures, unless disclosed under the specific share class performance table.

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 or by calling M&G Customer Relations.

Portfolio transaction costs

| as at 31 May | 2018 | 2017 | 2016 | Average ^[a] |
|--------------------------------------|------|------|------|------------------------|
| Indirect portfolio transaction costs | % | % | % | % |
| Average portfolio dealing spread | 0.10 | 0.12 | 0.09 | 0.10 |

^[a] Average of first three columns.

M&G Index-Linked Bond Fund

Financial highlights

Specific share class performance

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

Sterling Class 'A' Income share performance

The share class was launched on 4 October 1999.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 144.31 | 117.96 | 115.95 |
| Return before operating charges and after direct portfolio transaction costs | (2.23) | 27.27 | 2.77 |
| Operating charges | (0.92) | (0.92) | (0.76) |
| Return after operating charges | (3.15) | 26.35 | 2.01 |
| Distributions | 0.00 | 0.00 | 0.00 |
| Closing NAV | 141.16 | 144.31 | 117.96 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.00 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.66 | 0.66 | 0.66 |
| Return after operating charges | -2.18 | +22.34 | +1.73 |
| Distribution yield | 0.00 | 0.00 | 0.00 |
| Effect on yield of charges offset against capital | 0.65 | 0.65 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 18,080 | 26,078 | 23,653 |
| Closing NAV percentage of total fund NAV (%) | 5.75 | 6.51 | 6.75 |
| Number of shares | 12,807,899 | 18,071,199 | 20,051,070 |
| Highest share price (UK p) | 146.50 | 149.71 | 120.40 |
| Lowest share price (UK p) | 134.21 | 117.95 | 111.15 |

Sterling Class 'A' Accumulation share performance

The share class was launched on 4 October 1999.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 165.78 | 135.52 | 133.21 |
| Return before operating charges and after direct portfolio transaction costs | (2.56) | 31.31 | 3.18 |
| Operating charges | (1.06) | (1.05) | (0.87) |
| Return after operating charges | (3.62) | 30.26 | 2.31 |
| Distributions | 0.00 | 0.00 | 0.00 |
| Retained distributions | 0.00 | 0.00 | 0.00 |
| Closing NAV | 162.16 | 165.78 | 135.52 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.00 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.66 | 0.66 | 0.66 |
| Return after operating charges | -2.18 | +22.33 | +1.74 |
| Distribution yield | 0.00 | 0.00 | 0.00 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 47,960 | 65,606 | 71,083 |
| Closing NAV percentage of total fund NAV (%) | 15.27 | 16.40 | 20.29 |
| Number of shares | 29,574,772 | 39,573,071 | 52,453,452 |
| Highest share price (UK p) | 168.30 | 171.99 | 138.32 |
| Lowest share price (UK p) | 154.18 | 135.50 | 127.69 |

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 1,544.44 | 1,261.18 | 1,238.45 |
| Return before operating charges and after direct portfolio transaction costs | (23.79) | 291.61 | 29.69 |
| Operating charges | (8.41) | (8.35) | (6.96) |
| Return after operating charges | (32.20) | 283.26 | 22.73 |
| Distributions | 0.00 | 0.00 | 0.00 |
| Closing NAV | 1,512.24 | 1,544.44 | 1,261.18 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.00 | 0.01 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.01 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.56 | 0.56 | 0.56 |
| Return after operating charges | -2.08 | +22.46 | +1.84 |
| Distribution yield | 0.00 | 0.00 | 0.00 |
| Effect on yield of charges offset against capital | 0.55 | 0.55 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 86,869 | 106,652 | 74,418 |
| Closing NAV percentage of total fund NAV (%) | 27.66 | 26.66 | 21.25 |
| Number of shares | 5,744,397 | 6,905,591 | 5,900,674 |
| Highest share price (UK p) | 1,568.27 | 1,602.02 | 1,286.86 |
| Lowest share price (UK p) | 1,436.51 | 1,261.04 | 1,187.22 |

M&G Index-Linked Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

| for the year to 31 May | 2018 | 2017 | 2016 |
|--|-------------|-------------|-------------|
| Change in NAV per share | UK p | UK p | UK p |
| Opening NAV | 1,546.46 | 1,262.85 | 1,240.08 |
| Return before operating charges and after direct portfolio transaction costs | (23.82) | 291.94 | 29.75 |
| Operating charges | (8.42) | (8.33) | (6.98) |
| Return after operating charges | (32.24) | 283.61 | 22.77 |
| Distributions | 0.00 | 0.00 | 0.00 |
| Retained distributions | 0.00 | 0.00 | 0.00 |
| Closing NAV | 1,514.22 | 1,546.46 | 1,262.85 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.00 | 0.01 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.01 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.56 | 0.56 | 0.56 |
| Return after operating charges | -2.08 | +22.46 | +1.84 |
| Distribution yield | 0.00 | 0.00 | 0.00 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 161,185 | 201,775 | 181,118 |
| Closing NAV percentage of total fund NAV (%) | 51.32 | 50.43 | 51.71 |
| Number of shares | 10,644,776 | 13,047,558 | 14,342,071 |
| Highest share price (UK p) | 1,570.32 | 1,604.11 | 1,288.56 |
| Lowest share price (UK p) | 1,438.39 | 1,262.71 | 1,188.78 |

^[a] In respect of direct portfolio transaction costs.

^[b] As a percentage of average net asset value.

M&G Index-Linked Bond Fund

Financial statements and notes

Financial statements

| Statement of total return | | | | | |
|---|------|---------|----------------|---------|---------------|
| for the year to 31 May | Note | 2018 | | 2017 | |
| | | £'000 | £'000 | £'000 | £'000 |
| Income | | | | | |
| Net capital gains / (losses) | 3 | | (14,348) | | 71,358 |
| Revenue | 5 | 6,513 | | 10,263 | |
| Expenses | 6 | (2,066) | | (2,458) | |
| Net revenue / (expense) before taxation | | 4,447 | | 7,805 | |
| Taxation | 7 | 0 | | 0 | |
| Net revenue / (expense) after taxation | | | 4,447 | | 7,805 |
| Total return before equalisation | | | (9,901) | | 79,163 |
| Equalisation | 8 | | 800 | | 539 |
| Change in net assets attributable to shareholders from investment activities | | | (9,101) | | 79,702 |

| Statement of change in net assets attributable to shareholders | | | | |
|--|-----------|----------|-----------|----------|
| | 2018 | | 2017 | |
| for the year to 31 May | £'000 | £'000 | £'000 | £'000 |
| Opening net assets attributable to shareholders | | 400,111 | | 350,272 |
| Amounts received on issue of shares | 25,529 | | 85,435 | |
| Amounts paid on cancellation of shares | (102,483) | | (115,392) | |
| | | (76,954) | | (29,957) |
| Dilution adjustments | | 38 | | 94 |
| Change in net assets attributable to shareholders from investment activities (see above) | | (9,101) | | 79,702 |
| Closing net assets attributable to shareholders | | 314,094 | | 400,111 |

| Balance sheet | | | |
|---|------|----------------|----------------|
| as at 31 May | Note | 2018 | 2017 |
| | | £'000 | £'000 |
| Assets | | | |
| Fixed assets | | | |
| Investments | | 313,684 | 402,668 |
| Current assets | | | |
| Debtors | 9 | 453 | 557 |
| Cash and bank balances | 10 | 17 | 68 |
| Total assets | | 314,154 | 403,293 |
| Liabilities | | | |
| Creditors | | | |
| Overdrawn positions at futures clearing houses and collateral manager | | 0 | (22) |
| Other creditors | 11 | (60) | (3,160) |
| Total liabilities | | (60) | (3,182) |
| Net assets attributable to shareholders | | 314,094 | 400,111 |

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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

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

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

3 Net capital gains / (losses)

| for the year to 31 May | 2018 | 2017 |
|-------------------------------------|-----------------|---------------|
| | £'000 | £'000 |
| Non-derivative securities | (14,343) | 71,298 |
| Derivative contracts | 0 | 364 |
| Currency gains / (losses) | (1) | (298) |
| Transaction charges | (4) | (6) |
| Net capital gains / (losses) | (14,348) | 71,358 |

4 Portfolio transactions and associated costs

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

| for the year to 31 May | 2018 | | 2017 | |
|---|----------|-------------|-----------|-------------|
| | £'000 | | £'000 | |
| a) Purchases | | | | |
| Debt securities ^[a] | 526,956 | | 963,433 | |
| b) Sales | | | | |
| Debt securities ^[a] | 596,318 | | 1,001,080 | |
| c) Direct portfolio transaction costs | 2018 | % of | 2017 | % of |
| | £'000 | average NAV | £'000 | average NAV |
| Commissions paid | | | | |
| Derivatives | 0 | 0.00 | 2 | 0.00 |
| Total direct portfolio transaction costs | 0 | 0.00 | 2 | 0.00 |
| d) Indirect portfolio transaction costs | | | | |
| Portfolio dealing spread ^[b] | | 0.10 | | 0.12 |

^[a] These transaction types do not attract direct portfolio transaction costs.

^[b] Average portfolio dealing spread at the balance sheet date.

5 Revenue

| for the year to 31 May | 2018 | 2017 |
|-----------------------------|--------------|---------------|
| | £'000 | £'000 |
| Derivative revenue | 0 | (133) |
| Interest distributions | 11 | 15 |
| Interest on debt securities | 6,502 | 10,381 |
| Total revenue | 6,513 | 10,263 |

M&G Index-Linked Bond Fund

Financial statements and notes

Notes to the financial statements

6 Expenses

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Payable to the ACD or associate | | |
| Annual management charge | 1,496 | 1,782 |
| Administration charge | 532 | 630 |
| | 2,028 | 2,412 |
| Payable to the Depositary or associate | | |
| Depositary's charge (including VAT) | 26 | 30 |
| Other expenses | | |
| Audit fee (including VAT) | 11 | 15 |
| Interest payable | 1 | 0 |
| Safe custody charge | 0 | 1 |
| | 12 | 16 |
| Total expenses | 2,066 | 2,458 |

7 Taxation

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| a) Analysis of charge in the year | | |
| Corporation tax | 0 | 0 |
| Deferred tax (note 7c) | 0 | 0 |
| Total taxation | 0 | 0 |
| b) Factors affecting taxation charge for the year | | |
| Net revenue / (expense) before taxation | 4,447 | 7,805 |
| Corporation tax at 20% | 890 | 1,561 |
| Effects of: | | |
| Retail Prices Index adjustment to gilts | (2,326) | (2,906) |
| Current year expenses not utilised | 1,436 | 1,335 |
| Prior year adjustment to expenses not utilised | 0 | 10 |
| Total tax charge (note 7a) | 0 | 0 |
| c) Provision for deferred taxation | | |
| Provision at the start of the year | 0 | 0 |
| Deferred tax in profit and loss account (note 7a) | 0 | 0 |
| Provision at the end of the year | 0 | 0 |

The fund has not recognised a deferred tax asset of £5,289,000 (2017: £3,853,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

| for the year to 31 May | 2018 | | 2017 | |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Interest distributions | Inc ^[a] £'000 | Acc ^[b] £'000 | Inc ^[a] £'000 | Acc ^[b] £'000 |
| Interim | nil | nil | nil | nil |
| Final | nil | nil | nil | nil |
| Total net distributions | | nil | | nil |
| Interest distributions | | 0 | | 0 |
| Income deducted on cancellation of shares | | (951) | | (833) |
| Income received on issue of shares | | 151 | | 294 |
| Equalisation | | (800) | | (539) |
| Net revenue / (expense) per statement of total return | | 4,447 | | 7,805 |
| Expenses offset against capital | | 687 | | 524 |
| Effective yield adjustment not distributed | | (11,634) | | (14,529) |
| Income deficit transferred to capital | | 5,700 | | 5,661 |
| Equalisation | | (800) | | (539) |

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

9 Debtors

| as at 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Amounts receivable on issues of shares | 0 | 87 |
| Debt security interest receivable | 452 | 469 |
| Distributions receivable | 1 | 1 |
| Total debtors | 453 | 557 |

10 Cash and bank balances

| as at 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Amounts held at futures clearing houses and collateral manager | 0 | 22 |
| Cash held as bank balances | 17 | 46 |
| Total cash and bank balances | 17 | 68 |

11 Other creditors

| as at 31 May | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| ACD's annual management charge payable | 36 | 43 |
| Administration charge payable | 11 | 15 |
| Amounts payable on cancellation of shares | 0 | 3,088 |
| Expenses payable | 13 | 14 |
| Total other creditors | 60 | 3,160 |

12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2017: same).

13 Shares in issue

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

| Share class | Opening 01.06.17 | Movements | | Closing 31.05.18 |
|------------------------|---------------------|-----------|--------------|---------------------|
| | | Issued | Cancelled | |
| Sterling | | | | |
| Class 'A' Income | 18,071,199 | 339,914 | (5,603,214) | 12,807,899 |
| Class 'A' Accumulation | 39,573,071 | 775,228 | (10,773,527) | 29,574,772 |
| Class 'I' Income | 6,905,591 | 838,238 | (1,999,432) | 5,744,397 |
| Class 'I' Accumulation | 13,047,558 | 748,270 | (3,151,052) | 10,644,776 |

14 Charging structure

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

| Share class | Entry charge % | Exit charge % | Annual management charge % |
|-----------------|----------------------|---------------------|-------------------------------------|
| Sterling | | | |
| Class 'A' | nil | n/a | 0.50 |
| Class 'I' | nil | n/a | 0.40 |

M&G Index-Linked Bond Fund

Financial statements and notes

Notes to the financial statements

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 3.59% (2017: 0.00%) of the fund's shares.

16 Events after the balance sheet date

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

17 Fair value analysis

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

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

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

Level 2: Valuation technique using observable market data

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

Level 3: Valuation technique using unobservable inputs

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

| as at 31 May | Assets | Liabilities | Assets | Liabilities |
|--------------------|----------------|-------------|----------------|-------------|
| Basis of valuation | 2018 | 2018 | 2017 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Level 1 | 306,021 | 0 | 383,123 | 0 |
| Level 2 | 7,663 | 0 | 19,545 | 0 |
| Level 3 | 0 | 0 | 0 | 0 |
| | 313,684 | 0 | 402,668 | 0 |

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

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 8 and 9.

19 Market risk sensitivity and exposure

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

The VaR limit set during the financial year to 31 May 2018 was 20% (2017: 20%).

The lowest, highest and average VaR, as well as utilisation of VaR with reference to the limit above, are calculated during the financial years ended 31 May 2018 and 31 May 2017.

| | 2018 | 2018 | 2017 | 2017 |
|------------------------|----------|------------------------|----------|------------------------|
| for the year to 31 May | % of VaR | Utilisation of VaR [a] | % of VaR | Utilisation of VaR [a] |
| | | 20% | | 20% |
| Lowest | 9.31% | 46.54 | 7.45% | 37.26 |
| Highest | 11.53% | 57.65 | 13.44% | 67.19 |
| Average | 10.26% | 51.32 | 11.59% | 57.94 |

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

20 Credit risk

| as at 31 May | 2018 | 2017 |
|-----------------------------------|----------------|----------------|
| | £'000 | £'000 |
| Investment grade securities | 309,353 | 388,953 |
| Below investment grade securities | 743 | 661 |
| Other investments | 3,588 | 13,054 |
| Total | 313,684 | 402,668 |

M&G Index-Linked Bond Fund

Financial statements and notes

Notes to the financial statements

21 Leverage risk

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

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

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 31 May 2018 and 31 May 2017 are disclosed in the table below.

| for the year to 31 May | 2018 £'000 | 2018 % | 2017 ^[a] £'000 | 2017 ^[a] % |
|------------------------|---------------|-----------|------------------------------|--------------------------|
| Lowest | 0 | 0 | 0 | 0 |
| Highest | 23 | 0 | 41,099 | 13 |
| Average | 0 | 0 | 11,183 | 5 |

^[a] Leverage has been calculated using the Gross Sum of Notional Approach for derivative positions only (including forward currency) and excludes all physical holdings. The prior period leverage disclosures have been restated to conform with the revisions to the current period leverage calculation.

22 Interest distribution tables

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

| Semi-annual distribution periods | | | | |
|----------------------------------|----------|----------|----------|----------|
| | Start | End | Xd | Payment |
| Interim | 01.06.17 | 30.11.17 | 01.12.17 | 31.01.18 |
| Final | 01.12.17 | 31.05.18 | 01.06.18 | 31.07.18 |

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

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

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

Sterling Class 'A' Income shares

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution | |
|---|----------------|---------------------------------|-----------------------------|--------|
| | p | p | 2018 | 2017 |
| Interim | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| Final | 0.0000 | 0.0000 | 0.0000 | 0.0000 |

Sterling Class 'A' Accumulation shares

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution | |
|---|----------------|---------------------------------|-----------------------------|--------|
| | p | p | 2018 | 2017 |
| Interim | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| Final | 0.0000 | 0.0000 | 0.0000 | 0.0000 |

Sterling Class 'I' Income shares

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution | |
|---|----------------|---------------------------------|-----------------------------|--------|
| | p | p | 2018 | 2017 |
| Interim | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| Final | 0.0000 | 0.0000 | 0.0000 | 0.0000 |

Sterling Class 'I' Accumulation shares

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution | |
|---|----------------|---------------------------------|-----------------------------|--------|
| | p | p | 2018 | 2017 |
| Interim | 0.0000 | 0.0000 | 0.0000 | 0.0000 |
| Final | 0.0000 | 0.0000 | 0.0000 | 0.0000 |

M&G Index-Linked Bond Fund

Financial statements and notes

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M&G Index Tracker Fund

Authorised Corporate Director's Report

Investment objective and policy

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

Investment approach

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

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

Risk profile

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

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

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



The above number:

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

Investment review

As at 1 June 2018, for the year ended 31 May 2018

Performance against objective

The M&G Index Tracker Fund is designed to track the FTSE All-Share Index. Between 1 June 2017 (the start of the review period) and 1 June 2018, the fund's Sterling Class 'A' share class produced a total return (the combination of income and growth of capital) of 6.4% in sterling terms. Meanwhile, the FTSE All-Share Index produced a total return of 6.5% 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

As the fund tracks the index, its overall performance can largely be explained by market developments over the 12 months 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 performance of UK equities, or company shares, was lacklustre over the first six months of the period under review. Against a backdrop of healthy global economic growth, investors focused on uninspiring UK economic growth coupled with concerns about domestic politics and the negotiations to leave the European Union (EU).

The second half of the period under review saw more pronounced stockmarket activity, with sentiment swayed at times by geopolitical tension, notably relations between the US and North Korea, as well as US-led air strikes in Syria, and the possibility of a trade war between the US and China. Other factors influencing investor sentiment were the expectation of interest rate moves in the UK and US and progress in the Brexit negotiations. In this environment, the UK market produced a positive result over the full 12 months.

Despite weak economic activity, in November 2017 the Bank of England (BoE) raised interest rates from 0.25% to 0.5% as it was encouraged by record low unemployment, higher inflation and a healthy global economic backdrop.

Towards the end of 2017, investors in the UK stockmarket responded positively as the government finalised much of the Brexit divorce settlement. It also agreed in principle on a two-year transitional agreement and moved on to trade negotiations.

2018 started strongly for many stockmarkets, including the UK, which established a record high in early January. However, most stockmarkets quickly turned downward as robust wage growth in the US led to concerns that US interest rates could rise quicker than had been previously expected. The US Federal Reserve duly raised rates in March, and again shortly after the end of the review period, with further increases likely this year.

Following the November interest rate hike in the UK, initial expectations of an additional rate rise in May this year faded due to early forecasts of broadly flat economic growth in the first quarter of 2018 and a faster-than-expected decline in inflation. The BoE left rates unchanged and the pace and extent of further increases are expected to be modest.

M&G Index Tracker Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

In the spring, an easing of geopolitical tension and reduced worries of a US-China trade war helped drive a recovery in investor sentiment. However, at the end of the review period the US imposed tariffs on steel and aluminium on key allies, including the EU, and the prospect of a trade war remains a possibility.

Inflation, as measured by consumer price inflation (CPI), has declined from a high of 3.1% in November as the impact of sterling's devaluation post the Brexit referendum fell out of the comparison; CPI stood at 2.4% in May. Furthermore, wage growth has picked up a little, outstripping inflation in the three months to March for the first time in more than a year, although it fell back slightly in April. In other data, unemployment levels continued to decline, standing at 4.2% in the three months to April.

At a sector level, industrial metals and miners were the strongest performers on the back of solid commodity prices. Oil companies also fared well due to the stronger oil price. Performance from 'defensive' sectors, which are generally more resilient in economic downturns, were mixed. Food & drug retailers and beverages performed well, while others, such as telecommunications, tobacco and utilities, trailed behind the broader market.

In terms of individual stocks, leading contributors included oil companies Royal Dutch Shell and BP as well as banking group HSBC. Meanwhile, featuring among underperformers were British American Tobacco, consumer goods company Reckitt Benckiser and telecommunications firm BT.

Investment activities

Merger and acquisition activity remained a prominent factor over the period under review as a range of companies were acquired, thus leaving the index and the portfolio. For example, food wholesale operator Booker left the index after it was taken over by Tesco. Meanwhile, payment processing firm WorldPay merged with US company Vantiv and left the portfolio.

Other companies acquired by firms not held in the UK stockmarket also left the index. Specific examples involved financial services firm Aldermore Group, engineering consultancy Atkins (WS) and online payments company Paysafe Group, which were acquired by FirstRand, SNC-Lavalin Group (GB) and PI UK Bidco, respectively.

In terms of purchases, IT firm Micro Focus International bought Hewlett Packard Enterprise's software business segment and we added to our position in Micro Focus International to reflect its increased weighting in the index. Meanwhile, we topped up the holding in specialist manufacturing investor Melrose Industries in connection with its acquisition of engineering group GKN.

Elsewhere, we bought additional shares in various companies which issued new shares in secondary placings. Such transactions involved medical products and technology firm ConvaTec Group, retirement products and services company Just Group, Onesavings Bank and low-cost airline Wizz Air Holdings. We bought more shares in Investment trust Pershing Square Holdings and intellectual property commercialisation firm IP Group, which also issued shares to raise funds.

Finally, we undertook some sales and purchases for portfolio management purposes; such transactions involved shares in banking group HSBC, Lloyds Banking Group, British American Tobacco and pharmaceutical company GlaxoSmithKline.

Outlook

Progress has been made in the Brexit negotiations, although significant issues have yet to be resolved. The Irish border remains a considerable hurdle as the government seeks to maintain an open border between Northern Ireland and the Irish Republic, an EU member. Also unclear is the final nature of economic relations between the UK and EU.

Turning to the economy, the BoE has reduced its growth forecast for 2018 to 1.4%, down from its previous estimate of 1.8% in February, with the cut partly due to the extreme weather in the spring. Inflation has declined, although going forward levels could be vulnerable to higher oil prices and energy bills.

Following the bad weather, the UK's dominant services sector expanded more than expected in May, but inflows of new work have been disappointing as business confidence is dampened by Brexit-related uncertainty. In other data, recent improvements in manufacturing mask underlying weakness, with a slowdown in new orders and job creation in the sector, while construction remains uninspiring.

Nevertheless, unemployment is low and the wage squeeze may be easing, which should lessen pressure on consumers. Furthermore, at the corporate level, newsflow remains broadly encouraging, partly due to sterling's depreciation post the referendum, which supported UK exporters, but also because the global economy is undergoing a synchronised recovery for the first time in decades. In particular, a significant proportion of the revenues of larger UK companies are derived from overseas and such firms have benefited from ongoing global economic growth.

With only modest economic growth and persistent uncertainty concerning the final nature of Brexit, volatility in the UK stockmarket is to be expected at times. However, the UK has underperformed world markets over the past 18 months and we believe UK equities are attractively valued.

Richard O'Connor
Fund manager

An employee of 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 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|---|----------------|---------------|---------------------------|
| EQUITIES | 555,975 | 100.12 | 100.74 |
| Oil & gas producers | 75,535 | 13.60 | 11.35 |
| 4,305,791 BP | 24,659 | 4.44 | |
| 124,311 Cairn Energy | 288 | 0.05 | |
| 383,929 EnQuest | 135 | 0.02 | |
| 255,647 Ophir Energy | 154 | 0.03 | |
| 192,924 Premier Oil | 220 | 0.04 | |
| 1,027,930 Royal Dutch Shell 'A' | 26,860 | 4.84 | |
| 837,044 Royal Dutch Shell 'B' | 22,454 | 4.04 | |
| 57,952 Soco International | 65 | 0.01 | |
| 281,065 Tullow Oil | 700 | 0.13 | |
| Oil equipment, services & distribution | 1,664 | 0.30 | 0.30 |
| 32,704 Hunting | 275 | 0.05 | |
| 147,983 John Wood Group | 986 | 0.18 | |
| 75,272 Lamprell | 77 | 0.01 | |
| 56,655 Petrofac | 326 | 0.06 | |
| Chemicals | 4,404 | 0.79 | 0.67 |
| 91,000 Carclo | 82 | 0.01 | |
| 28,590 Croda International | 1,348 | 0.24 | |
| 109,016 Elementis | 321 | 0.06 | |
| 42,814 Johnson Matthey | 1,463 | 0.26 | |
| 961,246 Sirius Minerals | 330 | 0.06 | |
| 60,858 Synthomer | 330 | 0.06 | |
| 18,711 Victrex | 530 | 0.10 | |
| Forestry & paper | 1,728 | 0.31 | 0.31 |
| 82,226 Mondi | 1,728 | 0.31 | |
| Industrial metals & mining | 627 | 0.11 | 0.06 |
| 95,930 Evraz | 473 | 0.08 | |
| 68,390 Ferrexpo | 147 | 0.03 | |
| 3,132 Kenmare Resources | 7 | 0.00 | |
| 56 Kenmare Resources wts. 2019 | 0 | 0.00 | |
| Mining | 37,246 | 6.71 | 5.47 |
| 36,524 Acacia Mining | 48 | 0.01 | |
| 217,959 Anglo American | 3,938 | 0.71 | |
| 77,439 Antofagasta | 819 | 0.15 | |
| 465,127 BHP Billiton | 7,989 | 1.44 | |
| 260,758 Centamin | 335 | 0.06 | |
| 40,289 Fresnillo | 541 | 0.10 | |
| 29,397 Gem Diamonds | 32 | 0.01 | |
| 2,604,484 Glencore | 9,837 | 1.77 | |
| 56,453 Hochschild Mining | 124 | 0.02 | |
| 53,149 KAZ Minerals | 536 | 0.10 | |
| 61,648 Lonmin | 27 | 0.00 | |
| 206,888 Petra Diamonds | 132 | 0.02 | |
| 58,095 Polymetal International | 400 | 0.07 | |
| 20,935 Randgold Resources | 1,241 | 0.22 | |
| 260,229 Rio Tinto | 11,104 | 2.00 | |
| 20,128 Vedanta Resources | 143 | 0.03 | |
| Construction & materials | 9,858 | 1.78 | 1.37^[a] |
| 154,114 Balfour Beatty | 466 | 0.08 | |
| 32,276 Costain Group | 147 | 0.03 | |
| 187,076 CRH | 5,206 | 0.94 | |
| 28,988 Henry Boot | 84 | 0.02 | |
| 88,734 Ibstock | 246 | 0.04 | |
| 18,581 Keller Group | 194 | 0.03 | |
| 23,339 Kier Group | 245 | 0.04 | |
| 48,210 Marshalls | 207 | 0.04 | |

Portfolio statement (continued)

| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|--|---------------|-------------|---------------------------|
| Construction & materials (continued) | | | |
| 1,084,936 Melrose Industries | 2,541 | 0.46 | |
| 9,357 Morgan Sindall | 139 | 0.03 | |
| 25,215 Norcros | 49 | 0.01 | |
| 46,055 Polypipe | 178 | 0.03 | |
| 45,817 Tyman | 156 | 0.03 | |
| Aerospace & defence | 10,305 | 1.86 | 2.00 |
| 6,707 Avon Rubber | 94 | 0.02 | |
| 712,152 BAE Systems | 4,605 | 0.83 | |
| 69,509 Chemring Group | 146 | 0.03 | |
| 547,065 Cobham | 682 | 0.12 | |
| 173,723 Meggitt | 853 | 0.15 | |
| 135,024 QinetiQ Group | 359 | 0.06 | |
| 362,027 Rolls-Royce Holdings | 2,989 | 0.54 | |
| 100,908 Senior | 315 | 0.06 | |
| 16,139 Ultra Electronics Holdings | 262 | 0.05 | |
| General industrials | 5,739 | 1.03 | 0.86^[a] |
| 292,815 Coats Group | 231 | 0.04 | |
| 221,239 DS Smith | 1,231 | 0.22 | |
| 96,187 Low & Bonar | 51 | 0.01 | |
| 87,248 RPC Group | 697 | 0.12 | |
| 88,393 Smiths Group | 1,550 | 0.28 | |
| 54,051 Smurfit Kappa | 1,660 | 0.30 | |
| 50,382 Vesuvius | 319 | 0.06 | |
| Electronic & electrical equipment | 3,023 | 0.54 | 0.50 |
| 7,665 Dialight | 38 | 0.01 | |
| 82,761 Halma | 1,135 | 0.21 | |
| 69,363 Morgan Advanced Materials | 234 | 0.04 | |
| 13,436 Oxford Instruments | 123 | 0.02 | |
| 7,823 Renishaw | 413 | 0.07 | |
| 26,949 Spectris | 765 | 0.14 | |
| 55,780 TT electronics | 137 | 0.02 | |
| 17,246 Xaar | 52 | 0.01 | |
| 3,641 XP Power | 126 | 0.02 | |
| Industrial engineering | 5,010 | 0.90 | 0.74 |
| 46,912 Bodycote | 463 | 0.08 | |
| 46,004 Fenner | 280 | 0.05 | |
| 3,042 Goodwin | 62 | 0.01 | |
| 18,805 Hill & Smith Holdings | 263 | 0.05 | |
| 61,398 IMI | 711 | 0.13 | |
| 67,066 Renold | 20 | 0.00 | |
| 5,513 RHI Magnesita | 282 | 0.05 | |
| 197,390 Rotork | 667 | 0.12 | |
| 69,710 Severfield | 54 | 0.01 | |
| 15,892 Spirax-Sarco Engineering | 985 | 0.18 | |
| 55,916 Weir Group | 1,223 | 0.22 | |
| Industrial transportation | 2,431 | 0.44 | 0.43 |
| 227,328 BBA Aviation | 752 | 0.14 | |
| 8,159 Clarkson | 208 | 0.04 | |
| 10,291 James Fisher & Sons | 182 | 0.03 | |
| 201,124 Royal Mail | 1,038 | 0.19 | |
| 74,400 Stobart Group | 167 | 0.03 | |
| 30,574 Wincanton | 84 | 0.01 | |
| Support services | 27,087 | 4.88 | 5.01^[a] |
| 146,475 AA | 184 | 0.03 | |
| 55,051 Aggreko | 392 | 0.07 | |
| 113,173 Ashtead Group | 2,624 | 0.47 | |
| 111,916 Babcock International Group | 933 | 0.17 | |
| 157,000 BCA Marketplace | 302 | 0.05 | |
| 75,361 Bunzl | 1,739 | 0.31 | |
| 372,272 Capita | 511 | 0.09 | |
| 15,367 Charles Taylor (formerly Charles Taylor Consulting) | 45 | 0.01 | |

M&G Index Tracker Fund

Authorised Corporate Director's Report

Investments

| Portfolio statement (continued) | | | | |
|--|---------------|-------------|-----------------|--|
| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % | |
| Support services (continued) | | | | |
| 58,424 Connect Group | 33 | 0.01 | | |
| 20,011 DCC | 1,444 | 0.26 | | |
| 23,584 De La Rue | 123 | 0.02 | | |
| 25,288 Diploma | 321 | 0.06 | | |
| 98,680 Electrocomponents | 711 | 0.13 | | |
| 55,195 Equiniti | 146 | 0.03 | | |
| 59,501 Essentra | 283 | 0.05 | | |
| 208,095 Experian | 3,856 | 0.69 | | |
| 55,492 Ferguson (formerly Wolseley) | 3,249 | 0.59 | | |
| 352,754 G4S | 962 | 0.17 | | |
| 47,531 Grafton Group | 364 | 0.07 | | |
| 275,017 Hays | 509 | 0.09 | | |
| 67,066 Hogg Robinson | 80 | 0.01 | | |
| 60,858 HomeServe | 536 | 0.10 | | |
| 132,991 Howden Joinery Group | 669 | 0.12 | | |
| 35,947 Interserve | 27 | 0.00 | | |
| 36,172 Intertek Group | 2,000 | 0.36 | | |
| 151,024 IWG | 471 | 0.08 | | |
| 22,348 John Menzies | 142 | 0.03 | | |
| 25,681 Mears Group | 82 | 0.01 | | |
| 85,169 Mitie Group | 157 | 0.03 | | |
| 31,624 Northgate | 132 | 0.02 | | |
| 70,973 Pagegroup (formerly Michael Page International) | 377 | 0.07 | | |
| 15,904 PayPoint | 158 | 0.03 | | |
| 143,021 Renewi (formerly Shanks Group) | 110 | 0.02 | | |
| 419,094 Rentokil Initial | 1,435 | 0.26 | | |
| 13,784 Ricardo | 141 | 0.03 | | |
| 16,475 Robert Walters | 107 | 0.02 | | |
| 55,347 RPS Group | 145 | 0.03 | | |
| 26,757 Sanne | 168 | 0.03 | | |
| 248,532 Serco Group | 238 | 0.04 | | |
| 150,196 SIG | 204 | 0.04 | | |
| 136,075 Speedy Hire | 77 | 0.01 | | |
| 29,569 SThree | 96 | 0.02 | | |
| 56,738 Travis Perkins | 770 | 0.14 | | |
| 3,773 Vp | 34 | 0.01 | | |
| Automobiles & parts | 0 | 0.00 | 0.25 | |
| Beverages | | | | |
| 20,044 A.G. Barr | 138 | 0.02 | | |
| 51,760 Britvic | 419 | 0.08 | | |
| 43,860 Coca-Cola HBC (formerly Coca-Cola Hellenic) | 1,140 | 0.20 | | |
| 541,790 Diageo | 14,940 | 2.69 | | |
| 65,456 Stock Spirits Group | 159 | 0.03 | | |
| Food producers | 4,068 | 0.73 | 0.79 [a] | |
| 79,811 Associated British Foods | 2,153 | 0.39 | | |
| 12,413 Cranswick | 418 | 0.08 | | |
| 36,103 Dairy Crest Group | 181 | 0.03 | | |
| 58,284 Devro | 122 | 0.02 | | |
| 164,185 Greencore | 305 | 0.05 | | |
| 266,618 Premier Foods | 105 | 0.02 | | |
| 14,000 PureCircle | 49 | 0.01 | | |
| 108,201 Tate & Lyle | 735 | 0.13 | | |
| Household goods & home construction | 16,831 | 3.03 | 3.62 [a] | |
| 225,384 Barratt Developments | 1,232 | 0.22 | | |
| 27,827 Bellway | 914 | 0.17 | | |
| 28,132 Berkeley Group Holdings | 1,197 | 0.22 | | |

Portfolio statement (continued)

| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % | |
|--|---------------|-------------|-----------------|--|
| Household goods & home construction (continued) | | | | |
| 32,574 Bovis Homes Group | 411 | 0.07 | | |
| 84,249 Countryside Properties | 313 | 0.06 | | |
| 60,000 Crest Nicholson | 263 | 0.05 | | |
| 24,525 Galliford Try | 236 | 0.04 | | |
| 70,212 McBride | 88 | 0.02 | | |
| 138,605 McCarthy & Stone | 177 | 0.03 | | |
| 19,105 MJ Gleeson | 138 | 0.02 | | |
| 69,105 Persimmon | 1,956 | 0.35 | | |
| 139,181 Reckitt Benckiser | 8,235 | 1.48 | | |
| 51,209 Redrow | 314 | 0.06 | | |
| 710,147 Taylor Wimpey | 1,357 | 0.24 | | |
| Leisure goods | 213 | 0.04 | 0.02 | |
| 4,643 Games Workshop Group | 132 | 0.02 | | |
| 73,700 Photo-Me International | 81 | 0.02 | | |
| Personal goods | 13,181 | 2.37 | 2.63 [a] | |
| 91,336 Burberry Group | 1,875 | 0.34 | | |
| 52,316 PZ Cussons | 126 | 0.02 | | |
| 11,827 SuperGroup | 149 | 0.03 | | |
| 6,838 Ted Baker | 168 | 0.03 | | |
| 258,622 Unilever | 10,863 | 1.95 | | |
| Tobacco | 25,456 | 4.58 | 5.80 | |
| 511,274 British American Tobacco | 19,712 | 3.55 | | |
| 214,297 Imperial Brands | 5,744 | 1.03 | | |
| Health care equipment & services | 5,612 | 1.01 | 1.01 | |
| 12,913 Consort Medical | 150 | 0.03 | | |
| 332,377 ConvaTec | 765 | 0.14 | | |
| 15,000 Georgia Healthcare Group | 41 | 0.01 | | |
| 87,523 Mediclinical International | 557 | 0.10 | | |
| 19,068 NMC Health | 691 | 0.12 | | |
| 196,579 Smith & Nephew | 2,698 | 0.48 | | |
| 83,002 Spire Healthcare | 209 | 0.04 | | |
| 56,318 UDG Healthcare | 501 | 0.09 | | |
| Pharmaceuticals & biotechnology | 43,081 | 7.76 | 8.44 | |
| 282,900 AstraZeneca | 15,458 | 2.78 | | |
| 87,799 BTG | 535 | 0.10 | | |
| 21,849 Dechra Pharmaceuticals | 606 | 0.11 | | |
| 17,209 Genus | 447 | 0.08 | | |
| 1,080,989 GlaxoSmithKline | 16,487 | 2.97 | | |
| 33,399 Hikma Pharmaceuticals | 458 | 0.08 | | |
| 161,108 Indivior | 767 | 0.14 | | |
| 199,048 Shire | 8,192 | 1.48 | | |
| 155,968 Vectura Group | 131 | 0.02 | | |
| Food & drug retailers | 8,988 | 1.62 | 1.29 | |
| 24,944 Greggs | 267 | 0.05 | | |
| 363,891 J Sainsbury | 1,164 | 0.21 | | |
| 115,804 Ocado Group | 1,030 | 0.19 | | |
| 2,158,727 Tesco | 5,341 | 0.96 | | |
| 476,344 Wm Morrison Supermarkets | 1,186 | 0.21 | | |
| General retailers | 9,871 | 1.78 | 1.99 [a] | |
| 168,493 B&M European Value Retail | 678 | 0.12 | | |
| 48,869 Brown (N) Group | 102 | 0.02 | | |
| 51,838 Card Factory | 109 | 0.02 | | |
| 33,414 Carpetright | 12 | 0.00 | | |
| 306,023 Debenhams | 65 | 0.01 | | |
| 43,153 DFS Furniture | 102 | 0.02 | | |
| 9,796 Dignity | 118 | 0.02 | | |
| 230,640 Dixons Carphone | 426 | 0.08 | | |
| 22,551 Dunelm Group | 123 | 0.02 | | |
| 21,315 Findel | 50 | 0.01 | | |
| 48,578 Halfords Group | 164 | 0.03 | | |
| 94,687 Inchcape | 695 | 0.13 | | |
| 95,780 JD Sports Fashion | 361 | 0.07 | | |

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| Portfolio statement (continued) | | | | |
|---|---------------|-------------|-------------|--|
| as at 31 May | 2018 | 2018 | 2017 | |
| Holding | £'000 | % | % | |
| General retailers (continued) | | | | |
| 120,594 Just Eat | 1,004 | 0.18 | | |
| 500,628 Kingfisher | 1,540 | 0.28 | | |
| 61,504 Laura Ashley Holdings | 3 | 0.00 | | |
| 81,746 Lookers | 87 | 0.02 | | |
| 366,238 Marks & Spencer Group | 1,050 | 0.19 | | |
| 35,146 Mothercare | 12 | 0.00 | | |
| 31,351 Next | 1,826 | 0.33 | | |
| 337,904 Pendragon | 88 | 0.02 | | |
| 104,341 Pets at Home | 131 | 0.02 | | |
| 268,345 Saga | 342 | 0.06 | | |
| 60,566 Sports Direct International | 249 | 0.04 | | |
| 34,479 Topps Tiles | 25 | 0.00 | | |
| 25,642 WH Smith | 509 | 0.09 | | |
| Media | | | | |
| | 19,463 | 3.50 | 3.69 | |
| 9,581 4imprint Group | 170 | 0.03 | | |
| 63,126 Ascential | 268 | 0.05 | | |
| 210,893 Auto Trader Group | 742 | 0.13 | | |
| 11,581 Bloomsbury Publishing | 27 | 0.00 | | |
| 60,666 Entertainment One | 183 | 0.03 | | |
| 10,593 Euromoney Institutional Investor | 134 | 0.02 | | |
| 70,989 Gocompare.com | 88 | 0.02 | | |
| 184,406 Informa | 1,442 | 0.26 | | |
| 65,293 ITE Group | 90 | 0.02 | | |
| 849,303 ITV | 1,395 | 0.25 | | |
| 117,735 Moneysupermarket.com | 373 | 0.07 | | |
| 185,186 Pearson | 1,673 | 0.30 | | |
| 58,726 Reach (formerly Trinity Mirror) | 47 | 0.01 | | |
| 239,060 RELX | 3,946 | 0.71 | | |
| 20,914 Rightmove | 1,036 | 0.19 | | |
| 238,626 Sky | 3,211 | 0.58 | | |
| 92,519 UBM | 947 | 0.17 | | |
| 273,736 WPP | 3,411 | 0.61 | | |
| 57,293 ZPG (formerly Zoopla Property Group) | 280 | 0.05 | | |
| Travel & leisure | | | | |
| | 26,633 | 4.80 | 4.71 | |
| 40,781 Carnival | 1,982 | 0.36 | | |
| 226,933 Cineworld | 579 | 0.10 | | |
| 354,396 Compass Group | 5,718 | 1.03 | | |
| 100,293 Domino's Pizza Group | 382 | 0.07 | | |
| 55,555 easyJet | 952 | 0.17 | | |
| 122,704 EI Group (formerly Enterprise Inns) | 176 | 0.03 | | |
| 280,496 FirstGroup | 275 | 0.05 | | |
| 8,404 Fuller Smith & Turner | 78 | 0.01 | | |
| 9,796 Go-Ahead Group | 168 | 0.03 | | |
| 71,211 Greene King | 416 | 0.07 | | |
| 121,672 GVC Holdings | 1,242 | 0.22 | | |
| 362,062 GVC Holdings (exchange offer) | 0 | 0.00 | | |
| 24,530 Hostelworld | 85 | 0.02 | | |
| 43,316 InterContinental Hotels | 2,088 | 0.38 | | |
| 367,974 International Consolidated Airlines Group | 2,532 | 0.46 | | |
| 22,361 J.D.Wetherspoon | 274 | 0.05 | | |
| 143,101 Marston's | 143 | 0.03 | | |
| 157,249 Merlin Entertainment | 589 | 0.11 | | |
| 38,526 Millennium & Copthorne Hotels | 205 | 0.04 | | |
| 66,119 Mitchells & Butlers | 177 | 0.03 | | |
| 99,357 National Express | 404 | 0.07 | | |
| 18,438 Paddy Power Betfair | 1,678 | 0.30 | | |
| 66,572 Playtech | 527 | 0.10 | | |
| 64,084 Rank Group | 117 | 0.02 | | |

Portfolio statement (continued)

| as at 31 May | 2018 | 2018 | 2017 | |
|--|---------------|--------------|-----------------------------|--|
| Holding | £'000 | % | % | |
| Travel & leisure (continued) | | | | |
| 47,418 Restaurant Group | 148 | 0.03 | | |
| 101,919 SSP Group | 668 | 0.12 | | |
| 102,684 Stagecoach Group | 159 | 0.03 | | |
| 349,133 Thomas Cook Group | 398 | 0.07 | | |
| 99,012 TUI | 1,719 | 0.31 | | |
| 41,107 Whitbread | 1,723 | 0.31 | | |
| 210,230 William Hill | 675 | 0.12 | | |
| 10,517 Wizz Air Holdings | 356 | 0.06 | | |
| Fixed line telecommunications | | | | |
| | 4,243 | 0.76 | 1.18 | |
| 1,875,517 BT Group | 3,844 | 0.69 | | |
| 132,444 KCOM Group | 126 | 0.02 | | |
| 120,670 TalkTalk Telecom | 134 | 0.02 | | |
| 13,585 Telecom Plus | 139 | 0.03 | | |
| Mobile telecommunications | | | | |
| | 11,918 | 2.15 | 2.74 | |
| 107,849 Inmarsat | 401 | 0.07 | | |
| 5,936,959 Vodafone Group | 11,517 | 2.08 | | |
| Electricity | | | | |
| | 3,509 | 0.63 | 0.71 | |
| 117,972 Drax Group | 389 | 0.07 | | |
| 227,767 SSE | 3,120 | 0.56 | | |
| Gas, water & multi-utilities | | | | |
| | 11,092 | 2.00 | 2.74 | |
| 1,245,802 Centrica | 1,795 | 0.32 | | |
| 758,800 National Grid | 6,358 | 1.15 | | |
| 95,307 Pennon Group | 717 | 0.13 | | |
| 52,788 Severn Trent | 1,043 | 0.19 | | |
| 152,516 United Utilities | 1,179 | 0.21 | | |
| Banks | | | | |
| | 58,799 | 10.59 | 10.90 ^[a] | |
| 9,871 Bank of Georgia | 185 | 0.03 | | |
| 3,842,007 Barclays | 7,649 | 1.38 | | |
| 35,678 Close Brothers Group | 526 | 0.09 | | |
| 207,297 CYBG | 608 | 0.11 | | |
| 4,477,448 HSBC Holdings | 32,435 | 5.84 | | |
| 15,860,980 Lloyds Banking Group | 10,089 | 1.82 | | |
| 17,424 Metro Bank | 576 | 0.10 | | |
| 708,506 Royal Bank of Scotland Group | 1,972 | 0.36 | | |
| 602,737 Standard Chartered | 4,504 | 0.81 | | |
| 73,284 Virgin Money Holdings (UK) | 255 | 0.05 | | |
| Non-life insurance | | | | |
| | 6,150 | 1.11 | 1.10 | |
| 42,291 Admiral Group | 825 | 0.15 | | |
| 117,594 Beazley | 704 | 0.13 | | |
| 305,106 Direct Line Insurance Group | 1,096 | 0.20 | | |
| 69,074 esure | 162 | 0.03 | | |
| 69,828 Hastings Group | 183 | 0.03 | | |
| 61,837 Hiscox | 933 | 0.17 | | |
| 28,154 Jardine Lloyd Thompson Group | 346 | 0.06 | | |
| 47,829 Lancashire Holdings | 293 | 0.05 | | |
| 232,285 RSA Insurance Group | 1,523 | 0.27 | | |
| 32,943 Sabre Insurance Group | 85 | 0.02 | | |
| Life insurance | | | | |
| | 23,812 | 4.29 | 4.23 ^[a] | |
| 895,180 Aviva | 4,591 | 0.83 | | |
| 38,408 Chesnara | 151 | 0.03 | | |
| 193,857 Just Group (formerly JRP) | 280 | 0.05 | | |
| 1,323,749 Legal & General Group | 3,590 | 0.65 | | |
| 1,063,379 Old Mutual | 2,570 | 0.46 | | |
| 87,261 Phoenix Group | 683 | 0.12 | | |
| 578,446 Prudential ^[b] | 10,562 | 1.90 | | |
| 116,214 St. James's Place | 1,385 | 0.25 | | |
| Real estate investment & services | | | | |
| | 2,374 | 0.43 | 0.46 ^[a] | |
| 165,215 Capital & Counties Properties | 506 | 0.09 | | |
| 53,320 CLS Holdings | 124 | 0.02 | | |
| 36,000 Countrywide | 33 | 0.01 | | |
| 1,313 Daejan Holdings | 77 | 0.01 | | |
| 123,795 F&C Commercial Property Trust | 180 | 0.03 | | |

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| Portfolio statement (continued) | | | | |
|--|---------------|-------------|----------------------------|--|
| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % | |
| Real estate investment & services (continued) | | | | |
| 55,000 Foxtons Group | 38 | 0.01 | | |
| 93,230 Grainger (formerly Grainger Trust) | 285 | 0.05 | | |
| 29,362 Helical (formerly Helical Bar) | 110 | 0.02 | | |
| 23,460 LSL Property Services | 55 | 0.01 | | |
| 108,307 Medicx Fund | 85 | 0.02 | | |
| 127,327 Picton Property Income | 114 | 0.02 | | |
| 107,321 Raven Property Group (formerly Raven Russia) | 49 | 0.01 | | |
| 29,425 Savills | 284 | 0.05 | | |
| 43,703 St. Modwen Properties | 174 | 0.03 | | |
| 54,660 U and I | 132 | 0.03 | | |
| 147,517 UK Commercial Property Trust | 128 | 0.02 | | |
| Real estate investment trusts | 11,478 | 2.07 | 2.09 ^[a] | |
| 538,661 Assura | 310 | 0.06 | | |
| 33,178 Big Yellow Group | 308 | 0.06 | | |
| 229,655 British Land | 1,557 | 0.28 | | |
| 203,763 Capital & Regional | 110 | 0.02 | | |
| 22,736 Derwent London | 682 | 0.12 | | |
| 95,000 Ediston Property Investment Company | 103 | 0.02 | | |
| 104,655 F&C UK Real Estate Investments | 107 | 0.02 | | |
| 67,357 Great Portland Estates | 465 | 0.08 | | |
| 178,883 Hammerson | 996 | 0.18 | | |
| 69,944 Hansteen Holdings | 74 | 0.01 | | |
| 210,191 Intu Properties | 416 | 0.07 | | |
| 161,856 Land Securities Group | 1,513 | 0.27 | | |
| 157,573 LondonMetric Property | 306 | 0.06 | | |
| 67,967 NewRiver | 202 | 0.04 | | |
| 211,421 Primary Health Properties | 237 | 0.04 | | |
| 359,713 RDI (formerly Redefine International) | 137 | 0.02 | | |
| 59,451 Safestore | 338 | 0.06 | | |
| 120,865 Schroder Real Estate Investment Trust | 73 | 0.01 | | |
| 236,915 Segro | 1,543 | 0.28 | | |
| 57,483 Shaftesbury | 535 | 0.10 | | |
| 92,278 Standard Life Investment Property Income Trust | 87 | 0.02 | | |
| 22,910 Town Centre Securities | 65 | 0.01 | | |
| 335,278 Tritax Big Box | 502 | 0.09 | | |
| 58,761 UNITE Group | 497 | 0.09 | | |
| 27,762 Workspace Group | 315 | 0.06 | | |
| Financial services | 16,870 | 3.04 | 3.34 ^[a] | |
| 213,279 3i Group | 2,038 | 0.37 | | |
| 87,249 Allied Minds | 97 | 0.02 | | |
| 91,792 Ashmore Group | 340 | 0.06 | | |
| 69,960 Brewin Dolphin Holdings | 256 | 0.05 | | |
| 12,000 City of London Investment Group | 51 | 0.01 | | |
| 9,871 Georgia Capital | 93 | 0.02 | | |
| 55,818 Hargreaves Lansdown | 1,072 | 0.19 | | |
| 89,675 IG Group Holdings | 775 | 0.14 | | |
| 69,264 Intermediate Capital Group | 793 | 0.14 | | |
| 61,570 International Personal Finance | 124 | 0.02 | | |
| 145,802 Investec | 816 | 0.15 | | |
| 226,000 IP Group | 309 | 0.05 | | |
| 116,125 John Laing | 327 | 0.06 | | |
| 102,819 Jupiter Fund Management | 467 | 0.08 | | |
| 70,548 London Stock Exchange | 3,144 | 0.57 | | |
| 366,314 Man Group | 668 | 0.12 | | |
| 74,982 Nex Group | 763 | 0.14 | | |

Portfolio statement (continued)

| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|--|---------------|-------------|----------------------------|
| Financial services (continued) | | | |
| 62,963 OneSavings Bank | 256 | 0.05 | |
| 72,188 Paragon Banking Group (formerly Paragon Group of Companies) | 350 | 0.06 | |
| 58,983 Provident Financial | 372 | 0.07 | |
| 9,453 Rathbone Brothers | 230 | 0.04 | |
| 26,270 Schroders | 858 | 0.15 | |
| 18,864 Sole Realisation Company (formerly SVG Capital) | 1 | 0.00 | |
| 609,720 Standard Life Aberdeen (formerly Standard Life) | 2,136 | 0.38 | |
| 126,886 TP ICAP | 534 | 0.10 | |
| Equity investment instruments | 25,589 | 4.61 | 4.26 ^[a] |
| 124,193 3i Infrastructure | 282 | 0.05 | |
| 49,232 Aberdeen Asian Income Fund | 103 | 0.02 | |
| 14,869 Aberdeen Asian Smaller Companies Investment Trust | 156 | 0.03 | |
| 116,749 Aberdeen Diversified Income and Growth Trust (formerly BlackRock Income Trust) | 141 | 0.02 | |
| 35,696 Aberdeen New Dawn Investment Trust | 85 | 0.02 | |
| 11,497 Aberdeen New India Investment Trust | 52 | 0.01 | |
| 23,204 Aberforth Smaller Companies Trust | 332 | 0.06 | |
| 81,601 Alliance Trust | 605 | 0.11 | |
| 11,508 Artemis Alpha Trust | 40 | 0.01 | |
| 16,767 Baillie Gifford Japan Trust | 141 | 0.02 | |
| 54,320 Baillie Gifford Shin Nippon | 106 | 0.02 | |
| 36,648 Bankers Investment Trust | 324 | 0.06 | |
| 4,784 Baring Emerging Europe | 34 | 0.01 | |
| 115,929 BBGI SICAV (formerly BBGI) | 154 | 0.03 | |
| 7,235 BH Global | 102 | 0.02 | |
| 8,444 BH Macro | 174 | 0.03 | |
| 22,605 Biotech Growth Trust | 165 | 0.03 | |
| 36,406 BlackRock Frontier Investment Trust | 56 | 0.01 | |
| 9,332 BlackRock Latin American Investment Trust | 38 | 0.01 | |
| 15,746 BlackRock Smaller Companies Trust | 233 | 0.04 | |
| 19,967 BlackRock Throgmorton Trust | 106 | 0.02 | |
| 44,057 BlackRock World Mining Trust | 175 | 0.03 | |
| 81,569 Bluefield Solar Income Fund | 96 | 0.02 | |
| 27,330 British Empire Securities & General Trust | 203 | 0.04 | |
| 7,952 Brunner Investment Trust | 63 | 0.01 | |
| 9,571 Caledonia Investments | 260 | 0.05 | |
| 646 Capital Gearing Trust | 26 | 0.00 | |
| 48,759 City Merchants High Yield Trust | 93 | 0.02 | |
| 68,252 City of London Investment Trust | 297 | 0.05 | |
| 70,000 Diverse Income Trust | 75 | 0.01 | |
| 51,879 Dragon Capital Vietnam Enterprise Investments | 239 | 0.04 | |
| 36,288 Dunedin Income Growth Investment Trust | 93 | 0.02 | |
| 19,162 Dunedin Smaller Companies Investment Trust | 52 | 0.01 | |
| 52,621 Ecofin Global Utilities and Infrastructure Trust | 65 | 0.01 | |
| 49,418 Edinburgh Dragon Trust | 184 | 0.03 | |
| 48,494 Edinburgh Investment Trust | 334 | 0.06 | |
| 12,019 Edinburgh Worldwide Investment Trust | 106 | 0.02 | |
| 5,282 Electra Private Equity | 49 | 0.01 | |
| 14,371 EP Global Opportunities Trust | 45 | 0.01 | |
| 13,277 European Investment Trust | 120 | 0.02 | |
| 21,354 F&C Capital & Income Investment Trust | 72 | 0.01 | |
| 17,778 F&C Global Smaller Companies | 245 | 0.04 | |

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Investments

| Portfolio statement (continued) | | | |
|--|------------|--------|--------|
| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
| Equity investment instruments (continued) | | | |
| 26,956 F&C Private Equity Trust | 95 | 0.02 | |
| 12,948 Fidelity Asian Values | 52 | 0.01 | |
| 2,589 Fidelity Asian Values (Subscription shares) | 1 | 0.00 | |
| 112,110 Fidelity China Special Situations | 287 | 0.05 | |
| 105,890 Fidelity European Values | 231 | 0.04 | |
| 64,515 Fidelity Special Values | 176 | 0.03 | |
| 30,229 Finsbury Growth & Income Trust | 244 | 0.04 | |
| 115,813 Foreign & Colonial Investment Trust | 792 | 0.14 | |
| 152,497 Foresight Solar Fund | 163 | 0.03 | |
| 6,000 Fundsmith Emerging Equities Trust | 75 | 0.01 | |
| 157,265 GCP Infrastructure | 188 | 0.03 | |
| 31,754 Genesis Emerging Markets | 221 | 0.04 | |
| 264,819 Greencoat UK Wind | 320 | 0.06 | |
| 1,000 Hansa Trust | 10 | 0.00 | |
| 18,219 Harbourvest Global Private Equity | 227 | 0.04 | |
| 12,144 Henderson Alternative Strategies Trust | 34 | 0.01 | |
| 96,266 Henderson Diversified Income Trust | 86 | 0.01 | |
| 7,185 Henderson European Focus Trust | 87 | 0.02 | |
| 4,288 Henderson EuroTrust | 48 | 0.01 | |
| 22,794 Henderson Far East Income | 84 | 0.02 | |
| 28,474 Henderson High Income Trust | 52 | 0.01 | |
| 20,599 Henderson Smaller Companies Investment Trust | 198 | 0.04 | |
| 20,371 Herald Investment Trust | 265 | 0.05 | |
| 9,684 HG Capital Trust | 181 | 0.03 | |
| 410,102 HICL Infrastructure | 579 | 0.10 | |
| 18,845 IGG Enterprise Trust | 156 | 0.03 | |
| 64,010 Impax Environmental Markets | 172 | 0.03 | |
| 21,000 International Biotechnology Trust | 124 | 0.02 | |
| 274,921 International Public Partnerships | 391 | 0.07 | |
| 14,914 Invesco Asia Trust | 44 | 0.01 | |
| 13,876 Invesco Income Growth Trust | 40 | 0.01 | |
| 186,128 John Laing Infrastructure Fund | 220 | 0.04 | |
| 64,465 JPMorgan American Investment Trust | 265 | 0.05 | |
| 24,860 JPMorgan Asian Investment Trust | 90 | 0.02 | |
| 19,298 JPMorgan Chinese Investment Trust | 60 | 0.01 | |
| 14,381 JPMorgan Claverhouse Investment Trust | 111 | 0.02 | |
| 31,308 JPMorgan Emerging Markets Investment Trust | 268 | 0.05 | |
| 30,134 JPMorgan European Growth Investment Trust | 90 | 0.02 | |
| 41,600 JPMorgan European Smaller Companies Trust | 169 | 0.03 | |
| 84,000 JPMorgan Global Convertibles Income Fund | 79 | 0.01 | |
| 70,540 JPMorgan Global Emerging Markets Income Trust | 87 | 0.02 | |
| 43,965 JPMorgan Global Growth & Income | 139 | 0.03 | |
| 30,674 JPMorgan Indian Investment Trust | 215 | 0.04 | |
| 9,427 JPMorgan Japan Smaller Companies Trust | 41 | 0.01 | |
| 37,340 JPMorgan Japanese Investment Trust | 170 | 0.03 | |
| 5,749 JPMorgan Mid Cap Investment Trust | 72 | 0.01 | |
| 13,206 JPMorgan Russian Securities | 68 | 0.01 | |
| 5,353 JPMorgan Smaller Companies Investment Trust | 65 | 0.01 | |
| 20,877 Jupiter European Opportunities Trust | 161 | 0.03 | |

Portfolio statement (continued)

| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|---|------------|--------|--------|
| Equity investment instruments (continued) | | | |
| 4,455 Jupiter US Smaller Companies | 44 | 0.01 | |
| 4,407 Keystone Investment Trust | 77 | 0.01 | |
| 28,440 Law Debenture | 171 | 0.03 | |
| 9,558 Lowland Investment | 147 | 0.03 | |
| 6,893 Majedie Investments | 20 | 0.00 | |
| 26,477 Martin Currie Asia Unconstrained Trust | 105 | 0.02 | |
| 30,524 Martin Currie Global Portfolio Trust | 75 | 0.01 | |
| 193,700 Mercantile Investment Trust | 427 | 0.08 | |
| 22,619 Merchants Trust | 119 | 0.02 | |
| 44,162 Middlefield Canadian Income Trusts | 43 | 0.01 | |
| 49,929 Monks Investment Trust | 412 | 0.07 | |
| 9,072 Montanaro UK Smaller Companies Investment Trust | 53 | 0.01 | |
| 15,376 Murray Income Trust | 119 | 0.02 | |
| 29,533 Murray International Trust | 341 | 0.06 | |
| 250,550 NB Global Floating Rate Income Fund | 235 | 0.04 | |
| 140,787 NextEnergy Solar Fund | 153 | 0.03 | |
| 8,548 North American Income Trust | 109 | 0.02 | |
| 2,919 North Atlantic Smaller Companies Investment Trust | 81 | 0.01 | |
| 20,848 P2P Global Investments | 165 | 0.03 | |
| 28,753 Pacific Assets Trust | 74 | 0.01 | |
| 10,174 Pacific Horizon Investment Trust | 38 | 0.01 | |
| 13,513 Pantheon International | 270 | 0.05 | |
| 57,585 Perpetual Income & Growth Investment Trust | 212 | 0.04 | |
| 51,232 Pershing Square Holdings | 536 | 0.10 | |
| 394 Personal Assets Trust | 157 | 0.03 | |
| 23,952 Polar Capital Global Healthcare Trust (formerly Polar Capital Global Healthcare Growth and Income Trust) | 48 | 0.01 | |
| 32,466 Polar Capital Technology Trust | 405 | 0.07 | |
| 29,616 RIT Capital Partners | 598 | 0.11 | |
| 12,710 Riverstone Energy | 156 | 0.03 | |
| 33,743 Ruffer Investment Company (Preference shares) | 79 | 0.01 | |
| 36,469 Schroder Asia Pacific Fund | 170 | 0.03 | |
| 18,284 Schroder Asian Total Return Investment Company | 67 | 0.01 | |
| 18,236 Schroder Income Growth Fund | 54 | 0.01 | |
| 19,162 Schroder Japan Growth Fund | 42 | 0.01 | |
| 46,527 Schroder Oriental Income Fund | 119 | 0.02 | |
| 32,730 Schroder UK Growth Fund | 64 | 0.01 | |
| 7,670 Schroder UK Mid & Small Cap Fund | 44 | 0.01 | |
| 31,306 Scottish American Investment | 116 | 0.02 | |
| 22,562 Scottish Investment Trust | 194 | 0.03 | |
| 302,599 Scottish Mortgage Investment Trust | 1,548 | 0.28 | |
| 8,864 Scottish Oriental Small Companies Trust | 88 | 0.02 | |
| 20,541 Securities Trust of Scotland | 35 | 0.01 | |
| 168,939 Sequoia Economic Infrastructure Income Fund | 182 | 0.03 | |
| 13,252 Standard Life Equity Income Trust | 65 | 0.01 | |
| 19,011 Standard Life European Private Equity Trust | 62 | 0.01 | |
| 29,578 Standard Life UK Smaller Companies Trust | 147 | 0.03 | |
| 126,198 Syncona | 287 | 0.05 | |
| 14,154 Temple Bar Investment Trust | 186 | 0.03 | |
| 60,759 Templeton Emerging Markets Investment Trust | 437 | 0.08 | |
| 208,397 The Renewables Infrastructure Group | 220 | 0.04 | |

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| Portfolio statement (continued) | | | |
|--|----------------|---------------|-----------------|
| as at 31 May | 2018 | 2018 | 2017 |
| Holding | £'000 | % | % |
| Equity investment instruments (continued) | | | |
| 12,510 TR European Growth Trust | 129 | 0.02 | |
| 72,712 TR Property Investment Trust | 299 | 0.05 | |
| 45,234 Troy Income & Growth Trust | 35 | 0.01 | |
| 70,000 TwentyFour Income Fund | 83 | 0.01 | |
| 63,982 Utilico Emerging Markets Trust | 132 | 0.02 | |
| 17,183 Value & Income Trust | 46 | 0.01 | |
| 21,167 VinaCapital Vietnam Opportunity Fund | 69 | 0.01 | |
| 39,339 Witan Investment Trust | 427 | 0.08 | |
| 17,102 Witan Pacific Investment Trust | 56 | 0.01 | |
| 193,141 Woodford Patient Capital Trust | 144 | 0.03 | |
| 9,955 Worldwide Healthcare Trust | 259 | 0.05 | |
| Non-equity investment instruments | 0 | 0.00 | 0.00 [a] |
| Software & computer services | 4,883 | 0.88 | 0.81 |
| 16,000 AVEVA | 375 | 0.07 | |
| 18,923 Computacenter | 248 | 0.04 | |
| 19,175 FDM Group | 195 | 0.04 | |
| 11,560 Fidessa Group | 445 | 0.08 | |
| 96,480 Micro Focus International | 1,299 | 0.23 | |
| 84,545 NCC Group | 179 | 0.03 | |
| 245,468 Sage Group | 1,628 | 0.29 | |
| 22,606 SDL | 97 | 0.02 | |
| 72,415 Sophos | 417 | 0.08 | |
| Technology hardware & equipment | 408 | 0.07 | 0.08 |
| 115,018 Laird | 228 | 0.04 | |
| 162,534 Spirent Communications | 180 | 0.03 | |
| Unquoted / unlisted | 0 | 0.00 | 0.00 |
| 10,204 Bioscience Investment Trust [c] | 0 | 0.00 | |
| 108,904 Carpetright [c] | 0 | 0.00 | |
| 21,000 Dexion Equity Alternative [c] | 0 | 0.00 | |
| 12,707 Electric & General Investment Trust [c] | 0 | 0.00 | |
| 3,374 Gartmore Irish Growth Fund [c] | 0 | 0.00 | |
| EQUITY DERIVATIVES | 407 | 0.07 | 0.02 |
| Equity futures contracts | 407 | 0.07 | 0.02 |
| 87 FTSE 100 Index Futures Jun 2018 | 407 | 0.07 | |
| Portfolio of investments | 556,382 | 100.19 | 100.76 |
| CASH EQUIVALENTS | 3,990 | 0.72 | 0.13 |
| 'AAA' rated money market funds [d] | 3,990 | 0.72 | 0.13 |
| 3,990,000 Northern Trust Global Fund - Sterling | 3,990 | 0.72 | |
| Total portfolio (notes 2c & 2d on page 7) | 560,372 | 100.91 | 100.89 |
| Net other assets / (liabilities) | (5,066) | (0.91) | (0.89) |
| Net assets attributable to shareholders | 555,306 | 100.00 | 100.00 |

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

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

[b] Related party to the fund.

[c] Delisted.

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

Top ten portfolio transactions

for the year to 31 May 2018

| Largest purchases | £'000 |
|---------------------------|---------------|
| British American Tobacco | 5,114 |
| Royal Dutch Shell 'A' | 1,319 |
| Micro Focus International | 1,164 |
| Melrose Industries | 747 |
| Pershing Square Holdings | 633 |
| Lloyds Banking Group | 613 |
| Capita | 441 |
| BP | 341 |
| BCA Marketplace | 340 |
| Cineworld | 315 |
| Other purchases | 7,008 |
| Total purchases | 18,035 |
| Largest sales | £'000 |
| Worldpay | 1,589 |
| HSBC Holdings | 1,383 |
| Royal Dutch Shell 'A' | 1,290 |
| Anglo American | 1,025 |
| Diageo | 920 |
| Unilever | 839 |
| GlaxoSmithKline | 822 |
| BP | 743 |
| Janus Henderson Group | 686 |
| Royal Dutch Shell 'B' | 646 |
| Other sales | 19,327 |
| Total sales | 29,270 |

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. 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 or by calling M&G Customer Relations.

Index tracking

The tracking difference between the fund's investment return and that of the FTSE All-Share Index for the 12-month period ending 31 May 2018 was +0.06% (31 May 2017: +0.29%). The investment returns are calculated gross of fees using end of day pricing in order to be comparable with the index.

The historic tracking error of the investment return of the fund relative to the FTSE All-Share Index for the period ending 31 May 2018 was +0.12% (31 May 2017: +0.12%), which falls within the predicted tracking error range of 0.00% to 0.30%. Historic tracking error is a measure of the monthly volatility of the investment returns relative to the index over a 36-month period.

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

Fund level performance

| Fund net asset value | | | |
|----------------------------|---------------|---------------|---------------|
| as at 31 May | 2018 £'000 | 2017 £'000 | 2016 £'000 |
| Fund net asset value (NAV) | 555,306 | 550,820 | 479,024 |

Performance since launch

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



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

Long-term performance by share class

| | One year 01.06.17 % [a] | Three years 01.06.15 % p.a. | Five years 03.06.13 % p.a. | Since launch % p.a. |
|---------------------|----------------------------------|--------------------------------------|-------------------------------------|---------------------------|
| Sterling [b] | | | | |
| Class 'A' | +6.4 | +7.2 | +7.6 | +5.3 [c] |
| Class 'C' | +6.7 | +7.5 | +7.9 | +9.4 [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:

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

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

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where 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.

For this fund there is no difference between operating charges and ongoing charges figures, unless disclosed under the specific share class performance table.

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 or by calling M&G Customer Relations.

Portfolio transaction costs

| for the year to 31 May | 2018 | 2017 | 2016 | Average ^[a] |
|---|--------|--------|--------|------------------------|
| Direct portfolio transaction costs ^[b] | % | % | % | % |
| Broker commission | 0.00 | 0.00 | 0.01 | 0.00 |
| Taxes | 0.01 | 0.01 | 0.01 | 0.01 |
| Costs before dilution adjustments | 0.01 | 0.01 | 0.02 | 0.01 |
| Dilution adjustments ^[c] | (0.01) | (0.01) | (0.01) | (0.01) |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 0.01 | 0.00 |
| as at 31 May | 2018 | 2017 | 2016 | Average ^[a] |
| Indirect portfolio transaction costs | % | % | % | % |
| Average portfolio dealing spread | 0.08 | 0.08 | 0.11 | 0.09 |

^[a] Average of first three columns.

^[b] As a percentage of average net asset value.

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

M&G Index Tracker Fund

Financial highlights

Specific share class performance

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

Historic yields for the current year are calculated as at 8 June 2018.

Sterling Class 'A' Income share performance

The share class was launched on 27 February 1998.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 76.82 | 63.91 | 71.27 |
| Return before operating charges and after direct portfolio transaction costs | 4.86 | 15.87 | (4.90) |
| Operating charges | (0.39) | (0.33) | (0.30) |
| Return after operating charges | 4.47 | 15.54 | (5.20) |
| Distributions | (2.97) | (2.63) | (2.16) |
| Closing NAV | 78.32 | 76.82 | 63.91 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|--------|--------|--------|
| Costs before dilution adjustments | 0.01 | 0.01 | 0.01 |
| Dilution adjustments ^[a] | (0.01) | (0.01) | (0.01) |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 0.00 |

| Performance and charges | % | % | % |
|---|-------|--------|-------|
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.01 |
| Operating charges | 0.51 | 0.46 | 0.46 |
| Return after operating charges | +5.82 | +24.32 | -7.30 |
| Historic yield ^[c] | 3.80 | 3.59 | 3.44 |
| Effect on yield of charges offset against capital | 0.45 | 0.45 | 0.00 |

| Other information | | | |
|--|-------------|-------------|-------------|
| Closing NAV (£'000) | 317,266 | 355,226 | 304,040 |
| Closing NAV percentage of total fund NAV (%) | 57.13 | 64.49 | 63.47 |
| Number of shares | 405,091,821 | 462,417,555 | 475,765,937 |
| Highest share price (UK p) | 81.43 | 78.25 | 70.98 |
| Lowest share price (UK p) | 71.48 | 60.60 | 57.06 |

Sterling Class 'A' Accumulation share performance

The share class was launched on 27 February 1998.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 132.78 | 106.54 | 114.92 |
| Return before operating charges and after direct portfolio transaction costs | 8.58 | 26.79 | (7.90) |
| Operating charges | (0.68) | (0.55) | (0.48) |
| Return after operating charges | 7.90 | 26.24 | (8.38) |
| Distributions | (4.59) | (4.06) | (3.52) |
| Retained distributions | 4.59 | 4.06 | 3.52 |
| Closing NAV | 140.68 | 132.78 | 106.54 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|--------|--------|--------|
| Costs before dilution adjustments | 0.02 | 0.02 | 0.02 |
| Dilution adjustments ^[a] | (0.02) | (0.01) | (0.01) |
| Total direct portfolio transaction costs | 0.00 | 0.01 | 0.01 |

| Performance and charges | % | % | % |
|---|-------|--------|-------|
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.01 |
| Operating charges | 0.51 | 0.46 | 0.46 |
| Return after operating charges | +5.95 | +24.63 | -7.29 |
| Historic yield | 3.26 | 3.09 | 3.36 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |

Other information

| | | | |
|--|-------------|-------------|-------------|
| Closing NAV (£'000) | 187,084 | 143,147 | 127,481 |
| Closing NAV percentage of total fund NAV (%) | 33.69 | 25.99 | 26.61 |
| Number of shares | 132,985,401 | 107,808,878 | 119,656,185 |
| Highest share price (UK p) | 143.40 | 132.71 | 114.47 |
| Lowest share price (UK p) | 125.88 | 101.05 | 93.48 |

Sterling Class 'C' Income share performance

Sterling Class 'C' shares are not generally available to all investors.

The share class was launched on 16 February 2012.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 77.30 | 64.18 | 71.58 |
| Return before operating charges and after direct portfolio transaction costs | 4.90 | 15.95 | (4.93) |
| Operating charges | (0.16) | (0.11) | (0.10) |
| Return after operating charges | 4.74 | 15.84 | (5.03) |
| Distributions | (2.99) | (2.72) | (2.37) |
| Closing NAV | 79.05 | 77.30 | 64.18 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|--------|--------|--------|
| Costs before dilution adjustments | 0.01 | 0.01 | 0.01 |
| Dilution adjustments ^[a] | (0.01) | (0.01) | (0.01) |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 0.00 |

| Performance and charges | % | % | % |
|---|-------|--------|-------|
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.01 |
| Operating charges | 0.21 | 0.16 | 0.16 |
| Return after operating charges | +6.13 | +24.68 | -7.03 |
| Historic yield ^[c] | 3.79 | 3.59 | 3.75 |
| Effect on yield of charges offset against capital | 0.15 | 0.15 | 0.00 |

Other information

| | | | |
|--|------------|------------|------------|
| Closing NAV (£'000) | 50,956 | 52,447 | 47,503 |
| Closing NAV percentage of total fund NAV (%) | 9.18 | 9.52 | 9.92 |
| Number of shares | 64,457,378 | 67,845,339 | 74,016,122 |
| Highest share price (UK p) | 82.19 | 78.74 | 71.29 |
| Lowest share price (UK p) | 72.11 | 60.87 | 57.34 |

^[a] In respect of direct portfolio transaction costs.

^[b] As a percentage of average net asset value.

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

M&G Index Tracker Fund

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Financial statements

| Statement of total return | | | | | |
|---|------|---------|---------------|---------|----------------|
| for the year to 31 May | Note | 2018 | | 2017 | |
| | | £'000 | £'000 | £'000 | £'000 |
| Income | | | | | |
| Net capital gains / (losses) | 3 | | 13,070 | | 95,921 |
| Revenue | 5 | 21,322 | | 20,012 | |
| Expenses | 6 | (2,339) | | (2,226) | |
| Net revenue / (expense) before taxation | | 18,983 | | 17,786 | |
| Taxation | 7 | (114) | | (71) | |
| Net revenue / (expense) after taxation | | | 18,869 | | 17,715 |
| Total return before distributions | | | 31,939 | | 113,636 |
| Distributions | 8 | | (20,449) | | (18,785) |
| Change in net assets attributable to shareholders from investment activities | | | 11,490 | | 94,851 |

| Statement of change in net assets attributable to shareholders | | | | |
|--|-----------------|----------|-----------------|----------|
| | 2018 | | 2017 | |
| for the year to 31 May | £'000 | £'000 | £'000 | £'000 |
| Opening net assets attributable to shareholders | | 550,820 | | 479,024 |
| Amounts received on issue of shares | 52,246 | | 13,978 | |
| Amounts paid on cancellation of shares | <u>(65,141)</u> | | <u>(41,568)</u> | |
| | | (12,895) | | (27,590) |
| Dilution adjustments | | 106 | | 77 |
| Change in net assets attributable to shareholders from investment activities (see above) | | 11,490 | | 94,851 |
| Retained distributions on Accumulation shares | | 5,784 | | 4,457 |
| Unclaimed distributions | | 1 | | 1 |
| Closing net assets attributable to shareholders | | 555,306 | | 550,820 |

| Balance sheet | | | |
|---|------|----------------|----------------|
| as at 31 May | Note | 2018 | 2017 |
| | | £'000 | £'000 |
| Assets | | | |
| Fixed assets | | | |
| Investments | | 560,372 | 555,722 |
| Current assets | | | |
| Debtors | 9 | 3,331 | 3,752 |
| Cash and bank balances | 10 | 33 | 290 |
| Total assets | | 563,736 | 559,764 |
| Liabilities | | | |
| Creditors | | | |
| Bank overdrafts | | 0 | (417) |
| Overdrawn positions at futures clearing houses and collateral manager | | (105) | 0 |
| Distribution payable | | (7,376) | (7,799) |
| Other creditors | 11 | (949) | (728) |
| Total liabilities | | (8,430) | (8,944) |
| Net assets attributable to shareholders | | 555,306 | 550,820 |

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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

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

3 Net capital gains / (losses)

| for the year to 31 May | 2018 | 2017 |
|-------------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Non-derivative securities | 12,340 | 95,039 |
| Derivative contracts | 780 | 887 |
| Currency gains / (losses) | (40) | 4 |
| Transaction charges | (10) | (9) |
| Net capital gains / (losses) | 13,070 | 95,921 |

M&G Index Tracker Fund

Financial statements and notes

Notes to the financial statements

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 68.

| for the year to 31 May | 2018 £'000 | % of transaction | 2017 £'000 | % of transaction |
|---|---------------|---------------------|---------------|---------------------|
| a) Purchases | | | | |
| Equities | | | | |
| Equities before transaction costs | 17,232 | | 18,385 | |
| Commissions | 3 | 0.01 | 6 | 0.03 |
| Taxes | 64 | 0.36 | 50 | 0.27 |
| Equities after transaction costs | 17,299 | | 18,441 | |
| Other transaction types | | | | |
| Corporate actions | 736 | | 1,800 | |
| Total purchases after transaction costs | 18,035 | | 20,241 | |
| b) Sales | | | | |
| Equities | | | | |
| Equities before transaction costs | 28,547 | | 40,170 | |
| Commissions | (7) | 0.03 | (11) | 0.03 |
| Equities after transaction costs | 28,540 | | 40,159 | |
| Other transaction types | | | | |
| Corporate actions | 730 | | 1,003 | |
| Total sales after transaction costs | 29,270 | | 41,162 | |
| c) Direct portfolio transaction costs | | | | |
| | 2018 £'000 | average NAV | 2017 £'000 | average NAV |
| Commissions paid | | | | |
| Equities | 10 | 0.00 | 17 | 0.00 |
| Derivatives | 1 | 0.00 | 1 | 0.00 |
| Total commissions paid | 11 | 0.00 | 18 | 0.00 |
| Taxes paid | | | | |
| Equities | 64 | 0.01 | 50 | 0.01 |
| Total taxes paid | 64 | 0.01 | 50 | 0.01 |
| Total direct portfolio transaction costs [a] | 75 | 0.01 | 68 | 0.01 |
| d) Indirect portfolio transaction costs | | | | |
| | | % | | % |
| Portfolio dealing spread [b] | | 0.08 | | 0.08 |

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

[b] Average portfolio dealing spread at the balance sheet date.

5 Revenue

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Bank interest | 3 | 0 |
| Dividends from equity investments: non-taxable | 18,924 | 15,176 |
| Dividends from equity investments: taxable | 368 | 281 |
| Interest distributions | 7 | 11 |
| Stock dividends | 2,020 | 4,532 |
| Underwriting commission | 0 | 12 |
| Total revenue | 21,322 | 20,012 |

6 Expenses

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Payable to the ACD or associate | | |
| Annual management charge | 1,475 | 1,402 |
| Administration charge | 814 | 776 |
| | 2,289 | 2,178 |
| Payable to the Depositary or associate | | |
| Depositary's charge (including VAT) | 37 | 36 |
| Other expenses | | |
| Audit fee (including VAT) | 9 | 10 |
| Interest payable | 3 | 2 |
| Safe custody charge | 1 | 0 |
| | 13 | 12 |
| Total expenses | 2,339 | 2,226 |

7 Taxation

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| a) Analysis of charge in the year | | |
| Corporation tax | 0 | 0 |
| Withholding tax | 113 | 72 |
| Prior year adjustment | 1 | (1) |
| Deferred tax (note 7c) | 0 | 0 |
| Total taxation | 114 | 71 |
| b) Factors affecting taxation charge for the year | | |
| Net revenue / (expense) before taxation | 18,983 | 17,786 |
| Corporation tax at 20% | 3,797 | 3,557 |
| Effects of: | | |
| Dividends from equity investments: non-taxable | (3,785) | (3,036) |
| Stock dividends not taxable | (404) | (906) |
| Current year expenses not utilised | 392 | 385 |
| Withholding tax | 113 | 72 |
| Prior year adjustment | 1 | (1) |
| Total tax charge (note 7a) | 114 | 71 |
| c) Provision for deferred taxation | | |
| Provision at the start of the year | 0 | 0 |
| Deferred tax in profit and loss account (note 7a) | 0 | 0 |
| Provision at the end of the year | 0 | 0 |

The fund has not recognised a deferred tax asset of £4,757,000 (2017: £4,365,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

| for the year to 31 May | 2018 | | 2017 | |
|---|------------------|------------------|------------------|------------------|
| | Inc [a] £'000 | Acc [b] £'000 | Inc [a] £'000 | Acc [b] £'000 |
| Dividend distributions | | | | |
| Interim | 7,057 | 2,521 | 6,305 | 2,077 |
| Final | 7,376 | 3,263 | 7,799 | 2,380 |
| Total net distributions | | 20,217 | | 18,561 |
| Income deducted on cancellation of shares | | 625 | | 298 |
| Income received on issue of shares | | (393) | | (74) |
| Distributions | | 20,449 | | 18,785 |
| Net revenue / (expense) per statement of total return | | 18,869 | | 17,715 |
| Expenses offset against capital | | 1,580 | | 1,070 |
| Distributions | | 20,449 | | 18,785 |

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

M&G Index Tracker Fund

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Notes to the financial statements

9 Debtors

| as at 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Amounts receivable on issues of shares | 265 | 165 |
| Debt security interest receivable | 2 | 0 |
| Distributions receivable | 2 | 0 |
| Dividends receivable | 3,012 | 2,774 |
| Sales awaiting settlement | 0 | 785 |
| Tax recoverable | 5 | 3 |
| Withholding tax recoverable | 45 | 25 |
| Total debtors | 3,331 | 3,752 |

10 Cash and bank balances

| as at 31 May | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Amounts held at futures clearing houses and brokers | 0 | 145 |
| Cash held as bank balances | 33 | 145 |
| Total cash and bank balances | 33 | 290 |

11 Other creditors

| as at 31 May | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| ACD's annual management charge payable | 42 | 37 |
| Administration charge payable | 24 | 21 |
| Amounts payable on cancellation of shares | 789 | 659 |
| Expenses payable | 12 | 11 |
| Purchases awaiting settlement | 82 | 0 |
| Total other creditors | 949 | 728 |

12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2017: same).

13 Shares in issue

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

| Share class | Opening 01.06.17 | Movements Issued Cancelled | Closing 31.05.18 |
|------------------------|---------------------|-------------------------------|---------------------|
| Sterling | | | |
| Class 'A' Income | 462,417,555 | 13,600,172 (70,925,906) | 405,091,821 |
| Class 'A' Accumulation | 107,808,878 | 29,771,962 (4,595,439) | 132,985,401 |
| Class 'C' Income | 67,845,339 | 3,216,290 (6,604,251) | 64,457,378 |

14 Charging structure

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

| Share class | Entry charge % | Exit charge % | Annual management charge % |
|-----------------|----------------------|---------------------|-------------------------------------|
| Sterling | | | |
| Class 'A' | nil | n/a | 0.30 |
| Class 'C' | nil | n/a | 0.00 |

15 Related parties

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

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

During the year, there were transactions in shares in related parties of M&G Securities Limited with a total value of £253,000 (2017: £401,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £10,562,000 (2017: £10,299,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 11.18% (2017: 5.45%) of the fund's shares.

16 Events after the balance sheet date

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

M&G Index Tracker Fund

Financial statements and notes

Notes to the financial statements

17 Fair value analysis

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

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

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

Level 2: Valuation technique using observable market data

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

Level 3: Valuation technique using unobservable inputs

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

| as at 31 May | Assets | Liabilities | Assets | Liabilities |
|--------------------|----------------|-------------|----------------|-------------|
| Basis of valuation | 2018 | 2018 | 2017 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Level 1 | 556,381 | 0 | 554,984 | 0 |
| Level 2 | 3,990 | 0 | 738 | 0 |
| Level 3 | 1 | 0 | 0 | 0 |
| | 560,372 | 0 | 555,722 | 0 |

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

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 8 and 9.

19 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by £27,819,000 (2017: £27,749,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

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

21 Interest rate risk sensitivity and exposure

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

22 Credit risk

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

| | Futures £'000 |
|-------------------------------|------------------|
| as at 31 May 2018 | |
| Bank of America Merrill Lynch | 407 |
| Total | 407 |
| as at 31 May 2017 | |
| Bank of America Merrill Lynch | 113 |
| Total | 113 |

23 Dividend distribution tables

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

| Semi-annual distribution periods | | | | |
|----------------------------------|----------|----------|----------|----------|
| | Start | End | Xd | Payment |
| Interim | 01.06.17 | 30.11.17 | 01.12.17 | 31.01.18 |
| Final | 01.12.17 | 31.05.18 | 01.06.18 | 31.07.18 |

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

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

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

Sterling Class 'A' Income share performance

| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | Group 1 & 2 Distribution 2017 |
|---|----------------|---------------------------------|-------------------------------------|-------------------------------------|
| | p | p | p | p |
| Interim | 0.8428 | 0.5593 | 1.4021 | 1.1646 |
| Final | 1.0919 | 0.4771 | 1.5690 | 1.4694 |

M&G Index Tracker Fund

Financial statements and notes

Notes to the financial statements

23 Dividend distribution tables (continued)

Sterling Class 'A' Accumulation share performance

| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|----------------|---------------------------------|-------------------------------------|--------|
| | p | p | p | p |
| Interim | 1.0733 | 1.0585 | 2.1318 | 1.8554 |
| Final | 1.4943 | 0.9589 | 2.4532 | 2.2074 |

Sterling Class 'C' Income share performance

| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|----------------|---------------------------------|-------------------------------------|--------|
| | p | p | p | p |
| Interim | 0.3578 | 1.0542 | 1.4120 | 1.2366 |
| Final | 1.0932 | 0.4895 | 1.5827 | 1.4796 |

M&G Short Dated Corporate Bond Fund

Authorised Corporate Director's Report

Investment objective up to 12 March 2018

The fund aims to provide income with stability of capital over a rolling three to five year period. There is no guarantee that the fund will achieve its objective over this, or any other, period. The income distributions and the value of your investment may rise and fall and investors may not recoup the original amount they invested.

Investment objective from 13 March 2018

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

Investment policy up to 12 March 2018

The fund invests mainly in debt instruments (which include, but are not limited to: variable rate securities, fixed interest securities, gilts and corporate debt). The fund's exposure to debt instruments may be gained through the use of derivatives. In certain market conditions the fund may have a high proportion of its portfolio in liquid assets such as cash and near cash, deposits, warrants and money market instruments. The fund may also invest in other assets including collective investment schemes, other transferable securities and other derivative instruments.

Investment policy from 13 March 2018

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.

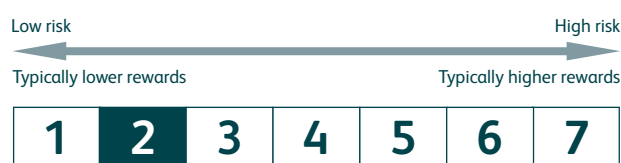
Risk profile

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.

M&G Short Dated Corporate Bond Fund

Authorised Corporate Director's Report

Investment review

As at 1 June 2018, for the year ended 31 May 2018

Performance against objective

Between 1 June 2017 (the start of the review period) and 1 June 2018, the M&G Short Dated Corporate Bond Fund delivered a small positive total return (the combination of income and growth of capital) in its sterling and US dollar share classes, while returns for its euro and Swiss franc share classes were modestly negative*.

The fund's objective is to provide a total return. Since launch, it has delivered a positive return across all of its share classes.

* 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

After a first half of 2017 in which financial markets were largely dominated by politics, attention had turned by the final quarter of last year to the likelihood of central banks finally being able to move towards more 'normal' monetary policy and gradually withdraw the support they have been providing financial markets since the global financial crisis.

Central banks have so far been careful to communicate to markets that this process will only happen slowly and in a controlled manner. If this is indeed the case, markets may not experience big movements, although any changes that happen more suddenly and in greater scale than investors expect could lead to volatility.

This took place against a backdrop of broadly positive economic data releases, indicating that the global economy is in good health. For the first time in a long time, the economic situation in Europe in particular looks considerably brighter. Eurozone unemployment fell to its lowest recorded level since January 2009, while business surveys suggest a further steady pick-up in economic growth over the coming months. Political tensions also receded for much of the period. However, as markets reacted violently to renewed Italian political instability in May, investors were reminded that risks do remain.

The European Central Bank (ECB) announced last October that it would gradually reduce the amount of money it spends each month on its bond-buying programme, but would continue to support markets until at least September 2018. In June this year, the ECB announced it would halve its bond purchases in September and end them altogether in December. (Bonds are loans in the form of a security, usually issued by a government (government bonds) or company (corporate bonds), which normally pay a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.)

The Bank of England last November confirmed investors' expectations by announcing a small interest rate rise of a quarter of a percentage point, taking rates back to their level immediately before 2016's Brexit referendum vote. The Federal Reserve followed suit, increasing US interest rates in December 2017 and again in March and June 2018.

But after a broadly positive end to 2017 and a strong January 2018 for financial markets, many areas in the global bond market weakened, as investors reacted to the prospect of higher inflation and interest rates. By March, weakness in global stockmarkets, caused mainly by the prospect of a trade war between the US and China and the US

imposition of sanctions on Russia, had started to spill over into corporate bond markets. While April proved somewhat calmer, Italian political turmoil, combined with ongoing trade tensions between the US and China, caused further volatility in May.

The more challenging conditions from the start of 2018 led to muted returns across the bond market over the 12-month review period as a whole. Sterling-denominated corporate bonds generally experienced small losses over the period, while euro and US dollar corporate bonds rose very modestly.

The fund's performance was driven by its sizeable exposure to investment grade corporate 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) and to asset-backed securities (bonds whose income payments are derived from a specified group of underlying pooled assets), while its relative lack of sensitivity to changes in interest rates helped cushion it from the worst of the market volatility in early 2018.

Investment activities

In order to ensure that the fund's value and ability to provide an income stream does not fluctuate meaningfully with changes in the economic cycle, we closely monitor the amount of interest rate risk and credit risk that we take.

Interest rate risk reflects the fact that when interest rates rise, the interest payments on conventional fixed rate bonds become less attractive to investors, causing their prices to fall. Bonds with less time until their maturity date (that is, short-dated bonds) tend to be less sensitive to changes in interest rates than longer dated bonds.

Credit risk refers to a borrower's creditworthiness, that is, the likelihood of a borrower failing to keep up repayments on 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 continue to have a positive outlook on corporate bonds. We have been adding to certain financial names over the period, for example, Santander, Skipton Building Society and Credit Agricole. The fund's exposure to high yield bonds ended the period at 4.7%. While it had reached as low as around 2.4% at times, we continue to prefer to focus on higher quality paper at present. (High yield bonds are securities issued by companies with a low credit rating. 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.)

Geographically, we have been adding risk in the US, UK and Europe. In our view, companies' balance sheets have generally been improving. In Europe in particular, default rates remain extremely low as companies have been conservatively managed and continue to hoard cash.

We retained a sizeable exposure (accounting for around 25% of the fund) to asset-backed securities (ABS) over the period. 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. Currently, the majority of our ABS positions are within UK residential mortgage-backed securities, while we also have some exposure to similar European assets.

M&G Short Dated Corporate Bond Fund

Authorised Corporate Director's Report

Investment review

Outlook

We believe that the rise in government bond yields in recent months can be taken as recognition by the bond markets that previous levels were inappropriate given the current level of global economic growth. (Bond yield 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.) In our view, the global economic picture is on the whole encouraging, particularly in the US. Europe presents a broadly improving economic story while, in the UK, growth continues to hold up despite Brexit-related uncertainties.

In our opinion, 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. If, as we do, you believe in an improving global economy, then this should prove supportive for corporate issuers.

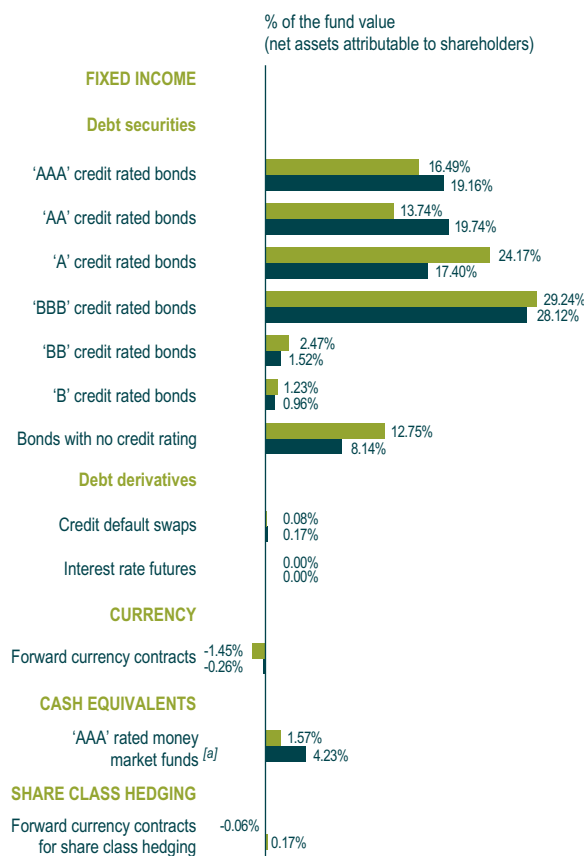
Matthew Russell

Fund manager

An employee of 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.

Classification of investments



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

■ 31 May 2018

■ 31 May 2017

Source: M&G

M&G Short Dated Corporate Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement

| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|--|----------------|---------------|--------------|
| FIXED INCOME | 473,446 | 100.17 | 95.21 |
| Debt securities | 473,070 | 100.09 | 95.04 |
| 'AAA' credit rated bonds | 77,936 | 16.49 | 19.16 |
| £1,914,582 Alba 2005-1 FRN 2042 | 1,851 | 0.39 | |
| £448,612 Alba 2006-1 FRN 2037 | 435 | 0.09 | |
| €25,000,000 Germany (Federal Republic of) 0% 2021 | 22,285 | 4.72 | |
| €8,000,000 Germany (Federal Republic of) 2.25% 2021 | 7,648 | 1.62 | |
| £977,724 Hawksmoor Mortgages FRN 2053 | 987 | 0.21 | |
| £10,000,000 KfW 1.125% 2019 | 10,067 | 2.13 | |
| £2,277,687 Moorgate Funding FRN 2050 | 2,277 | 0.48 | |
| £2,264,000 Nationwide Building Society FRN 2019 | 2,272 | 0.48 | |
| \$983,496 Paragon Mortgages No.14 FRN 2039 | 713 | 0.15 | |
| \$256,683 Paragon Mortgages No.15 FRN 2039 | 187 | 0.04 | |
| £292,544 Precise Mortgage Funding FRN 2047 | 293 | 0.06 | |
| £718,423 Precise Mortgage Funding FRN 2048 | 721 | 0.15 | |
| £2,301,751 Residential Mortgage Securities No.26 FRN 2041 | 2,340 | 0.50 | |
| £2,169,832 Residential Mortgage Securities No.28 FRN 2046 | 2,185 | 0.46 | |
| £952,259 Residential Mortgage Securities No.30 FRN 2050 | 955 | 0.20 | |
| £4,459,865 Ripon Mortgages FRN 2056 | 4,490 | 0.95 | |
| £5,000,000 Silverstone Master Issuer FRN 2070 | 4,977 | 1.05 | |
| £1,144,359 Slate No.1 FRN 2051 | 1,153 | 0.25 | |
| £847,094 Slate No.2 FRN 2044 | 854 | 0.18 | |
| £2,630,385 THRONES 2015-1 FRN 2050 | 2,648 | 0.56 | |
| £1,834,535 Trinity Square 2015-1 FRN 2051 | 1,856 | 0.39 | |
| £6,644,853 Warwick Finance Residential Mortgage No.2 FRN 2049 | 6,742 | 1.43 | |
| 'AA' credit rated bonds | 64,944 | 13.74 | 19.74 |
| \$7,000,000 Amazon.com 2.4% 2023 | 5,054 | 1.07 | |
| €6,000,000 Apple 1% 2022 | 5,444 | 1.15 | |
| \$6,000,000 Exxon Mobil FRN 2022 | 4,522 | 0.96 | |
| £5,000,000 Metropolitan Life Global Funding I 1.125% 2021 | 4,956 | 1.05 | |
| £3,352,000 Nestle 1% 2021 | 3,332 | 0.70 | |
| £4,999,000 New York Life Global Funding 1% 2021 | 4,949 | 1.05 | |
| \$2,625,000 New York Life Global Funding 1.95% 2020 | 1,939 | 0.41 | |
| £447,757 Paragon Mortgages No.13 FRN 2039 | 428 | 0.09 | |
| \$2,686,539 Paragon Mortgages No.13 FRN 2039 A2C | 1,936 | 0.41 | |
| \$2,976,000 Procter & Gamble 1.7% 2021 | 2,145 | 0.45 | |
| £2,277,000 Slate No.1 FRN 2051 | 2,295 | 0.49 | |
| £4,958,000 Towd Point Mortgage Funding FRN 2046 | 4,992 | 1.06 | |
| £4,000,000 Toyota Motor Credit 1% 2022 | 3,940 | 0.83 | |
| £3,560,000 Toyota Motor Credit 1.125% 2021 | 3,548 | 0.75 | |
| £15,000,000 Treasury 4.5% 2019 | 15,464 | 3.27 | |

Portfolio statement (continued)

| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|--|----------------|--------------|--------------|
| 'A' credit rated bonds | 114,253 | 24.17 | 17.40 |
| \$3,733,000 ABN AMRO Bank 1.8% 2018 | 2,801 | 0.59 | |
| \$3,500,000 ABN AMRO Bank 2.65% 2021 | 2,583 | 0.55 | |
| \$3,135,000 ABN AMRO Bank FRN 2021 | 2,352 | 0.50 | |
| £1,320,240 Alba 2006-2 FRN 2038 | 1,274 | 0.27 | |
| €3,914,000 Anheuser-Busch Inbev FRN 2024 | 3,403 | 0.72 | |
| \$1,800,000 Banco Santander FRN 2023 | 1,351 | 0.29 | |
| £3,000,000 Bank of America 6.125% 2021 | 3,425 | 0.72 | |
| \$5,000,000 Bank of America FRN 2023 | 3,796 | 0.80 | |
| \$3,000,000 Bank of America FRN 2024 | 2,248 | 0.48 | |
| \$4,000,000 Bank of America FRN 2026 | 2,938 | 0.62 | |
| £4,000,000 Banque Federative du Credit Mutuel 0.875% 2020 | 3,970 | 0.84 | |
| £1,600,000 Banque Federative du Credit Mutuel 1.375% 2021 | 1,597 | 0.34 | |
| £5,000,000 BMW International Investment FRN 2019 | 5,003 | 1.06 | |
| €6,000,000 BNP Paribas FRN 2024 | 5,191 | 1.10 | |
| \$5,000,000 Canadian Imperial Bank of Commerce FRN 2022 | 5,033 | 1.06 | |
| £3,500,000 Daimler 2.75% 2020 | 3,619 | 0.77 | |
| \$5,000,000 Daimler Finance North America 2.7% 2020 | 3,715 | 0.79 | |
| £540,000 Friends Life 8.25% 2022 | 660 | 0.14 | |
| €1,960,086 GAMMA - Sociedade de Titularização de Créditos FRN 2060 | 1,671 | 0.35 | |
| \$2,084,497 Great Hall Mortgages No.1 FRN 2039 | 1,535 | 0.32 | |
| £3,909,850 Greene King Finance FRN 2033 | 3,925 | 0.83 | |
| \$7,000,000 HSBC Holdings FRN 2024 | 5,232 | 1.11 | |
| \$5,000,000 ING Groep FRN 2022 | 3,822 | 0.81 | |
| €6,000,000 John Deere Bank FRN 2022 | 5,259 | 1.11 | |
| \$5,000,000 JPMorgan Chase FRN 2023 (24 Oct) | 3,826 | 0.81 | |
| \$5,000,000 JPMorgan Chase FRN 2023 (25 Apr) | 3,783 | 0.80 | |
| €4,511,428 Magellan Mortgages No.4 FRN 2059 | 3,822 | 0.81 | |
| £1,642,824 Mitchells & Butlers Finance FRN 2030 | 1,530 | 0.32 | |
| £336,888 Newgate Funding FRN 2050 | 328 | 0.07 | |
| £164,915 Newgate Funding FRN 2050 A2 | 165 | 0.03 | |
| £3,000,000 Newgate Funding FRN 2050 A3 | 2,827 | 0.60 | |
| £700,860 Newgate Funding FRN 2050 A4 | 678 | 0.14 | |
| €3,000,000 Paragon Mortgages No.13 FRN 2039 | 2,481 | 0.52 | |
| \$4,252,200 S-JETS 2017-1 3.967% 2042 | 3,195 | 0.68 | |
| £1,894,000 UBS 1.25% 2020 | 1,890 | 0.40 | |
| €3,780,000 UBS Group Funding FRN 2022 | 3,317 | 0.70 | |
| \$7,000,000 United Parcel Service FRN 2023 | 5,254 | 1.11 | |
| £4,868,000 Wells Fargo 1.375% 2022 | 4,754 | 1.01 | |
| 'BBB' credit rated bonds | 138,202 | 29.24 | 28.12 |
| £6,000,000 AA Bond Company 2.875% 2043 | 5,915 | 1.25 | |
| €1,300,000 American International Group Var. Rate 2067 (1.403%) | 1,065 | 0.23 | |
| €5,247,000 Arion Bank 1% 2023 | 4,550 | 0.96 | |
| \$5,000,000 AT&T 3.2% 2022 | 3,701 | 0.78 | |
| £4,000,000 AXA Var. Rate Perp. (6.772%) | 4,211 | 0.89 | |
| €5,400,000 Banco De Sabadell 0.875% 2023 | 4,612 | 0.98 | |
| €5,000,000 BPCE FRN 2023 | 4,312 | 0.91 | |
| €1,667,000 Channel Link Enterprises Finance Var. Rate 2050 (1.761%) | 1,492 | 0.32 | |
| \$7,000,000 Citigroup FRN 2024 | 5,282 | 1.12 | |
| \$2,000,000 Crédit Agricole FRN 2023 | 1,501 | 0.32 | |
| €6,000,000 CS Group Funding 1.25% 2022 | 5,333 | 1.13 | |
| \$1,603,000 CVS Health FRN 2021 | 1,211 | 0.26 | |
| \$5,000,000 Diamond 1 Finance 3.48% 2019 | 3,762 | 0.80 | |
| €2,000,000 FCE Bank 1.134% 2022 | 1,778 | 0.38 | |

M&G Short Dated Corporate Bond Fund

Authorised Corporate Director's Report

Investments

| Portfolio statement (continued) | | | | |
|--|------------|--------|--------|--|
| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % | |
| 'BBB' credit rated bonds (continued) | | | | |
| \$5,000,000 Ford Motor Credit FRN 2022 | 3,772 | 0.80 | | |
| \$7,000,000 General Motors FRN 2022 | 5,382 | 1.14 | | |
| €4,000,000 Goldman Sachs Group FRN 2023 | 3,469 | 0.73 | | |
| \$2,000,000 Goldman Sachs Group FRN 2023 (5 Jun) | 1,511 | 0.32 | | |
| £3,215,000 Hiscox 2% 2022 | 3,228 | 0.68 | | |
| \$6,000,000 Imperial Brands Finance 2.95% 2020 | 4,465 | 0.94 | | |
| €6,000,000 Italy (Republic of) 0.35% 2020 | 5,175 | 1.09 | | |
| £4,000,000 Lloyds Bank 9.625% 2023 | 5,201 | 1.10 | | |
| £2,000,000 Lloyds Bank Var. Rate 2025 (5.75%) | 2,146 | 0.45 | | |
| €5,360,314 Lusitano Mortgages No.5 FRN 2059 | 4,495 | 0.95 | | |
| £1,350,000 Mitchells & Butlers Finance FRN 2033 | 1,157 | 0.24 | | |
| \$7,000,000 Mondelēz International 3% 2020 | 5,254 | 1.11 | | |
| \$10,000,000 Morgan Stanley FRN 2024 | 7,603 | 1.61 | | |
| \$2,500,000 Nationwide Building Society Var. Rate 2024 (3.766%) | 1,842 | 0.39 | | |
| \$5,000,000 Rabobank Var. Rate. Perp. (11%) | 4,021 | 0.85 | | |
| \$4,000,000 Royal Bank of Scotland Var. Rate 2023 (3.498%) | 2,924 | 0.62 | | |
| €1,042,000 Santander UK FRN 2023 | 908 | 0.19 | | |
| €5,189,000 Santander UK FRN 2024 | 4,516 | 0.96 | | |
| €5,000,000 Société Générale FRN 2024 | 4,343 | 0.92 | | |
| €5,000,000 Time Warner 1.95% 2023 | 4,645 | 0.98 | | |
| \$7,500,000 Verizon Communications FRN 2022 | 5,717 | 1.21 | | |
| \$7,000,000 Verizon Communications FRN 2025 | 5,256 | 1.11 | | |
| \$1,550,000 Vodafone Group FRN 2024 | 1,160 | 0.25 | | |
| £1,255,000 Wales & West Utilities Finance Var. Rate 2036 (6.75%) | 1,287 | 0.27 | | |
| 'BB' credit rated bonds | | | | |
| \$3,415,000 Inretail Pharma 5.375% 2023 | 2,589 | 0.55 | | |
| £2,000,000 National Westminster Bank 6.5% 2021 | 2,275 | 0.48 | | |
| €6,000,000 Telefonica Europe Var. Rate 2099 (3%) | 5,054 | 1.07 | | |
| \$2,351,000 Vrio Finco 1 LLC 6.25% 2023 | 1,771 | 0.37 | | |
| 'B' credit rated bonds | | | | |
| €711,714 Matterhorn Telecom FRN 2023 | 623 | 0.13 | | |
| €6,000,000 Picard Groupe FRN 2023 | 5,179 | 1.10 | | |
| Bonds with no credit rating | | | | |
| \$1,162,376 AASET Trust 2017-1 3.967% 2042 | 877 | 0.18 | | |
| €6,000,000 ASML 0.625% 2022 | 5,321 | 1.13 | | |
| £5,000,000 Coventry Building Society 1.875% 2023 | 4,950 | 1.05 | | |
| £1,555,995 Duncan Funding 2016-1 FRN 2063 | 1,563 | 0.33 | | |
| £3,823,373 Finsbury Square 2017-2 FRN 2065 | 3,834 | 0.81 | | |
| £105,359 Gemgarto 2015-1 FRN 2047 | 106 | 0.02 | | |
| £3,711,000 Gosforth Funding 2017-1 FRN 2059 | 3,724 | 0.79 | | |
| \$1,802,048 Home Partners of America Trust HPA 2016-2 FRN 2033 | 1,354 | 0.29 | | |
| £4,666,723 London Wall Mortgage Capital FRN 2049 | 4,679 | 0.99 | | |
| £5,000,000 Newday Partnership Funding 2017-1 FRN 2027 | 5,022 | 1.06 | | |
| £4,763,741 Oat Hill No.1 FRN 2046 | 4,748 | 1.00 | | |
| £865,375 Orbita Funding 2016-1 FRN 2023 | 867 | 0.18 | | |
| £2,294,000 PCL Funding II FRN 2022 | 2,305 | 0.49 | | |
| £4,331,000 Principality Building Society 2.375% 2023 | 4,309 | 0.91 | | |

Portfolio statement (continued)

| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|--|------------|--------|--------|
| Bonds with no credit rating (continued) | | | |
| €2,200,000 Safran FRN 2021 | 1,935 | 0.41 | |
| £5,000,000 Skipton Building Society 1.75% 2022 | 4,964 | 1.05 | |
| £1,540,000 Skipton Building Society FRN 2023 | 1,542 | 0.33 | |
| £4,647,215 Together Asset Backed Securitisation No. 1 FRN 2049 | 4,670 | 0.99 | |
| £3,468,000 Westfield Stratford FRN 2024 | 3,474 | 0.74 | |
| Debt derivatives | | | |
| | 376 | 0.08 | 0.17 |
| Credit default swaps | | | |
| | 376 | 0.08 | 0.17 |
| \$(5,000,000) Markit CDX North American Investment Grade Series 26 5 Year Jun 2021 | 67 | 0.02 | |
| €(10,000,000) Markit iTraxx Europe Series 28 5 Year Dec 2022 | 152 | 0.03 | |
| €(5,000,000) Markit iTraxx Europe Series 29 5 Year Jun 2023 | 66 | 0.01 | |
| €(10,000,000) Markit iTraxx Europe Snr Fin Series 28 5 Year Dec 2022 | 91 | 0.02 | |
| Interest rate futures | | | |
| | 0 | 0.00 | 0.00 |
| CURRENCY | | | |
| | (6,874) | (1.45) | (0.26) |
| Forward currency contracts | | | |
| | (6,874) | (1.45) | (0.26) |
| €18,322,414 Bought for £16,084,487 (expires 27.06.18) | (19) | 0.00 | |
| €(165,817,558) Sold for £145,758,759 (expires 27.06.18) | 369 | 0.08 | |
| \$(181,532,665) Sold for £128,846,306 (expires 27.06.18) | (7,224) | (1.53) | |
| Portfolio of investments | | | |
| | 466,572 | 98.72 | 94.95 |
| CASH EQUIVALENTS | | | |
| | 7,442 | 1.57 | 4.23 |
| 'AAA' rated money market funds ^[a] | | | |
| 7,442,000 Northern Trust Global Fund - Sterling | 7,442 | 1.57 | 4.23 |
| SHARE CLASS HEDGING | | | |
| | (301) | (0.06) | 0.17 |
| Forward currency contracts for share class hedging | | | |
| | (301) | (0.06) | 0.17 |
| €98,227,609 Bought for £86,420,177 (expires 27.06.18) | (294) | (0.06) | |
| €(153,869) Sold for £135,085 (expires 27.06.18) | 0 | 0.00 | |
| CHF817,567 Bought for £620,723 (expires 27.06.18) | 2 | 0.00 | |
| \$15,403,597 Bought for £11,554,806 (expires 27.06.18) | (9) | 0.00 | |
| Total portfolio (notes 2c & 2d on page 7) | | | |
| | 473,713 | 100.23 | 99.35 |
| Net other assets / (liabilities) | | | |
| | (1,065) | (0.23) | 0.65 |
| Net assets attributable to shareholders | | | |
| | 472,648 | 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.

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 chart and tables show the performance for two of the fund's share classes – Sterling Class 'A' (Income) shares and Sterling Class 'I' (Income) shares.

We show performance for these two share classes because:

- The performance of the Sterling Class 'A' (Income) share is what most individuals investing directly with M&G have received. It has the highest ongoing charge of all the sterling share classes. Performance is shown after deduction of this charge. All UK investors in the fund therefore received this performance or better.
- The performance of the Sterling Class 'I' (Income) share is the most appropriate to compare with the average performance of the fund's comparative sector. It is the share class used by the Investment Association in the calculation of the comparative sector's average performance. This share class is available for direct investment with M&G subject to minimum investment criteria, or via third parties who may charge additional fees. The performance shown takes the deduction of the ongoing charge for this share class into account but it does not take account of charges applied by any other party through which you may have invested.

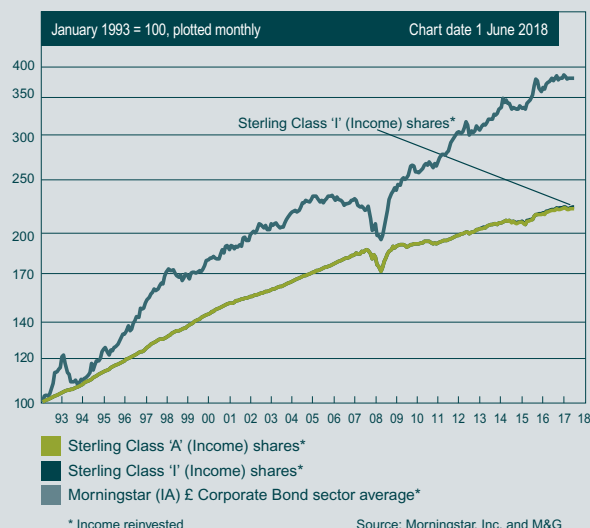
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

| Fund net asset value | | | |
|----------------------------|---------------|---------------|---------------|
| as at 31 May | 2018 £'000 | 2017 £'000 | 2016 £'000 |
| Fund net asset value (NAV) | 472,648 | 454,383 | 336,016 |

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 and Sterling Class 'I' (Income) shares.



The fund's Sterling Class 'I' (Income) shares were launched on 9 November 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Income) shares.

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

Long-term performance by share class

| | One year 01.06.17 % [a] | Three years 01.06.15 % p.a. | Five years 03.06.13 % p.a. | Since launch % p.a. |
|------------------------|----------------------------------|--------------------------------------|-------------------------------------|---------------------------|
| Euro [b] | | | | |
| Class 'A-H' | -0.7 | +0.5 | n/a | +1.1 [c] |
| Class 'C-H' | -0.2 | +0.9 | n/a | +1.6 [c] |
| Sterling [d] | | | | |
| Class 'A' | +0.8 | +1.7 | +2.1 | +3.2 [e] |
| Class 'I' | +0.8 | +1.8 | +2.1 | +2.1 [f] |
| Swiss franc [b] | | | | |
| Class 'A-H' | -1.1 | -0.1 | n/a | +0.7 [c] |
| Class 'C-H' | -0.6 | +0.5 | n/a | +1.2 [c] |
| US dollar [b] | | | | |
| Class 'A-H' | +1.7 | +2.1 | n/a | +2.2 [c] |
| Class 'C-H' | +2.1 | +2.6 | n/a | +2.7 [c] |

[a] Absolute basis.

[b] Price to price with gross income reinvested.

[c] 26 July 2013, the launch date of the share class.

[d] Price to price with income reinvested.

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

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

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:

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Share class hedging:** Charge paid to M&G for currency hedging services to minimise exchange rate risk for the share class.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

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

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where 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.

For this fund there is no difference between operating charges and ongoing charges figures, unless disclosed under the specific share class performance table.

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 or by calling M&G Customer Relations.

Portfolio transaction costs

| as at 31 May | 2018 | 2017 | 2016 | Average ^[a] |
|--------------------------------------|------|------|------|------------------------|
| Indirect portfolio transaction costs | % | % | % | % |
| Average portfolio dealing spread | 0.31 | 0.31 | 0.40 | 0.34 |

^[a] Average of first three columns.

M&G Short Dated Corporate Bond Fund

Financial highlights

Specific share class performance

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

Euro Class 'A-H' Income share performance

The share class was launched on 26 July 2013.

| for the year to 31 May Change in NAV per share | 2018 Euro ¢ | 2017 Euro ¢ | 2016 Euro ¢ |
|--|----------------|----------------|----------------|
| Opening NAV | 998.53 | 988.29 | 1,005.35 |
| Return before operating charges and after direct portfolio transaction costs | 3.25 | 36.39 | 6.91 |
| Operating charges | (10.16) | (10.89) | (10.67) |
| Return after operating charges | (6.91) | 25.50 | (3.76) |
| Distributions | (15.93) | (15.26) | (13.30) |
| Closing NAV | 975.69 | 998.53 | 988.29 |
| Direct portfolio transaction costs | Euro ¢ | Euro ¢ | Euro ¢ |
| Costs before dilution adjustments | 0.00 | 0.01 | 0.01 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.01 | 0.01 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 1.02* | 1.08 | 1.07 |
| Return after operating charges | -0.69 | +2.58 | -0.37 |
| Distribution yield ^[c] | 1.87 | 1.55 | 1.47 |
| Effect on yield of charges offset against capital | 1.01 | 1.07 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 4,604 | 2,320 | 1,276 |
| Closing NAV percentage of total fund NAV (%) | 0.97 | 0.51 | 0.38 |
| Number of shares | 538,564 | 265,982 | 169,241 |
| Highest share price (Euro ¢) | 1,003.52 | 1,006.21 | 1,008.75 |
| Lowest share price (Euro ¢) | 980.16 | 988.43 | 973.94 |

* As the annual management charge has been discounted during the period, 0.83% is a more reliable estimate of the operating charges for the period to 31.05.18.

Euro Class 'A-H' Accumulation share performance

The share class was launched on 26 July 2013.

| for the year to 31 May Change in NAV per share | 2018 Euro ¢ | 2017 Euro ¢ | 2016 Euro ¢ |
|--|----------------|----------------|----------------|
| Opening NAV | 1,059.30 | 1,032.41 | 1,036.21 |
| Return before operating charges and after direct portfolio transaction costs | 3.33 | 38.43 | 7.23 |
| Operating charges | (10.77) | (11.54) | (11.03) |
| Return after operating charges | (7.44) | 26.89 | (3.80) |
| Distributions | (6.28) | (8.56) | (13.77) |
| Retained distributions | 6.28 | 8.56 | 13.77 |
| Closing NAV | 1,051.86 | 1,059.30 | 1,032.41 |
| Direct portfolio transaction costs | Euro ¢ | Euro ¢ | Euro ¢ |
| Costs before dilution adjustments | 0.00 | 0.01 | 0.01 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.01 | 0.01 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 1.01* | 1.08 | 1.07 |
| Return after operating charges | -0.70 | +2.60 | -0.37 |
| Distribution yield | 0.80 | 0.50 | 1.47 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 39,771 | 14,865 | 4,167 |
| Closing NAV percentage of total fund NAV (%) | 8.42 | 3.27 | 1.24 |
| Number of shares | 4,315,036 | 1,606,684 | 528,990 |
| Highest share price (Euro ¢) | 1,064.35 | 1,062.50 | 1,039.70 |
| Lowest share price (Euro ¢) | 1,051.84 | 1,032.36 | 1,010.26 |

* As the annual management charge has been discounted during the period, 0.83% is a more reliable estimate of the operating charges for the period to 31.05.18.

Euro Class 'C-H' Income share performance

The share class was launched on 26 July 2013.

| for the year to 31 May Change in NAV per share | 2018 Euro ¢ | 2017 Euro ¢ | 2016 Euro ¢ |
|--|----------------|----------------|----------------|
| Opening NAV | 1,001.99 | 988.18 | 1,005.08 |
| Return before operating charges and after direct portfolio transaction costs | 3.15 | 36.61 | 7.21 |
| Operating charges | (5.43) | (5.77) | (5.66) |
| Return after operating charges | (2.28) | 30.84 | 1.55 |
| Distributions | (16.08) | (17.03) | (18.45) |
| Closing NAV | 983.63 | 1,001.99 | 988.18 |
| Direct portfolio transaction costs | Euro ¢ | Euro ¢ | Euro ¢ |
| Costs before dilution adjustments | 0.00 | 0.01 | 0.01 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.01 | 0.01 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.54* | 0.58 | 0.57 |
| Return after operating charges | -0.23 | +3.12 | +0.15 |
| Distribution yield ^[c] | 1.88 | 1.56 | 1.98 |
| Effect on yield of charges offset against capital | 0.54 | 0.57 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 21 | 21 | 19 |
| Closing NAV percentage of total fund NAV (%) | 0.00 | 0.01 | 0.01 |
| Number of shares | 2,428 | 2,428 | 2,428 |
| Highest share price (Euro ¢) | 1,007.87 | 1,009.20 | 1,008.50 |
| Lowest share price (Euro ¢) | 987.42 | 988.64 | 974.83 |

* As the annual management charge has been discounted during the period, 0.43% is a more reliable estimate of the operating charges for the period to 31.05.18.

M&G Short Dated Corporate Bond Fund

Financial highlights

Specific share class performance

Euro Class 'C-H' Accumulation share performance

The share class was launched on 26 July 2013.

| for the year to 31 May Change in NAV per share | 2018 Euro ¢ | 2017 Euro ¢ | 2016 Euro ¢ |
|--|----------------|----------------|----------------|
| Opening NAV | 1,079.32 | 1,047.37 | 1,046.29 |
| Return before operating charges and after direct portfolio transaction costs | 3.49 | 38.19 | 7.04 |
| Operating charges | (6.04) | (6.24) | (5.96) |
| Return after operating charges | (2.55) | 31.95 | 1.08 |
| Distributions | (11.59) | (14.01) | (19.13) |
| Retained distributions | 11.59 | 14.01 | 19.13 |
| Closing NAV | 1,076.77 | 1,079.32 | 1,047.37 |
| Direct portfolio transaction costs | Euro ¢ | Euro ¢ | Euro ¢ |
| Costs before dilution adjustments | 0.00 | 0.01 | 0.01 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.01 | 0.01 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.56* | 0.58 | 0.57 |
| Return after operating charges | -0.24 | +3.05 | +0.10 |
| Distribution yield | 1.30 | 1.00 | 1.98 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 41,695 | 47,540 | 30,849 |
| Closing NAV percentage of total fund NAV (%) | 8.82 | 10.46 | 9.18 |
| Number of shares | 4,419,061 | 5,042,933 | 3,860,547 |
| Highest share price (Euro ¢) | 1,086.28 | 1,082.60 | 1,049.84 |
| Lowest share price (Euro ¢) | 1,075.98 | 1,047.70 | 1,023.39 |

* As the annual management charge has been discounted during the period, 0.43% is a more reliable estimate of the operating charges for the period to 31.05.18.

Sterling Class 'A' Income share performance

The share class was launched on 29 January 1993.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 25.86 | 25.27 | 25.50 |
| Return before operating charges and after direct portfolio transaction costs | 0.35 | 1.19 | 0.39 |
| Operating charges | (0.16) | (0.17) | (0.17) |
| Return after operating charges | 0.19 | 1.02 | 0.22 |
| Distributions | (0.42) | (0.43) | (0.45) |
| Closing NAV | 25.63 | 25.86 | 25.27 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.00 | 0.00 | 0.00 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 0.00 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.64* | 0.67 | 0.65 |
| Return after operating charges | +0.73 | +4.04 | +0.86 |
| Distribution yield ^[c] | 1.86 | 1.58 | 1.84 |
| Effect on yield of charges offset against capital | 0.62 | 0.65 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 100,587 | 142,455 | 129,225 |
| Closing NAV percentage of total fund NAV (%) | 21.28 | 31.35 | 38.46 |
| Number of shares | 392,452,306 | 550,814,268 | 511,362,901 |
| Highest share price (UK p) | 26.07 | 26.05 | 25.58 |
| Lowest share price (UK p) | 25.67 | 25.29 | 24.83 |

* As the annual management charge has been discounted during the period, 0.52% is a more reliable estimate of the operating charges for the period to 31.05.18.

Sterling Class 'I' Income share performance

The share class was launched on 9 November 2012.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 1,037.56 | 1,013.17 | 1,022.28 |
| Return before operating charges and after direct portfolio transaction costs | 13.99 | 47.97 | 15.60 |
| Operating charges | (5.53) | (5.85) | (5.62) |
| Return after operating charges | 8.46 | 42.12 | 9.98 |
| Distributions | (16.72) | (17.73) | (19.09) |
| Closing NAV | 1,029.30 | 1,037.56 | 1,013.17 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.00 | 0.01 | 0.01 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.01 | 0.01 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.53* | 0.57 | 0.55 |
| Return after operating charges | +0.82 | +4.16 | +0.98 |
| Distribution yield ^[c] | 1.86 | 1.58 | 1.94 |
| Effect on yield of charges offset against capital | 0.52 | 0.55 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 273,833 | 244,668 | 169,319 |
| Closing NAV percentage of total fund NAV (%) | 57.94 | 53.85 | 50.39 |
| Number of shares | 26,603,691 | 23,580,994 | 16,711,914 |
| Highest share price (UK p) | 1,046.19 | 1,044.98 | 1,025.76 |
| Lowest share price (UK p) | 1,030.88 | 1,013.86 | 995.83 |

* As the annual management charge has been discounted during the period, 0.42% is a more reliable estimate of the operating charges for the period to 31.05.18.

M&G Short Dated Corporate Bond Fund

Financial highlights

Specific share class performance

Swiss franc Class 'A-H' Accumulation share performance

The share class was launched on 26 July 2013.

| for the year to 31 May Change in NAV per share | 2018 Swiss ¢ | 2017 Swiss ¢ | 2016 Swiss ¢ |
|--|-----------------|-----------------|-----------------|
| Opening NAV | 1,041.00 | 1,019.53 | 1,031.22 |
| Return before operating charges and after direct portfolio transaction costs | (1.04) | 32.81 | (0.75) |
| Operating charges | (10.87) | (11.34) | (10.94) |
| Return after operating charges | (11.91) | 21.47 | (11.69) |
| Distributions | (6.20) | (8.39) | (13.78) |
| Retained distributions | 6.20 | 8.39 | 13.78 |
| Closing NAV | 1,029.09 | 1,041.00 | 1,019.53 |
| Direct portfolio transaction costs | Swiss ¢ | Swiss ¢ | Swiss ¢ |
| Costs before dilution adjustments | 0.00 | 0.01 | 0.01 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.01 | 0.01 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 1.04* | 1.08 | 1.07 |
| Return after operating charges | -1.14 | +2.11 | -1.13 |
| Distribution yield | 0.77 | 0.51 | 1.47 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 42 | 89 | 42 |
| Closing NAV percentage of total fund NAV (%) | 0.01 | 0.02 | 0.01 |
| Number of shares | 5,400 | 10,700 | 6,000 |
| Highest share price (Swiss ¢) | 1,045.08 | 1,044.20 | 1,034.67 |
| Lowest share price (Swiss ¢) | 1,029.84 | 1,019.52 | 999.35 |

* As the annual management charge has been discounted during the period, 0.84% is a more reliable estimate of the operating charges for the period to 31.05.18.

Swiss franc Class 'C-H' Accumulation share performance

The share class was launched on 26 July 2013.

| for the year to 31 May Change in NAV per share | 2018 Swiss ¢ | 2017 Swiss ¢ | 2016 Swiss ¢ |
|--|-----------------|-----------------|-----------------|
| Opening NAV | 1,062.33 | 1,034.60 | 1,040.85 |
| Return before operating charges and after direct portfolio transaction costs | (1.05) | 33.44 | (0.33) |
| Operating charges | (5.22) | (5.71) | (5.92) |
| Return after operating charges | (6.27) | 27.73 | (6.25) |
| Distributions | (11.79) | (14.20) | (19.12) |
| Retained distributions | 11.79 | 14.20 | 19.12 |
| Closing NAV | 1,056.06 | 1,062.33 | 1,034.60 |
| Direct portfolio transaction costs | Swiss ¢ | Swiss ¢ | Swiss ¢ |
| Costs before dilution adjustments | 0.00 | 0.01 | 0.01 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.01 | 0.01 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.50* | 0.54 | 0.57 |
| Return after operating charges | -0.59 | +2.68 | -0.60 |
| Distribution yield | 1.31 | 1.03 | 1.97 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 578 | 9 | 7 |
| Closing NAV percentage of total fund NAV (%) | 0.12 | 0.00 | 0.00 |
| Number of shares | 71,907 | 1,000 | 1,000 |
| Highest share price (Swiss ¢) | 1,068.01 | 1,065.58 | 1,044.45 |
| Lowest share price (Swiss ¢) | 1,055.84 | 1,035.06 | 1,012.28 |

* As the annual management charge has been discounted during the period, 0.43% is a more reliable estimate of the operating charges for the period to 31.05.18.

US dollar Class 'A-H' Income share performance

The share class was launched on 8 August 2014.

| for the year to 31 May Change in NAV per share | 2018 US ¢ | 2017 US ¢ | 2016 US ¢ |
|--|--------------|--------------|--------------|
| Opening NAV | 1,040.98 | 1,014.07 | 1,023.44 |
| Return before operating charges and after direct portfolio transaction costs | 28.33 | 53.92 | 15.14 |
| Operating charges | (10.54) | (11.23) | (10.90) |
| Return after operating charges | 17.79 | 42.69 | 4.24 |
| Distributions | (16.88) | (15.78) | (13.61) |
| Closing NAV | 1,041.89 | 1,040.98 | 1,014.07 |
| Direct portfolio transaction costs | US ¢ | US ¢ | US ¢ |
| Costs before dilution adjustments | 0.00 | 0.01 | 0.01 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.01 | 0.01 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 1.00* | 1.08 | 1.07 |
| Return after operating charges | +1.71 | +4.21 | +0.41 |
| Distribution yield ^[c] | 1.85 | 1.57 | 1.44 |
| Effect on yield of charges offset against capital | 1.00 | 1.07 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 545 | 338 | 180 |
| Closing NAV percentage of total fund NAV (%) | 0.12 | 0.07 | 0.05 |
| Number of shares | 69,642 | 41,720 | 25,948 |
| Highest share price (US ¢) | 1,051.47 | 1,048.49 | 1,026.92 |
| Lowest share price (US ¢) | 1,040.84 | 1,014.64 | 996.04 |

* As the annual management charge has been discounted during the period, 0.83% is a more reliable estimate of the operating charges for the period to 31.05.18.

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Specific share class performance

US dollar Class 'A-H' Accumulation share performance

The share class was launched on 26 July 2013.

| for the year to 31 May Change in NAV per share | 2018 US ¢ | 2017 US ¢ | 2016 US ¢ |
|--|--------------|--------------|--------------|
| Opening NAV | 1,088.35 | 1,043.73 | 1,039.28 |
| Return before operating charges and after direct portfolio transaction costs | 28.98 | 56.26 | 15.48 |
| Operating charges | (10.38) | (11.64) | (11.03) |
| Return after operating charges | 18.60 | 44.62 | 4.45 |
| Distributions | (6.59) | (8.67) | (13.86) |
| Retained distributions | 6.59 | 8.67 | 13.86 |
| Closing NAV | 1,106.95 | 1,088.35 | 1,043.73 |
| Direct portfolio transaction costs | US ¢ | US ¢ | US ¢ |
| Costs before dilution adjustments | 0.00 | 0.01 | 0.01 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.01 | 0.01 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.95* | 1.08 | 1.07 |
| Return after operating charges | +1.71 | +4.28 | +0.43 |
| Distribution yield | 0.79 | 0.50 | 1.44 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 10,706 | 588 | 770 |
| Closing NAV percentage of total fund NAV (%) | 2.27 | 0.13 | 0.23 |
| Number of shares | 1,288,783 | 69,324 | 107,779 |
| Highest share price (US ¢) | 1,110.82 | 1,091.68 | 1,043.84 |
| Lowest share price (US ¢) | 1,089.05 | 1,044.19 | 1,017.71 |

* As the annual management charge has been discounted during the period, 0.83% is a more reliable estimate of the operating charges for the period to 31.05.18.

US dollar Class 'C-H' Income share performance

The share class was launched on 8 August 2014.

| for the year to 31 May Change in NAV per share | 2018 US ¢ | 2017 US ¢ | 2016 US ¢ |
|--|--------------|--------------|--------------|
| Opening NAV | 1,048.67 | 1,018.05 | 1,027.65 |
| Return before operating charges and after direct portfolio transaction costs | 28.16 | 54.23 | 15.02 |
| Operating charges | (5.96) | (6.07) | (5.83) |
| Return after operating charges | 22.20 | 48.16 | 9.19 |
| Distributions | (17.10) | (17.54) | (18.79) |
| Closing NAV | 1,053.77 | 1,048.67 | 1,018.05 |
| Direct portfolio transaction costs | US ¢ | US ¢ | US ¢ |
| Costs before dilution adjustments | 0.00 | 0.01 | 0.01 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.01 | 0.01 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.56* | 0.58 | 0.57 |
| Return after operating charges | +2.12 | +4.73 | +0.89 |
| Distribution yield ^[c] | 1.86 | 1.56 | 1.95 |
| Effect on yield of charges offset against capital | 0.56 | 0.57 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 11 | 12 | 10 |
| Closing NAV percentage of total fund NAV (%) | 0.00 | 0.00 | 0.00 |
| Number of shares | 1,454 | 1,454 | 1,454 |
| Highest share price (US ¢) | 1,062.23 | 1,056.26 | 1,031.17 |
| Lowest share price (US ¢) | 1,049.57 | 1,018.63 | 1,001.11 |

* As the annual management charge has been discounted during the period, 0.44% is a more reliable estimate of the operating charges for the period to 31.05.18.

M&G Short Dated Corporate Bond Fund

Financial highlights

Specific share class performance

US dollar Class 'C-H' Accumulation share performance

The share class was launched on 26 July 2013.

| for the year to 31 May | 2018 | 2017 | 2016 |
|--|-------------|-------------|-------------|
| Change in NAV per share | US ¢ | US ¢ | US ¢ |
| Opening NAV | 1,110.75 | 1,060.37 | 1,050.16 |
| Return before operating charges and after direct portfolio transaction costs | 30.18 | 57.03 | 16.13 |
| Operating charges | (6.51) | (6.65) | (5.92) |
| Return after operating charges | 23.67 | 50.38 | 10.21 |
| Distributions | (12.12) | (14.16) | (19.24) |
| Retained distributions | 12.12 | 14.16 | 19.24 |
| Closing NAV | 1,134.42 | 1,110.75 | 1,060.37 |
| Direct portfolio transaction costs | US ¢ | US ¢ | US ¢ |
| Costs before dilution adjustments | 0.00 | 0.01 | 0.01 |
| Dilution adjustments ^[a] | 0.00 | 0.00 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.01 | 0.01 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.00 | 0.00 | 0.00 |
| Operating charges | 0.57* | 0.58 | 0.57 |
| Return after operating charges | +2.13 | +4.75 | +0.97 |
| Distribution yield | 1.29 | 1.00 | 1.95 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 255 | 1,478 | 152 |
| Closing NAV percentage of total fund NAV (%) | 0.05 | 0.33 | 0.05 |
| Number of shares | 29,972 | 170,794 | 20,925 |
| Highest share price (US ¢) | 1,138.29 | 1,114.15 | 1,060.39 |
| Lowest share price (US ¢) | 1,111.73 | 1,060.97 | 1,032.44 |

* As the annual management charge has been discounted during the period, 0.43% is a more reliable estimate of the operating charges for the period to 31.05.18.

^[a] In respect of direct portfolio transaction costs.

^[b] As a percentage of average net asset value.

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

M&G Short Dated Corporate Bond Fund

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Financial statements

Statement of total return

| for the year to 31 May | Note | 2018 £'000 | 2017 £'000 |
|---|------|----------------|---------------|
| Income | | | |
| Net capital gains / (losses) | 3 | (2,092) | 14,749 |
| Revenue | 5 | 7,680 | 6,831 |
| Expenses | 6 | (2,838) | (2,208) |
| Net revenue / (expense) before taxation | | 4,842 | 4,623 |
| Taxation | 7 | 2 | (47) |
| Net revenue / (expense) after taxation | | 4,844 | 4,576 |
| Total return before distributions | | 2,752 | 19,325 |
| Distributions | 8 | (6,988) | (5,864) |
| Change in net assets attributable to shareholders from investment activities | | (4,236) | 13,461 |

Statement of change in net assets attributable to shareholders

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|--|----------------|----------------|
| Opening net assets attributable to shareholders | 454,383 | 336,016 |
| Amounts received on issue of shares | 176,388 | 185,242 |
| Amounts paid on cancellation of shares | (154,930) | (81,262) |
| | 21,458 | 103,980 |
| Dilution adjustments | 295 | 344 |
| Change in net assets attributable to shareholders from investment activities (see above) | (4,236) | 13,461 |
| Retained distributions on Accumulation shares | 745 | 581 |
| Unclaimed distributions | 3 | 1 |
| Closing net assets attributable to shareholders | 472,648 | 454,383 |

Balance sheet

| as at 31 May | Note | 2018 £'000 | 2017 £'000 |
|---|------|-----------------|-----------------|
| Assets | | | |
| Fixed assets | | | |
| Investments | | 481,259 | 452,711 |
| Current assets | | | |
| Debtors | 9 | 17,586 | 13,018 |
| Cash and bank balances | 10 | 57 | 3,494 |
| Total assets | | 498,902 | 469,223 |
| Liabilities | | | |
| Investment liabilities | | (7,546) | (1,299) |
| Creditors | | | |
| Bank overdrafts | | 0 | (2,293) |
| Overdrawn positions at futures clearing houses and collateral manager | | 0 | (56) |
| Distribution payable | | (1,738) | (1,582) |
| Other creditors | 11 | (16,970) | (9,610) |
| Total liabilities | | (26,254) | (14,840) |
| Net assets attributable to shareholders | | 472,648 | 454,383 |

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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

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

3 Net capital gains / (losses)

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|-------------------------------------|----------------|---------------|
| Non-derivative securities | (4,647) | 26,622 |
| Derivative contracts | (2,939) | (10,307) |
| Currency gains / (losses) | 5,502 | (1,559) |
| Transaction charges | (8) | (7) |
| Net capital gains / (losses) | (2,092) | 14,749 |

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 81.

| for the year to 31 May | 2018 £'000 | 2017 £'000 | | |
|--|---------------|---------------------|---------------|---------------------|
| a) Purchases | | | | |
| Debt securities ^[a] | 305,354 | 407,565 | | |
| b) Sales | | | | |
| Debt securities ^[a] | 256,582 | 319,423 | | |
| Other transaction types | | | | |
| Corporate actions | 1,150 | 5,926 | | |
| Total sales after transaction costs | 257,732 | 325,349 | | |
| | | | | |
| c) Direct portfolio transaction costs | 2018 £'000 | % of average NAV | 2017 £'000 | % of average NAV |
| Commissions paid | | | | |
| Derivatives | 0.00 | 0.00 | 3 | 0.00 |
| Total direct portfolio transaction costs | 0.00 | 0.00 | 3 | 0.00 |
| | | | | |
| d) Indirect portfolio transaction costs | | % | | % |
| Portfolio dealing spread ^[b] | | 0.31 | | 0.31 |

^[a] These transaction types do not attract direct portfolio transaction costs.

^[b] Average portfolio dealing spread at the balance sheet date.

5 Revenue

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|-----------------------------|---------------|---------------|
| Bank interest | 7 | 1 |
| Derivative revenue | 567 | 693 |
| Interest distributions | 67 | 41 |
| Interest on debt securities | 7,039 | 6,096 |
| Total revenue | 7,680 | 6,831 |

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6 Expenses

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Payable to the ACD or associate | | |
| Annual management charge | 2,037 | 1,607 |
| Administration charge | 709 | 538 |
| Share class hedging charge | 16 | 9 |
| | 2,762 | 2,154 |
| Payable to the Depositary or associate | | |
| Depositary's charge (including VAT) | 33 | 26 |
| Other expenses | | |
| Audit fee (including VAT) | 11 | 12 |
| Interest payable | 12 | 4 |
| Safe custody charge | 20 | 12 |
| | 43 | 28 |
| Total expenses | 2,838 | 2,208 |

7 Taxation

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| a) Analysis of charge in the year | | |
| Corporation tax | 0 | 0 |
| Withholding tax | (2) | 47 |
| Deferred tax (note 7c) | 0 | 0 |
| Total taxation | (2) | 47 |
| b) Factors affecting taxation charge for the year | | |
| Net revenue / (expense) before taxation | 4,842 | 4,623 |
| Corporation tax at 20% | 968 | 925 |
| Effects of: | | |
| Interest distributions | (968) | (925) |
| Withholding tax | (2) | 47 |
| Total tax charge (note 7a) | (2) | 47 |
| c) Provision for deferred taxation | | |
| Provision at the start of the year | 0 | 0 |
| Deferred tax in profit and loss account (note 7a) | 0 | 0 |
| Provision at the end of the year | 0 | 0 |

The fund has not recognised a deferred tax asset in the current financial year (2017: same).

Interest distributions have been made in respect of all distributions during the current and preceding periods. Income tax at 20% was accounted for on shareholders' behalf to HM Revenue & Customs up to 30 November 2016.

8 Distributions

| | 2018 | | 2017 | |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| for the year to 31 May | Inc ^[a] £'000 | Acc ^[b] £'000 | Inc ^[a] £'000 | Acc ^[b] £'000 |
| Interest distributions | | | | |
| First interim | 1,510 | 138 | 1,008 | 164 |
| Second interim | 1,399 | 160 | 1,122 | 165 |
| Third interim | 1,548 | 182 | 1,384 | 105 |
| Final | 1,738 | 265 | 1,582 | 147 |
| Total net distributions | | 6,940 | | 5,677 |
| Income tax deducted at source | | 0 | | 520 |
| Interest distributions | | 6,940 | | 6,197 |
| Income deducted on cancellation of shares | | 294 | | 113 |
| Income received on issue of shares | | (246) | | (446) |
| Distributions | | 6,988 | | 5,864 |
| Net revenue / (expense) per statement of total return | | 4,844 | | 4,576 |
| Expenses offset against capital | | 2,144 | | 1,288 |
| Distributions | | 6,988 | | 5,864 |

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

9 Debtors

| as at 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Amounts receivable on issues of shares | 244 | 5,693 |
| Currency deals outstanding | 2,184 | 4,700 |
| Debt security interest receivable | 2,452 | 2,516 |
| Derivative revenue receivable | 51 | 104 |
| Distributions receivable | 4 | 3 |
| Sales awaiting settlement | 12,649 | 0 |
| Withholding tax recoverable | 2 | 2 |
| Total debtors | 17,586 | 13,018 |

10 Cash and bank balances

| as at 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Amounts held at futures clearing houses and collateral manager | 0 | 128 |
| Cash held as bank balances | 57 | 3,366 |
| Total cash and bank balances | 57 | 3,494 |

11 Other creditors

| as at 31 May | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| ACD's annual management charge payable | 41 | 50 |
| Administration charge payable | 20 | 17 |
| Amounts payable on cancellation of shares | 208 | 53 |
| Currency deals outstanding | 2,188 | 4,735 |
| Expenses payable | 18 | 18 |
| Purchases awaiting settlement | 14,495 | 4,737 |
| Total other creditors | 16,970 | 9,610 |

12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2017: same).

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Notes to the financial statements

13 Shares in issue

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

| Share class | Opening 01.06.17 | Movements | | Closing 31.05.18 |
|--------------------------|---------------------|-------------|---------------|---------------------|
| | | Issued | Cancelled | |
| Euro | | | | |
| Class 'A-H' Income | 265,982 | 355,247 | (82,665) | 538,564 |
| Class 'A-H' Accumulation | 1,606,684 | 3,200,875 | (492,523) | 4,315,036 |
| Class 'C-H' Income | 2,428 | 0 | 0 | 2,428 |
| Class 'C-H' Accumulation | 5,042,933 | 4,907,751 | (5,531,623) | 4,419,061 |
| Sterling | | | | |
| Class 'A' Income | 550,814,268 | 105,629,979 | (263,991,941) | 392,452,306 |
| Class 'I' Income | 23,580,994 | 5,228,637 | (2,205,940) | 26,603,691 |
| Swiss franc | | | | |
| Class 'A-H' Accumulation | 10,700 | 0 | (5,300) | 5,400 |
| Class 'C-H' Accumulation | 1,000 | 70,907 | 0 | 71,907 |
| US dollar | | | | |
| Class 'A-H' Income | 41,720 | 55,082 | (27,160) | 69,642 |
| Class 'A-H' Accumulation | 69,324 | 1,722,611 | (503,152) | 1,288,783 |
| Class 'C-H' Income | 1,454 | 0 | 0 | 1,454 |
| Class 'C-H' Accumulation | 170,794 | 0 | (140,822) | 29,972 |

14 Charging structure

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

| Share class | Entry charge % | Exit charge % | Annual management charge % | Share class hedging charge % |
|--------------------|----------------------|---------------------|-------------------------------------|---------------------------------------|
| Euro | | | | |
| Class 'A-H' | 3.25 | n/a | 0.65 | [a] |
| Class 'C-H' | 1.25 | n/a | 0.25 | [a] |
| Sterling | | | | |
| Class 'A' | nil | n/a | 0.35 | n/a |
| Class 'I' | nil | n/a | 0.25 | n/a |
| Swiss franc | | | | |
| Class 'A-H' | 3.25 | n/a | 0.65 | [a] |
| Class 'C-H' | 1.25 | n/a | 0.25 | [a] |
| US dollar | | | | |
| Class 'A-H' | 3.25 | n/a | 0.65 | [a] |
| Class 'C-H' | 1.25 | n/a | 0.25 | [a] |

[a] This charge may vary between 0.01% and 0.055%.

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 44.68% (2017: 52.78%) of the fund's shares.

16 Events after the balance sheet date

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

17 Fair value analysis

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

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

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

Level 2: Valuation technique using observable market data

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

Level 3: Valuation technique using unobservable inputs

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

| as at 31 May Basis of valuation | Assets 2018 £'000 | Liabilities 2018 £'000 | Assets 2017 £'000 | Liabilities 2017 £'000 |
|------------------------------------|-------------------------|------------------------------|-------------------------|------------------------------|
| Level 1 | 50,572 | 0 | 69,031 | 0 |
| Level 2 | 428,382 | (7,546) | 383,680 | (1,299) |
| Level 3 | 2,305 | 0 | 0 | 0 |
| | 481,259 | (7,546) | 452,711 | (1,299) |

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

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 8 and 9.

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19 Market risk sensitivity and exposure

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

The VaR limit set during the financial year to 31 May 2018 was 3% (2017: 3%).

The lowest, highest and average VaR, as well as utilisation of VaR with reference to the limit above, are calculated during the financial years ended 31 May 2018 and 31 May 2017.

| | 2018 | 2018 | 2017 | 2017 |
|------------------------|----------|------------------------------|----------|------------------------------|
| for the year to 31 May | % of VaR | Utilisation of VaR [a] 3% | % of VaR | Utilisation of VaR [a] 3% |
| Lowest | 0.49 | 16.20 | 0.66 | 22.00 |
| Highest | 0.83 | 27.76 | 1.67 | 55.73 |
| Average | 0.61 | 20.36 | 0.91 | 30.29 |

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

20 Credit risk

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

| as at 31 May | 2018 £'000 | 2017 £'000 |
|-----------------------------------|----------------|----------------|
| Investment grade securities | 395,335 | 383,596 |
| Below investment grade securities | 17,491 | 11,256 |
| Unrated securities | 60,244 | 36,979 |
| Other investments | 643 | 19,581 |
| Total | 473,713 | 451,412 |

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

| as at 31 May 2018 | Swaps £'000 | Forward currency contracts £'000 |
|-------------------------|----------------|---|
| BNP Paribas | 0 | (175) |
| Goldman Sachs | 152 | 0 |
| HSBC | 0 | (6,196) |
| J.P.Morgan | 157 | 0 |
| National Australia Bank | 0 | 1 |
| Royal Bank of Canada | 0 | (86) |
| Standard Chartered Bank | 0 | (24) |
| State Street Bank | 0 | 12 |
| UBS | 0 | (707) |
| Total | 309 | (7,175) |

| as at 31 May 2017 | Swaps £'000 | Forward currency contracts £'000 | Futures £'000 |
|-------------------------------|----------------|---|------------------|
| Bank of America Merrill Lynch | 0 | 0 | 21 |
| Citigroup | 93 | 0 | 0 |
| Credit Suisse | 290 | 0 | 0 |
| Goldman Sachs | 162 | 0 | 0 |
| J.P.Morgan | 240 | (194) | 0 |
| State Street Bank | 0 | (238) | 0 |
| Total | 785 | (432) | 21 |

21 Leverage risk

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

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

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 31 May 2018 and 31 May 2017 are disclosed in the table below.

| for the year to 31 May | 2018 £'000 | 2018 % | 2017 [a] £'000 | 2017 [a] % |
|------------------------|---------------|-----------|-------------------|---------------|
| Lowest | 271,867 | 57 | 218,334 | 58 |
| Highest | 785,212 | 165 | 530,085 | 126 |
| Average | 321,234 | 68 | 263,756 | 74 |

[a] Leverage has been calculated using the Gross Sum of Notional Approach for derivative positions only (including forward currency) and excludes all physical holdings. The prior period leverage disclosures have been restated to conform with the revisions to the current period leverage calculation.

22 Exchange rate risk for hedged share classes

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

23 Interest distribution tables

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

| Quarterly distribution periods | | | | |
|--------------------------------|----------|----------|----------|----------|
| | Start | End | Xd | Payment |
| First interim | 01.06.17 | 31.08.17 | 01.09.17 | 31.10.17 |
| Second interim | 01.09.17 | 30.11.17 | 01.12.17 | 31.01.18 |
| Third interim | 01.12.17 | 28.02.18 | 01.03.18 | 30.04.18 |
| Final | 01.03.18 | 31.05.18 | 01.06.18 | 31.07.18 |

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23 Interest distribution tables (continued)

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

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

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

Euro Class 'A-H' Income share

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|-------------|---------------------------|-------------------------------|--------|
| | € | € | € | € |
| First interim | 1.7403 | 1.9926 | 3.7329 | 2.9904 |
| Second interim | 2.1570 | 1.5684 | 3.7254 | 4.2672 |
| Third interim | 2.1491 | 1.8366 | 3.9857 | 3.9345 |
| Final | 1.9096 | 2.5808 | 4.4904 | 4.0671 |

Euro Class 'A-H' Accumulation share

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|-------------|---------------------------|-------------------------------|--------|
| | € | € | € | € |
| First interim | 0.5676 | 0.6329 | 1.2005 | 3.1254 |
| Second interim | 0.4977 | 0.6401 | 1.1378 | 2.5952 |
| Third interim | 0.7480 | 0.7228 | 1.4708 | 1.4631 |
| Final | 1.5217 | 0.9537 | 2.4754 | 1.3749 |

Euro Class 'C-H' Income share

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|-------------|---------------------------|-------------------------------|--------|
| | € | € | € | € |
| First interim | 3.7581 | 0.0000 | 3.7581 | 4.2687 |
| Second interim | 3.7659 | 0.0000 | 3.7659 | 4.7175 |
| Third interim | 4.0256 | 0.0000 | 4.0256 | 3.9371 |
| Final | 4.5297 | 0.0000 | 4.5297 | 4.1092 |

Euro Class 'C-H' Accumulation share

| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|-------------|---------------------------|-------------------------------|--------|
| | € | € | € | € |
| First interim | 2.0188 | 0.5279 | 2.5467 | 4.4783 |
| Second interim | 0.3182 | 2.1965 | 2.5147 | 3.9883 |
| Third interim | 2.4184 | 0.4129 | 2.8313 | 2.7574 |
| Final | 3.6942 | 0.0000 | 3.6942 | 2.7907 |

Sterling Class 'A' Income share

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|-------------|---------------------------|-------------------------------|--------|
| | p | p | p | p |
| First interim | 0.0448 | 0.0536 | 0.0984 | 0.1060 |
| Second interim | 0.0651 | 0.0313 | 0.0964 | 0.1195 |
| Third interim | 0.0562 | 0.0481 | 0.1043 | 0.1034 |
| Final | 0.0586 | 0.0588 | 0.1174 | 0.1048 |

Sterling Class 'I' Income share

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|-------------|---------------------------|-------------------------------|--------|
| | p | p | p | p |
| First interim | 1.4326 | 2.5218 | 3.9544 | 4.5140 |
| Second interim | 2.0912 | 1.7769 | 3.8681 | 4.8800 |
| Third interim | 2.0515 | 2.1309 | 4.1824 | 4.1233 |
| Final | 2.2487 | 2.4621 | 4.7108 | 4.2131 |

Swiss franc Class 'A-H' Accumulation share

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|-------------|---------------------------|-------------------------------|--------|
| | CHF | CHF | CHF | CHF |
| First interim | 1.2038 | 0.0000 | 1.2038 | 3.0496 |
| Second interim | 1.1256 | 0.0000 | 1.1256 | 2.5475 |
| Third interim | 1.4334 | 0.0000 | 1.4334 | 1.4329 |
| Final | 2.4411 | 0.0000 | 2.4411 | 1.3557 |

Swiss franc Class 'C-H' Accumulation share

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|-------------|---------------------------|-------------------------------|--------|
| | CHF | CHF | CHF | CHF |
| First interim | 2.6797 | 0.0000 | 2.6797 | 4.4735 |
| Second interim | 2.6458 | 0.0000 | 2.6458 | 3.9890 |
| Third interim | 1.5534 | 1.2791 | 2.8325 | 2.8256 |
| Final | 3.6346 | 0.0000 | 3.6346 | 2.9130 |

US dollar Class 'A-H' Income share

| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|-------------|---------------------------|-------------------------------|--------|
| | \$ | \$ | \$ | \$ |
| First interim | 3.9937 | 0.0000 | 3.9937 | 3.0924 |
| Second interim | 2.4311 | 1.4687 | 3.8998 | 4.3432 |
| Third interim | 2.7815 | 1.4413 | 4.2228 | 4.0503 |
| Final | 3.6393 | 1.1254 | 4.7647 | 4.2909 |

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23 Interest distribution tables (continued)

| US dollar Class 'A-H' Accumulation share | | | | |
|---|----------------|---------------------------------|-----------------------------|--------|
| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution | |
| | 2018 | 2018 | 2018 | 2017 |
| | € | € | € | € |
| First interim | 0.7679 | 0.5210 | 1.2889 | 3.1762 |
| Second interim | 0.0000 | 1.1727 | 1.1727 | 2.5845 |
| Third interim | 0.5120 | 1.0445 | 1.5565 | 1.4736 |
| Final | 1.0596 | 1.5160 | 2.5756 | 1.4349 |

| US dollar Class 'C-H' Income share | | | | |
|---|----------------|---------------------------------|-----------------------------|--------|
| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution | |
| | 2018 | 2018 | 2018 | 2017 |
| | € | € | € | € |
| First interim | 4.0358 | 0.0000 | 4.0358 | 4.3500 |
| Second interim | 3.9697 | 0.0000 | 3.9697 | 4.7908 |
| Third interim | 4.3024 | 0.0000 | 4.3024 | 4.0501 |
| Final | 4.7881 | 0.0000 | 4.7881 | 4.3507 |

| US dollar Class 'C-H' Accumulation share | | | | |
|---|----------------|---------------------------------|-----------------------------|--------|
| Interest distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution | |
| | 2018 | 2018 | 2018 | 2017 |
| | € | € | € | € |
| First interim | 2.6862 | 0.0000 | 2.6862 | 4.4240 |
| Second interim | 2.6036 | 0.0000 | 2.6036 | 3.9950 |
| Third interim | 2.9728 | 0.0000 | 2.9728 | 2.8208 |
| Final | 3.8556 | 0.0000 | 3.8556 | 2.9187 |

M&G UK Income Distribution Fund

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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.

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.

Investment review

As at 1 June 2018, for the year ended 31 May 2018

Performance against objective

The fund achieved the objective of growing its income over the 12-month review period. In addition, as at 31 May 2018, the 4.49% yield on the fund's Sterling Class 'A' (Income) shares was 23% above the broad market FTSE All-Share Index yield of 3.63%, meeting the fund's target to exceed the index yield.

Two quarterly distributions of 6.25p per Sterling Class 'A' (Income) share were declared in respect of the first half of the review period, followed by a third quarterly distribution of 6.25p and a final quarterly distribution of 16.53p in respect of the second half of the review period. The fund's total distribution over the year of 35.28p represents an increase of 1.9% on the corresponding period last year. The latest annual inflation rate, as measured by the Retail Prices Index (RPI), was 3.3% in May, while on the Consumer Prices Index (CPI) measure it was 2.4%.

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

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Investment review

Performance against objective (continued)

Between 1 June 2017 (the start of the review period) and 1 June 2018, although the fund delivered a positive total return (the combination of income and growth of capital) across all of its share classes, this was driven by income growth*. Accordingly, over this time frame, the fund did not grow its capital, which is a secondary consideration after the income growth requirement. The fund's performance placed it behind the 4.7% return by a comparable composite index that comprises 70% the FTSE All-Share Index and 30% the FTSE UK Conventional Gilts All Stocks Index. The fund is behind the composite index over three years, but ahead of it over 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 company shares (equities), as measured by the broad market FTSE All-Share Index, gained 6.5% in total return terms over the 12 months under review. The fixed income market was more lacklustre, with UK government bonds, as measured by the FTSE UK Conventional Gilts All Stocks Index, ending the period broadly flat, and corporate bonds, as measured by the Merrill Lynch Non Gilts Sterling Bond Index, in slightly negative territory. (Bonds are loans in the form of a security, usually issued by a government (government bonds) or company (corporate bonds), which normally pay a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid). The somewhat tepid return from the fund over the period therefore reflected the mixed performances between equities and fixed income.

A marked feature of asset markets in 2018 has been a return of volatility after a period of relative calm in 2017. Initially, this was, in part, associated with a greater level of uncertainty around monetary policy in the major economies of the world as central banks begin the process of normalising interest rates after a decade of 'emergency' levels. More recently, ongoing volatility has also been attributed to the various economic and geopolitical developments that have taken place. Most obvious have been the ebb and flow of the US-China trade war, as well as May's temporary upheaval in global equity and bond markets when the prime minister of the new populist coalition government in Italy tried to appoint a Eurosceptic economy minister.

Despite touching record highs at the end of 2017 and again towards the end of the reporting period, the UK stockmarket was one of the weakest of the major regions over the 12 months, mainly due to the pound's strength, especially against the US dollar. This had the effect of reducing the overseas earnings of UK companies in sterling terms, adversely affecting around 70% of the revenues of the companies in the FTSE 100 Index. Still, the currency move has to be seen in the context of the sharp devaluation in the pound that followed the Brexit vote in June 2016. This was largely recouped in 2017 as the economy

performed better than expected, although its momentum has waned recently. In addition, having reversed the post-referendum 0.25 percentage points emergency interest rate cut in November 2017, the Bank of England indicated at the start of 2018 that it would increase rates again, earlier and more quickly than anticipated, in response to concerns about inflation. Although price pressures subsequently eased, the sharp rise in the oil price over the past 12 months could well push up inflation again.

There were other factors at play behind the domestic market's weakness, such as a rise in bond yields from ultra-low levels, prompted by a jump in wage growth in the US which triggered worries about the pace of interest rate increases by the Federal Reserve. There were also concerns about the lack of clarity over Brexit and its impact on the economy, and the pressure on the consumer from the rising cost of living and a stagnating secondary housing market, made evident by the struggling high street. A further tier of uncertainty was introduced by the June 2017 General Election which resulted in a minority Conservative government dependent upon the DUP to stay in power.

However, UK equities have been supported by strong earnings and dividend growth, and have benefited from the continued recovery in the energy and mining sectors over the past 12 months, which account for around 24% of the UK stockmarket. In particular, energy companies such as BP rallied on the back of a 55% rise in the oil price, which briefly breached US\$80 for the first time since 2014. Another area of support was financials ex banks, accounting for 11% of the market, as insurers responded positively to the improved outlook for their business models from a rising interest rate environment. Domestic banks, on the other hand, were affected by the economic slowdown in the UK. Industrial companies, which represent 11% of the market, also proved fairly resilient, boosted by strong export demand.

On the other hand, the consumer areas were generally weak and the increase in bond yields, along with the prospect of rising interest rates, had a negative effect on the more defensive areas of the market, sometimes referred to as 'bond proxies', such as tobacco companies, pharmaceutical manufacturers, telecoms firms and utility stocks. The latter also succumbed to Labour party threats of renationalisation and worries about the industry regulators' next pricing reviews.

The fund ended the 12-month period behind the comparable composite index. In the market environment, the portfolio benefited from having a larger weighting in UK equities than the composite index, at 74%, as these outperformed the sterling bond market. However, the equity segment of the portfolio underperformed the FTSE All-Share Index, largely because of the fund's defensive, high-income bias, as more economically sensitive and lower income-producing areas of the market outperformed. The fund's bond holdings, representing approximately 25% of the portfolio, produced a small positive return, slightly ahead of the FTSE UK Conventional Gilts All Stocks Index, even though a majority of the holdings were corporate bonds which were generally weaker than government bonds over the period under review, and reflected the portfolio's defensive positioning.

Within the equity segment, there was a negative contribution overall from the fund's larger company holdings, where it has a significant exposure, albeit lower than the index, while the medium-sized and smaller company holdings in the portfolio added value. Sector

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Investment review

Investment performance (continued)

allocation also detracted value. This was primarily a result of the fund's above-market positions in the utilities, telecoms and tobacco sectors, which are solid income producers, and below-market positions in beverages and the supermarket operators where, in the case of the former, valuations were rich. On the other hand, there were positive contributions from the fund's above-market positions in insurers, and the oil & gas sector, together with a below-market position in the housebuilders.

Stock selection added value overall, particularly within real estate, consumer goods, media, electronic & electrical equipment, and pharmaceutical companies. Conversely, it was less successful in the general financial and travel & leisure sectors.

Amongst the most notable performers for the fund at the stock level were a mix of large, medium-sized and smaller companies. These included Games Workshop after improving its growth and margins under new management, as well as miner Rio Tinto, oil major BP, media group UBM which was taken over by rival Informa, and camera equipment manufacturer Vitec which was boosted by good results. Meanwhile, Bovis Homes defied the overall negative trend in the housebuilders as it was perceived to be experiencing a turnaround under a new chief executive.

The holdings that subtracted the most value included telecoms companies, utilities and cigarette manufacturers, along with the brewers and pub operators. The latter suffered a slide in sales that was blamed on the disappointing summer weather last year, consumer belt tightening and competition from the high street. Another significant detractor was Provident Financial, which fell sharply after issuing a profit warning and suspending its dividend. The lender had been held in the portfolio for a long time and, despite the setback, had added value and paid valuable dividends over the years. However, the fund's exposure to the stock had already been reduced and the company's dividend suspension prompted the sale of the rest of the holding. (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.)

Investment activities

The broad thrust of the fund was unchanged over the 12 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 in the industrials, resources, pharmaceuticals and financial sectors.

Amongst the new positions were bus and train operator Go-Ahead Group, speciality plastics manufacturer Victrex, investment firm Jupiter Fund Management, the world's biggest advertising agency, WPP, the largest company in the UK tech sector, Micro Focus, and a real estate investment trust (REIT), LondonMetric Property.

Go-Ahead operates under several franchises. The company pays an attractive dividend, but suffers from negative sentiment over the Southern rail franchise; however, it does not have a performance requirement to meet and is paid for running Southern. Victrex operates in a niche market making polymers that are used in products for the

automobile, energy and medical industries. Jupiter is benefiting from increased demand for investment products and rising asset markets. WPP has encountered difficulties since being added to the portfolio, as customer advertising spend has fallen and the firm has been the subject of break-up speculation after its founder and chief executive, Martin Sorrell, stepped down. Micro Focus was an opportunistic purchase after the shares halved following a profit warning related to short-term difficulties the company was encountering with its purchase of Hewlett Packard's software business; however, the shares still offer an attractive dividend. LondonMetric represented an increase in the fund's property exposure as an alternative to investing in banks, as it is a reliable dividend-producing sector with a business model based on income flows from inflation-linked rentals.

Profits were realised primarily within some of the fund's medium-sized and smaller company holdings, such as Electrocomponents, Intermediate Capital Group, Marshalls, UBM, Bellway, WH Smith, Vitec and Games Workshop. Amongst the complete sales, aside from Provident Financial, were two other medium-sized companies: sensor and safety equipment manufacturer Halma and speciality chemicals manufacturer Elementis. In both cases, the shares had become less attractive from an income standpoint after a long period of outperformance.

There was limited trading activity within the fixed income portion of the portfolio, which mainly revolved around recycling the proceeds from maturing bonds back into the market. This was achieved by purchasing bonds on the secondary market and by participating in new bond issues on the primary market. In the latter case, attractive values were found particularly in the real estate space. Meanwhile, this portion of the fund continues to be defensively positioned from a quality perspective, and at a sector level, through an emphasis on more defensive areas such as utilities, telecoms and consumer goods.

Outlook

In local currency terms, aside from the US market, UK equities have outperformed the other major regions so far in 2018, largely due to a strong performance in April and May. Despite this, the UK offers relative value compared to other equity markets as it has generally lagged behind on an 18-month view – net outflows by retail investors from UK equities have been significant since 2012, especially in the past two years as anxiety over Brexit, political uncertainty, slowing economic growth and currency weakness caused investors to reduce their exposure to UK plc.

However, survey data reveals that the corporate sector remains resilient despite Brexit concerns, unemployment is at record lows, there are signs of wage growth improvement, inflation remains contained for now, and corporate earnings and dividend growth remain supportive. Furthermore, sterling's depreciation has made the UK more attractive to overseas buyers as evidenced by the spate of takeover approaches during the past 12 months.

In this environment, the main strength of the fund's investment portfolio is its broad structure, with an 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.

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Investment review

Distribution prospects

The fund's income generation has been assisted by the tailwind of sterling's Brexit-driven devaluation in 2016 and more recently by a broadening of the market's dividend-producing base. The former has principally benefited the UK's multinationals by boosting the translational effects of their overseas earnings into sterling. The latter is evidenced by a recovery in commodity prices which has enabled the mining behemoths to return to paying dividends once again, and an improving oil price combined with cuts in production costs which have 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, and their business models will be assisted by a rising interest rate environment.

The currency boost is expected to be maintained in 2018, as concerns about the Brexit negotiations and the UK's weak economic performance are likely to keep sterling under pressure. There also continues to be good progress on dividends from many medium-sized and smaller companies.

Last year, dividend growth on the FTSE All-Share Index was approximately 11%. This year, consensus forecasts are for growth of around 6%, but this does not take full account of special dividends which amounted to approximately 5% of the increase in 2017.

Against this backdrop, therefore, and in the absence of unforeseen circumstances, we are aiming for a further increase in the distribution in the 2017/18 year.

Michael Stiasny
Fund manager

An employee of M&G Limited which is an associate of M&G Securities Limited. At the start of the review period Richard Hughes was the fund manager.

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 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|--|----------------|--------------|-----------------|
| EQUITIES | 502,828 | 79.53 | 79.86 |
| Oil & gas producers | 70,666 | 11.18 | 8.13 |
| 6,250,000 BP | 35,794 | 5.66 | |
| 1,300,000 Royal Dutch Shell | 34,872 | 5.52 | |
| Chemicals | 8,664 | 1.37 | 1.48 |
| 50,000 Johnson Matthey | 1,708 | 0.27 | |
| 500,000 Synthomer | 2,708 | 0.43 | |
| 150,000 Victrex | 4,248 | 0.67 | |
| Mining | 29,494 | 4.67 | 2.88 |
| 475,000 BHP Billiton | 8,159 | 1.29 | |
| 500,000 Rio Tinto | 21,335 | 3.38 | |
| Construction & materials | 2,569 | 0.41 | 0.60 |
| 600,000 Marshalls | 2,569 | 0.41 | |
| Aerospace & defence | 0 | 0.00 | 0.84 |
| General industrials | 3,200 | 0.51 | 0.72 |
| 575,000 DS Smith | 3,200 | 0.51 | |
| Electronic & electrical equipment | 5,760 | 0.91 | 1.73 [a] |
| 750,000 discoverIE (formerly Acal) | 3,233 | 0.51 | |
| 750,000 Morgan Advanced Materials | 2,527 | 0.40 | |
| Industrial engineering | 7,092 | 1.12 | 1.16 |
| 90,000 IMI | 1,042 | 0.16 | |
| 500,000 Vitec Group | 6,050 | 0.96 | |
| Support services | 5,820 | 0.92 | 1.28 [a] |
| 1,385,000 Connect Group | 779 | 0.12 | |
| 275,000 De La Rue | 1,438 | 0.23 | |
| 500,000 Electrocomponents | 3,603 | 0.57 | |
| Automobiles & parts | 0 | 0.00 | 0.26 |
| Beverages | 1,765 | 0.28 | 0.22 |
| 64,000 Diageo | 1,765 | 0.28 | |
| Food producers | 4,078 | 0.64 | 0.51 [a] |
| 600,000 Tate & Lyle | 4,078 | 0.64 | |
| Household goods & home construction | 8,812 | 1.39 | 1.09 |
| 105,000 Bellway | 3,450 | 0.54 | |
| 425,000 Bovis Homes Group | 5,362 | 0.85 | |
| Leisure goods | 3,563 | 0.56 | 0.29 |
| 125,000 Games Workshop Group | 3,563 | 0.56 | |
| Personal goods | 10,501 | 1.66 | 1.53 [a] |
| 250,000 Unilever | 10,501 | 1.66 | |
| Tobacco | 33,319 | 5.27 | 7.61 |
| 600,000 British American Tobacco | 23,133 | 3.66 | |
| 380,000 Imperial Brands | 10,186 | 1.61 | |
| Pharmaceuticals & biotechnology | 42,224 | 6.68 | 6.77 |
| 375,000 AstraZeneca | 20,490 | 3.24 | |
| 1,425,000 GlaxoSmithKline | 21,734 | 3.44 | |
| General retailers | 4,070 | 0.64 | 0.69 |
| 537,537 DFS Furniture | 1,269 | 0.20 | |
| 150,000 Dunelm Group | 818 | 0.13 | |
| 100,000 WH Smith | 1,983 | 0.31 | |
| Media | 21,331 | 3.37 | 2.95 |
| 800,000 Informa | 6,258 | 0.99 | |
| 575,000 Moneysupermarket.com | 1,822 | 0.29 | |
| 350,000 RELX | 5,777 | 0.91 | |
| 547,362 UBM | 5,605 | 0.89 | |
| 150,000 WPP | 1,869 | 0.29 | |

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Investments

| Portfolio statement (continued) | | | | |
|--|---------------|-------------|----------------------------|--|
| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % | |
| Travel & leisure | 24,625 | 3.90 | 3.25 | |
| 175,000 Compass Group | 2,824 | 0.45 | | |
| 175,000 Go-Ahead Group | 3,005 | 0.48 | | |
| 750,000 Greene King | 4,383 | 0.69 | | |
| 3,100,000 Marston's | 3,100 | 0.49 | | |
| 1,400,000 National Express | 5,692 | 0.90 | | |
| 1,750,000 William Hill | 5,621 | 0.89 | | |
| Fixed line telecommunications | 10,257 | 1.62 | 1.66 | |
| 3,450,000 BT Group | 7,071 | 1.12 | | |
| 3,340,000 KCOM Group | 3,186 | 0.50 | | |
| Mobile telecommunications | 17,943 | 2.84 | 3.18 | |
| 9,250,000 Vodafone Group | 17,943 | 2.84 | | |
| Electricity | 5,089 | 0.80 | 0.45 | |
| 371,426 SSE | 5,089 | 0.80 | | |
| Gas, water & multi-utilities | 29,783 | 4.71 | 6.65 | |
| 2,087,227 Centrica | 3,008 | 0.47 | | |
| 925,833 National Grid | 7,757 | 1.23 | | |
| 850,000 Pennon Group | 6,397 | 1.01 | | |
| 150,000 Severn Trent | 2,963 | 0.47 | | |
| 1,250,000 United Utilities | 9,658 | 1.53 | | |
| Banks | 36,252 | 5.73 | 5.18 ^[a] | |
| 425,000 Close Brothers Group | 6,260 | 0.99 | | |
| 3,350,000 HSBC Holdings | 24,267 | 3.84 | | |
| 9,000,000 Lloyds Banking Group | 5,725 | 0.90 | | |
| Non-life insurance | 4,903 | 0.78 | 0.70 | |
| 1,365,000 Direct Line Insurance Group | 4,903 | 0.78 | | |
| Life insurance | 43,337 | 6.86 | 5.93 ^[a] | |
| 2,352,000 Aviva | 12,061 | 1.91 | | |
| 1,400,000 Chesnara | 5,495 | 0.87 | | |
| 4,500,000 Legal & General Group | 12,204 | 1.93 | | |
| 1,170,000 Old Mutual | 2,828 | 0.45 | | |
| 300,000 Phoenix Group | 2,349 | 0.37 | | |
| 460,000 Prudential ^[b] | 8,400 | 1.33 | | |
| Real estate investment & services | 2,156 | 0.34 | 0.30 ^[a] | |
| 2,200,000 Channel Islands Property Fund | 2,156 | 0.34 | | |
| Real estate investment trusts | 17,384 | 2.75 | 3.24 ^[a] | |
| 425,000 A & J Mucklow Group | 2,355 | 0.37 | | |
| 202,127 British Land | 1,370 | 0.22 | | |
| 763,933 Hansteen Holdings | 809 | 0.13 | | |
| 304,687 Land Securities Group | 2,848 | 0.45 | | |
| 1,021,809 LondonMetric Property | 1,983 | 0.31 | | |
| 1,010,000 McKay Securities | 2,697 | 0.43 | | |
| 8,316,709 RDI (formerly Redefine International) | 3,160 | 0.50 | | |
| 2,300,000 Standard Life Investment Property Income Trust | 2,162 | 0.34 | | |
| Financial services | 12,306 | 1.95 | 2.76 ^[a] | |
| 1,400,000 Ashmore Group | 5,186 | 0.82 | | |
| 396,429 EF Realisation | 194 | 0.03 | | |
| 150,000 Intermediate Capital Group | 1,718 | 0.27 | | |
| 375,000 Jupiter Fund Management | 1,704 | 0.27 | | |
| 1,000,000 Standard Life Aberdeen (formerly Standard Life) | 3,504 | 0.56 | | |
| Equity investment instruments | 3,081 | 0.49 | 0.59 ^[a] | |
| 1,110,000 Ecofin Global Utilities and Infrastructure Trust | 1,376 | 0.22 | | |
| 1,750,000 Middlefield Canadian Income Trust | 1,705 | 0.27 | | |

Portfolio statement (continued)

| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|---|----------------|--------------|--------------|
| Software & computer services | 7,156 | 1.13 | 0.72 |
| 198,956 Micro Focus International | 2,679 | 0.42 | |
| 675,000 Sage Group | 4,477 | 0.71 | |
| Non-convertible preference shares | 25,628 | 4.05 | 4.51 |
| 1,500,000 Aviva 8.375% Cum. Irrd. Pref. | 2,220 | 0.35 | |
| 3,800,000 General Accident 7.875% Cum. Irrd. Pref. | 5,168 | 0.82 | |
| 2,000,000 General Accident 8.875% Cum. Irrd. Pref. | 3,080 | 0.49 | |
| 7,725,000 Lloyds Banking Group 9.25% Non-cum. Irrd. Pref. | 12,012 | 1.90 | |
| 6,250 Nationwide Building Society 10.25% CCD Non-cum. Irrd. Pref. | 964 | 0.15 | |
| 1,600,000 Standard Chartered 8.25% Non-cum. Irrd. Pref. | 2,184 | 0.34 | |
| FIXED INCOME | 134,612 | 21.29 | 20.19 |
| 'AAA' credit rated bonds | 20,819 | 3.29 | 2.84 |
| £1,186,000 Barclays Bank FRN 2023 | 1,184 | 0.19 | |
| £2,436,078 Dukinfield FRN 2052 | 2,464 | 0.39 | |
| £6,030,000 European Investment Bank FRN 2020 | 6,058 | 0.96 | |
| £400,000 Johnson & Johnson 5.5% 2024 | 496 | 0.08 | |
| £2,700,000 KfW 5.55% 2021 | 3,066 | 0.47 | |
| £1,352,311 Paragon Mortgages No.14 FRN 2039 | 1,317 | 0.21 | |
| £130,376 Residential Mortgage Securities No.28 FRN 2046 | 131 | 0.02 | |
| £2,675,919 Ripon Mortgages FRN 2056 | 2,694 | 0.43 | |
| £1,742,000 Santander UK FRN 2022 | 1,739 | 0.28 | |
| £1,661,953 Towd Point Mortgage Funding FRN 2045 | 1,670 | 0.26 | |
| 'AA' credit rated bonds | 24,376 | 3.86 | 5.17 |
| £1,306,000 Land Securities Capital Markets Var. Rate 2026 (1.974%) | 1,314 | 0.21 | |
| £2,442,000 Metropolitan Life Global Funding I 1.125% 2021 | 2,420 | 0.38 | |
| £510,000 Metropolitan Life Global Funding I 2.625% 2022 (formerly MetLife Global Funding 2.625% 2022) | 534 | 0.08 | |
| £2,500,000 New York Life Global Funding 1% 2021 | 2,475 | 0.39 | |
| £3,000,000 Procter & Gamble 1.375% 2025 | 2,932 | 0.46 | |
| £315,000 SLM Student Loan Trust 5.15% 2039 | 304 | 0.05 | |
| £1,335,000 Toyota Motor Credit 1.125% 2021 | 1,331 | 0.21 | |
| £1,933,000 Treasury 1.25% 2018 | 1,935 | 0.31 | |
| £3,360,000 Treasury 1.875% IL 2022 | 5,408 | 0.86 | |
| £1,500,000 Treasury 3.75% 2019 | 1,561 | 0.25 | |
| £2,490,000 Treasury 4% 2022 | 2,791 | 0.44 | |
| £1,330,000 Treasury 4.5% 2019 | 1,371 | 0.22 | |
| 'A' credit rated bonds | 39,457 | 6.24 | 4.61 |
| £800,000 ABN AMRO Bank 1% 2020 | 796 | 0.12 | |
| £1,100,000 ABN AMRO Bank 1.375% 2022 | 1,091 | 0.17 | |
| £1,750,000 Amgen 5.5% 2026 | 2,150 | 0.34 | |
| £650,000 Anheuser-Busch InBev 9.75% 2024 | 936 | 0.15 | |
| £1,000,000 ASIF III Jersey 5% 2018 | 1,021 | 0.16 | |
| £2,400,000 Banque Federative du Credit Mutuel 0.875% 2020 | 2,382 | 0.38 | |
| £1,200,000 Banque Federative du Credit Mutuel 1.375% 2021 | 1,198 | 0.19 | |
| £2,500,000 BMW International Investment FRN 2019 | 2,501 | 0.40 | |
| £2,000,000 BNP Paribas 1.125% 2022 | 1,954 | 0.31 | |
| £1,500,000 Canadian Imperial Bank of Commerce FRN 2022 | 1,510 | 0.24 | |
| £2,320,000 Daimler AG 1.5% 2022 | 2,323 | 0.37 | |
| £250,000 EDF 6.125% 2034 | 332 | 0.05 | |
| £1,950,000 EDF 6.875% 2022 | 2,392 | 0.38 | |

M&G UK Income Distribution Fund

Authorised Corporate Director's Report

Investments

| Portfolio statement (continued) | | | | |
|--|---------------|-------------|-------------|--|
| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % | |
| 'A' credit rated bonds (continued) | | | | |
| £1,473,000 Heathrow Funding Var. Rate 2025 (5.225%) | 1,697 | 0.27 | | |
| £2,000,000 HSBC Holdings Var. Rate 2026 (2.256%) | 1,931 | 0.31 | | |
| £1,525,000 London Merchant Securities 6.5% 2026 | 1,922 | 0.29 | | |
| £100,000 London Stock Exchange 9.125% 2019 | 111 | 0.02 | | |
| £1,845,000 LVMH Moët Hennessy Louis Vuitton 1% 2022 | 1,826 | 0.29 | | |
| £96,000 Motability Operations Group 6.625% 2019 | 104 | 0.02 | | |
| £1,000,000 Munich Re Finance Var. Rate 2042 (6.625%) | 1,152 | 0.18 | | |
| £918,000 Notting Hill Housing Trust 3.25% 2048 | 911 | 0.13 | | |
| £1,500,000 Standard Life Aberdeen Var. Rate Perp. (6.546%) (formerly Standard Life Var. Rate Perp. (6.546%)) | 1,615 | 0.26 | | |
| £947,000 UBS 1.25% 2020 | 945 | 0.15 | | |
| £1,320,000 United Utilities Water Finance 2% 2025 | 1,319 | 0.21 | | |
| £1,043,000 Wells Fargo 1.375% 2022 | 1,018 | 0.16 | | |
| £1,950,000 Wells Fargo 5.25% 2023 | 2,194 | 0.35 | | |
| £1,750,000 Yorkshire Water Services Odsal Finance 6.5876% 2023 | 2,126 | 0.34 | | |
| 'BBB' credit rated bonds | 32,289 | 5.11 | 5.07 | |
| £794,000 Akelius Residential Property 2.375% 2025 | 769 | 0.12 | | |
| £793,000 Annington Funding 2.646% 2025 | 791 | 0.13 | | |
| £664,000 Aroundtown 3% 2029 | 641 | 0.10 | | |
| £2,000,000 Aviva Var. Rate 2041 (6.625%) | 2,222 | 0.35 | | |
| £1,500,000 Bank of America 5.5% 2021 | 1,669 | 0.27 | | |
| £1,000,000 Barclays Bank 3.125% 2024 | 1,002 | 0.16 | | |
| £1,026,000 Barclays Var. Rate 2023 (2.375%) | 1,012 | 0.16 | | |
| £846,000 Channel Link Enterprises Finance Var. Rate 2050 (3.043%) | 841 | 0.13 | | |
| £1,171,000 Credit Suisse Var. Rate 2025 (2.125%) | 1,134 | 0.18 | | |
| £2,180,000 Deutsche Telekom International Finance Var. Rate 2019 (7.375%) | 2,377 | 0.38 | | |
| £178,000 Digital Stout Holding 2.75% 2024 | 180 | 0.03 | | |
| £1,173,000 FCE Bank 2.625% 2018 | 1,180 | 0.19 | | |
| £300,000 FirstGroup 6.875% 2024 | 367 | 0.06 | | |
| £850,000 Glencore Finance Europe 6.5% 2019 | 882 | 0.14 | | |
| £1,000,000 Goldman Sachs Group 5.5% 2021 | 1,114 | 0.18 | | |
| £265,000 Heathrow Funding 6.25% 2018 | 268 | 0.04 | | |
| £878,000 Imperial Brands Finance 8.125% 2024 | 1,140 | 0.18 | | |
| £1,250,000 Imperial Brands Finance 9% 2022 | 1,567 | 0.25 | | |
| £1,750,000 InterContinental Hotels 3.875% 2022 | 1,901 | 0.30 | | |
| £426,000 LafargeHolcim Sterling Finance (Netherlands) 3% 2032 | 408 | 0.06 | | |
| £795,000 Legal & General Group 10% 2041 | 977 | 0.15 | | |
| £454,000 Liberty Living Finance 2.625% 2024 | 457 | 0.07 | | |
| £700,000 Lloyds Bank 9.625% 2023 | 910 | 0.14 | | |
| £200,000 McDonald's 6.375% 2020 | 217 | 0.03 | | |
| £369,000 McKesson Corporation 3.125% 2029 | 370 | 0.06 | | |
| £990,000 Rolls-Royce 3.375% 2026 | 1,072 | 0.17 | | |
| £241,000 Student Finance 2.6663% 2024 | 240 | 0.04 | | |

Portfolio statement (continued)

| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|---|----------------|---------------|---------------|
| 'BBB' credit rated bonds (continued) | | | |
| £1,000,000 Telefónica Emisiones 5.375% 2026 | 1,168 | 0.18 | |
| £422,000 Thames Water Utilities Cayman 1.875% 2024 | 412 | 0.07 | |
| £2,500,000 Volkswagen Financial Services NV 1.5% 2021 | 2,493 | 0.39 | |
| £2,530,000 Westfield America Management 2.125% 2025 | 2,505 | 0.40 | |
| £3,000 Xstrata Finance Canada 7.375% 2020 | 3 | 0.00 | |
| 'BB' credit rated bonds | 842 | 0.13 | 0.61 |
| £200,000 Telecom Italia 6.375% 2019 | 209 | 0.03 | |
| £554,000 Tesco 6.125% 2022 | 633 | 0.10 | |
| Bonds with no credit rating | 16,829 | 2.66 | 1.89 |
| £1,242,000 Coventry Building Society 1% 2020 | 1,236 | 0.20 | |
| £2,000,000 Coventry Building Society 1.875% 2023 | 1,980 | 0.31 | |
| £195,594 Feldspar 2016-1 FRN 2045 | 197 | 0.03 | |
| £845,000 Finsbury Square 2018-1 FRN 2065 | 847 | 0.13 | |
| £2,000,000 Hammerson 3.5% 2025 | 2,096 | 0.33 | |
| £1,536,000 John Lewis 6.125% 2025 | 1,805 | 0.29 | |
| £520,000 John Lewis 8.375% 2019 | 550 | 0.09 | |
| £1,000,000 National Express 2.5% 2023 | 997 | 0.16 | |
| £500,000 Newday Partnership Funding 2017-1 FRN 2027 | 502 | 0.08 | |
| £1,429,122 Oat Hill No.1 FRN 2046 | 1,424 | 0.23 | |
| £688,000 PCL Funding II FRN 2022 | 691 | 0.11 | |
| £572,000 PCL Funding III FRN 2023 | 574 | 0.09 | |
| £1,071,000 Shaftesbury Chinatown 2.348% 2027 | 1,033 | 0.16 | |
| £463,000 Skipton Building Society 1.75% 2022 | 460 | 0.07 | |
| £698,000 Virgin Money Holdings (UK) Var. Rate 2026 (3.375%) | 703 | 0.11 | |
| £149,000 Wm Morrison Supermarkets 3.5% 2026 | 157 | 0.02 | |
| £1,500,000 Yorkshire Building Society 3.5% 2026 | 1,577 | 0.25 | |
| Portfolio of investments | 637,440 | 100.82 | 100.05 |
| CASH EQUIVALENTS | 2,631 | 0.42 | 1.30 |
| 'AAA' rated money market funds [c] | 2,631 | 0.42 | 1.30 |
| 2,631,000 Northern Trust Global Fund - Sterling | 2,631 | 0.42 | |
| Total portfolio (notes 2c & 2d on page 7) | 640,071 | 101.24 | 101.35 |
| Net other assets / (liabilities) | (7,822) | (1.24) | (1.35) |
| Net assets attributable to shareholders | 632,249 | 100.00 | 100.00 |

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

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

[b] Related party to the fund.

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

M&G UK Income Distribution Fund

Authorised Corporate Director's Report

Investments

| Top ten portfolio transactions | |
|--|----------------|
| for the year to 31 May 2018 | |
| Largest purchases | £'000 |
| BT Group | 4,532 |
| Victrix | 3,896 |
| Go-Ahead Group | 3,123 |
| Micro Focus International | 2,606 |
| SSE | 2,506 |
| BMW International Investment FRN 2019 | 2,499 |
| Banque Federative du Credit Mutuel 0.875% 2020 | 2,398 |
| BP | 2,318 |
| Phoenix Group | 2,313 |
| WPP | 2,230 |
| Other purchases | 49,234 |
| Total purchases | 77,655 |
| Largest sales | £'000 |
| Treasury 1.25% 2018 | 9,779 |
| Segro | 5,853 |
| General Accident 8.875% Cum. Irrd. Pref. | 5,235 |
| Halma | 4,992 |
| British American Tobacco | 4,808 |
| BAE Systems | 4,730 |
| AstraZeneca | 3,895 |
| Severn Trent | 3,455 |
| Tesco 6.125% 2022 | 3,197 |
| TP ICAP | 3,110 |
| Other sales | 58,592 |
| Total sales | 107,646 |

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 show the performance for two of the fund's share classes – Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

We show performance for these two share classes because:

- The performance of the Sterling Class 'A' (Accumulation) share is what most individuals investing directly with M&G have received. It has the highest ongoing charge of all the sterling share classes. Performance is shown after deduction of this charge. All UK investors in the fund therefore received this performance or better.
- The performance of the Sterling Class 'I' (Accumulation) share is the most appropriate to compare with the average performance of the fund's comparative sector. It is the share class used by the Investment Association in the calculation of the comparative sector's average performance. This share class is available for direct investment with M&G subject to minimum investment criteria, or via third parties who may charge additional fees. The performance shown takes the deduction of the ongoing charge for this share class into account but it does not take account of charges applied by any other party through which you may have invested.

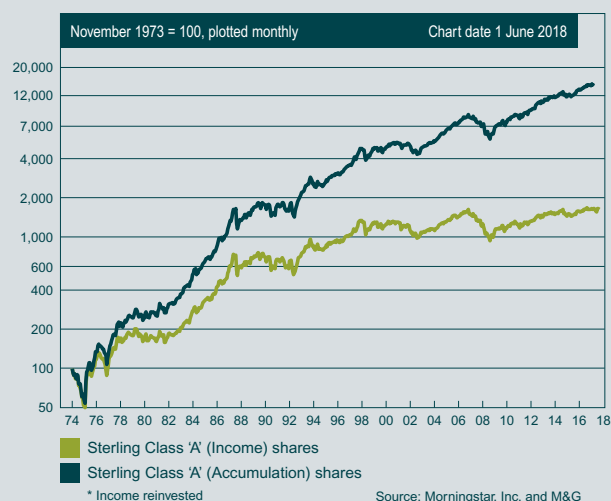
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

| Fund net asset value | | | |
|----------------------------|---------------|---------------|---------------|
| as at 31 May | 2018 £'000 | 2017 £'000 | 2016 £'000 |
| Fund net asset value (NAV) | 632,249 | 673,770 | 387,799 |

Share class performance since launch

To give an indication of how the fund has performed since launch, the charts below show 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 comparative index changed from the FTSE All-Share Index to a composite index (which comprises 70% FTSE All-Share Index and 30% FTSE 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 index from inception, please find below a ten-year chart for comparison.



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

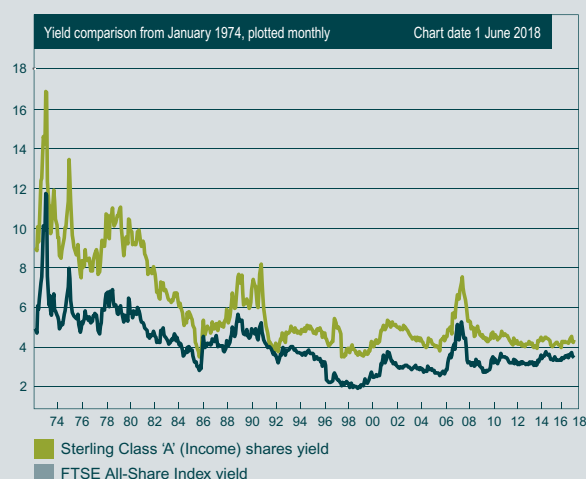
M&G UK Income Distribution Fund

Financial highlights

Fund performance

Historic yield

The chart below shows the historic yield of Sterling Class 'A' (Income) shares against that of a comparative index.



Source: Morningstar, Inc. and M&G

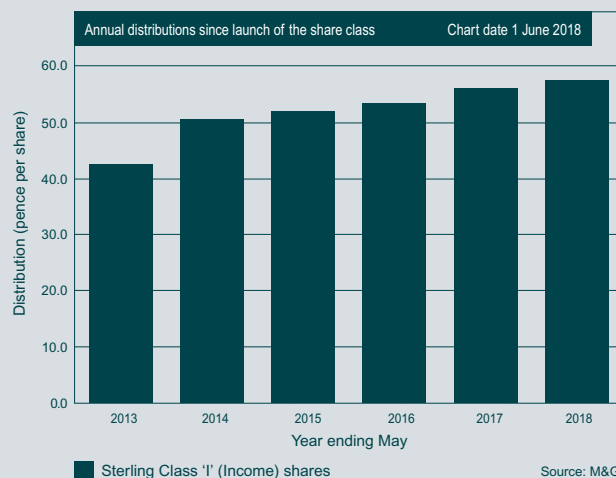
Historic yield: The historic yield reflects distributions declared over the past twelve months as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions.

Distribution

The charts below show the annual distribution of Sterling Class 'A' (Income) shares over the last ten years and Sterling Class 'I' (Income) shares since launch.



Source: M&G



Source: M&G

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

Long-term performance by share class

| | One year 01.06.17 % [a] | Three years 01.06.15 % p.a. | Five years 03.06.13 % p.a. | Since launch % p.a. |
|---------------------|----------------------------------|--------------------------------------|-------------------------------------|---------------------------|
| Sterling [b] | | | | |
| Class 'A' | +2.7 | +5.4 | +7.1 | +12.0 [c] |
| Class 'C' | +3.9 | +6.6 | +8.2 | +7.6 [d] |
| Class 'I' | +3.4 | +6.0 | +7.6 | +9.2 [e] |
| Class 'R' | +3.1 | +5.7 | +7.4 | +8.9 [e] |
| Class 'X' | +2.7 | +5.4 | +7.1 | +8.1 [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.

M&G UK Income Distribution 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:

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

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

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where 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.

For this fund there is no difference between operating charges and ongoing charges figures, unless disclosed under the specific share class performance table.

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 or by calling M&G Customer Relations.

Portfolio transaction costs

| for the year to 31 May | 2018 | 2017 | 2016 | Average ^[a] |
|---|--------|--------|--------|------------------------|
| Direct portfolio transaction costs ^[b] | % | % | % | % |
| Broker commission | 0.01 | 0.00 | 0.02 | 0.01 |
| Taxes | 0.03 | 0.23 | 0.02 | 0.09 |
| Costs before dilution adjustments | 0.04 | 0.23 | 0.04 | 0.10 |
| Dilution adjustments ^[c] | (0.01) | (0.11) | (0.01) | (0.04) |
| Total direct portfolio transaction costs | 0.03 | 0.12 | 0.03 | 0.06 |
| as at 31 May | 2018 | 2017 | 2016 | Average ^[a] |
| Indirect portfolio transaction costs | % | % | % | % |
| Average portfolio dealing spread | 0.26 | 0.26 | 0.43 | 0.32 |

^[a] Average of first three columns.

^[b] As a percentage of average net asset value.

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

M&G UK Income Distribution Fund

Financial highlights

Specific share class performance

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

Historic yields for the current year are calculated as at 8 June 2018.

Sterling Class 'A' Income share performance

The share class was launched on 19 November 1973.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 802.90 | 714.43 | 770.88 |
| Return before operating charges and after direct portfolio transaction costs | 29.43 | 133.89 | (13.01) |
| Operating charges | (11.19) | (10.80) | (10.16) |
| Return after operating charges | 18.24 | 123.09 | (23.17) |
| Distributions | (35.28) | (34.62) | (33.28) |
| Closing NAV | 785.86 | 802.90 | 714.43 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|--------|--------|--------|
| Costs before dilution adjustments | 0.28 | 1.77 | 0.28 |
| Dilution adjustments ^[a] | (0.09) | (0.83) | (0.07) |
| Total direct portfolio transaction costs | 0.19 | 0.94 | 0.21 |

| Performance and charges | % | % | % |
|---|-------|--------|-------|
| Direct portfolio transaction costs ^[b] | 0.03 | 0.12 | 0.03 |
| Operating charges | 1.42 | 1.41 | 1.41 |
| Return after operating charges | +2.27 | +17.23 | -3.01 |
| Historic yield | 4.49 | 4.33 | 4.70 |
| Effect on yield of charges offset against capital | 1.41 | 1.41 | 1.41 |

Other information

| | | | |
|--|------------|------------|------------|
| Closing NAV (£'000) | 163,142 | 188,164 | 172,671 |
| Closing NAV percentage of total fund NAV (%) | 25.80 | 27.93 | 44.53 |
| Number of shares | 20,759,599 | 23,435,550 | 24,169,257 |
| Highest share price (UK p) | 813.76 | 818.89 | 771.24 |
| Lowest share price (UK p) | 741.62 | 689.59 | 673.49 |

Sterling Class 'A' Accumulation share performance

The share class was launched on 19 November 1973.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 7,131.83 | 6,071.24 | 6,253.90 |
| Return before operating charges and after direct portfolio transaction costs | 269.04 | 1,153.37 | (99.33) |
| Operating charges | (100.56) | (92.78) | (83.33) |
| Return after operating charges | 168.48 | 1,060.59 | (182.66) |
| Distributions | (219.55) | (237.99) | (273.98) |
| Retained distributions | 219.55 | 237.99 | 273.98 |
| Closing NAV | 7,300.31 | 7,131.83 | 6,071.24 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|--------|--------|--------|
| Costs before dilution adjustments | 2.55 | 15.19 | 2.30 |
| Dilution adjustments ^[a] | (0.78) | (7.10) | (0.54) |
| Total direct portfolio transaction costs | 1.77 | 8.09 | 1.76 |

| Performance and charges | % | % | % |
|---|-------|--------|-------|
| Direct portfolio transaction costs ^[b] | 0.03 | 0.12 | 0.03 |
| Operating charges | 1.42 | 1.41 | 1.41 |
| Return after operating charges | +2.36 | +17.47 | -2.92 |
| Historic yield ^[c] | 3.01 | 2.95 | 4.55 |
| Effect on yield of charges offset against capital | 0.01 | 0.01 | 1.41 |

Other information

| | | | |
|--|----------|----------|----------|
| Closing NAV (£'000) | 22,610 | 26,032 | 24,229 |
| Closing NAV percentage of total fund NAV (%) | 3.58 | 3.86 | 6.25 |
| Number of shares | 309,708 | 365,011 | 399,081 |
| Highest share price (UK p) | 7,397.19 | 7,128.93 | 6,257.37 |
| Lowest share price (UK p) | 6,747.37 | 5,860.75 | 5,556.42 |

Sterling Class 'C' Income share performance

Sterling Class 'C' shares are not generally available to all investors.

The share class was launched on 1 December 2005.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 905.98 | 796.35 | 848.82 |
| Return before operating charges and after direct portfolio transaction costs | 32.63 | 148.85 | (15.39) |
| Operating charges | (1.52) | (1.38) | (1.28) |
| Return after operating charges | 31.11 | 147.47 | (16.67) |
| Distributions | (39.29) | (37.84) | (35.80) |
| Closing NAV | 897.80 | 905.98 | 796.35 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|--------|--------|--------|
| Costs before dilution adjustments | 0.32 | 1.98 | 0.31 |
| Dilution adjustments ^[a] | (0.10) | (0.93) | (0.07) |
| Total direct portfolio transaction costs | 0.22 | 1.05 | 0.24 |

| Performance and charges | % | % | % |
|---|-------|--------|-------|
| Direct portfolio transaction costs ^[b] | 0.03 | 0.12 | 0.03 |
| Operating charges | 0.17 | 0.16 | 0.16 |
| Return after operating charges | +3.43 | +18.52 | -1.96 |
| Historic yield | 4.37 | 4.19 | 4.53 |
| Effect on yield of charges offset against capital | 0.16 | 0.16 | 0.16 |

Other information

| | | | |
|--|-----------|-----------|------------|
| Closing NAV (£'000) | 74,902 | 83,238 | 81,331 |
| Closing NAV percentage of total fund NAV (%) | 11.85 | 12.35 | 20.97 |
| Number of shares | 8,342,838 | 9,187,604 | 10,212,975 |
| Highest share price (UK p) | 927.92 | 923.60 | 849.24 |
| Lowest share price (UK p) | 844.84 | 769.01 | 747.23 |

M&G UK Income Distribution Fund

Financial highlights

Specific share class performance

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 1,303.10 | 1,153.24 | 1,238.21 |
| Return before operating charges and after direct portfolio transaction costs | 47.82 | 216.29 | (21.13) |
| Operating charges | (9.89) | (10.39) | (10.57) |
| Return after operating charges | 37.93 | 205.90 | (31.70) |
| Distributions | (57.45) | (56.04) | (53.27) |
| Closing NAV | 1,283.58 | 1,303.10 | 1,153.24 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.46 | 2.87 | 0.45 |
| Dilution adjustments ^[a] | (0.14) | (1.34) | (0.11) |
| Total direct portfolio transaction costs | 0.32 | 1.53 | 0.34 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.03 | 0.12 | 0.03 |
| Operating charges | 0.77 | 0.84* | 0.91 |
| Return after operating charges | +2.91 | +17.85 | -2.56 |
| Historic yield | 4.47 | 4.32 | 4.66 |
| Effect on yield of charges offset against capital | 0.76 | 0.84 | 0.91 |
| Other information | | | |
| Closing NAV (£'000) | 73,043 | 67,776 | 47,322 |
| Closing NAV percentage of total fund NAV (%) | 11.55 | 10.06 | 12.20 |
| Number of shares | 5,690,580 | 5,201,104 | 4,103,383 |
| Highest share price (UK p) | 1,328.00 | 1,329.13 | 1,238.80 |
| Lowest share price (UK p) | 1,210.10 | 1,113.34 | 1,085.35 |

* As the annual management charge has been discounted during the period 0.76% is more reliable estimate of the operating charges for the period to 31.05.18.

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 1,614.52 | 1,367.12 | 1,401.75 |
| Return before operating charges and after direct portfolio transaction costs | 60.96 | 259.88 | (22.50) |
| Operating charges | (12.41) | (12.48) | (12.13) |
| Return after operating charges | 48.55 | 247.40 | (34.63) |
| Distributions | (59.97) | (59.22) | (61.21) |
| Retained distributions | 59.97 | 59.22 | 61.21 |
| Closing NAV | 1,663.07 | 1,614.52 | 1,367.12 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.58 | 3.44 | 0.52 |
| Dilution adjustments ^[a] | (0.18) | (1.61) | (0.12) |
| Total direct portfolio transaction costs | 0.40 | 1.83 | 0.40 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.03 | 0.12 | 0.03 |
| Operating charges | 0.77 | 0.84* | 0.91 |
| Return after operating charges | +3.01 | +18.10 | -2.47 |
| Historic yield ^[c] | 3.60 | 3.43 | 4.52 |
| Effect on yield of charges offset against capital | 0.01 | 0.09 | 0.91 |
| Other information | | | |
| Closing NAV (£'000) | 32,754 | 26,341 | 21,443 |
| Closing NAV percentage of total fund NAV (%) | 5.18 | 3.91 | 5.53 |
| Number of shares | 1,969,502 | 1,631,525 | 1,568,476 |
| Highest share price (UK p) | 1,684.84 | 1,613.89 | 1,402.54 |
| Lowest share price (UK p) | 1,535.26 | 1,319.92 | 1,249.45 |

* As the annual management charge has been discounted during the period 0.76% is more reliable estimate of the operating charges for the period to 31.05.18.

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 128.79 | 114.25 | 122.99 |
| Return before operating charges and after direct portfolio transaction costs | 4.71 | 21.45 | (2.10) |
| Operating charges | (1.29) | (1.37) | (1.34) |
| Return after operating charges | 3.42 | 20.08 | (3.44) |
| Distributions | (5.67) | (5.54) | (5.30) |
| Closing NAV | 126.54 | 128.79 | 114.25 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.05 | 0.31 | 0.04 |
| Dilution adjustments ^[a] | (0.01) | (0.15) | (0.01) |
| Total direct portfolio transaction costs | 0.04 | 0.16 | 0.03 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.03 | 0.12 | 0.03 |
| Operating charges | 1.02 | 1.01 | 1.16 |
| Return after operating charges | +2.66 | +17.58 | -2.79 |
| Historic yield | 4.48 | 4.32 | 4.68 |
| Effect on yield of charges offset against capital | 1.01 | 1.01 | 1.16 |
| Other information | | | |
| Closing NAV (£'000) | 220,024 | 240,949 | 1,012 |
| Closing NAV percentage of total fund NAV (%) | 34.80 | 35.76 | 0.26 |
| Number of shares | 173,879,841 | 187,092,541 | 885,229 |
| Highest share price (UK p) | 130.91 | 131.35 | 123.05 |
| Lowest share price (UK p) | 119.33 | 110.29 | 107.63 |

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Financial highlights

Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 159.68 | 135.54 | 139.31 |
| Return before operating charges and after direct portfolio transaction costs | 6.05 | 25.75 | (2.24) |
| Operating charges | (1.65) | (1.61) | (1.53) |
| Return after operating charges | 4.40 | 24.14 | (3.77) |
| Distributions | (5.53) | (5.61) | (6.09) |
| Retained distributions | 5.53 | 5.61 | 6.09 |
| Closing NAV | 164.08 | 159.68 | 135.54 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.06 | 0.34 | 0.05 |
| Dilution adjustments ^[a] | (0.02) | (0.16) | (0.01) |
| Total direct portfolio transaction costs | 0.04 | 0.18 | 0.04 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.03 | 0.12 | 0.03 |
| Operating charges | 1.02 | 1.09* | 1.16 |
| Return after operating charges | +2.76 | +17.81 | -2.71 |
| Historic yield ^[c] | 3.37 | 3.20 | 4.53 |
| Effect on yield of charges offset against capital | 0.01 | 0.09 | 1.16 |
| Other information | | | |
| Closing NAV (£'000) | 15,673 | 391 | 346 |
| Closing NAV percentage of total fund NAV (%) | 2.48 | 0.06 | 0.09 |
| Number of shares | 9,552,132 | 245,112 | 255,057 |
| Highest share price (UK p) | 166.24 | 159.62 | 139.39 |
| Lowest share price (UK p) | 151.54 | 130.85 | 123.96 |

* As the annual management charge has been discounted during the period 1.01% is more reliable estimate of the operating charges for the period to 31.05.18.

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 809.43 | 720.26 | 777.18 |
| Return before operating charges and after direct portfolio transaction costs | 29.68 | 134.95 | (13.17) |
| Operating charges | (11.28) | (10.87) | (10.24) |
| Return after operating charges | 18.40 | 124.08 | (23.41) |
| Distributions | (35.57) | (34.91) | (33.51) |
| Closing NAV | 792.26 | 809.43 | 720.26 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 0.29 | 1.78 | 0.28 |
| Dilution adjustments ^[a] | (0.09) | (0.83) | (0.07) |
| Total direct portfolio transaction costs | 0.20 | 0.95 | 0.21 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.03 | 0.12 | 0.03 |
| Operating charges | 1.42 | 1.41 | 1.41 |
| Return after operating charges | +2.27 | +17.23 | -3.01 |
| Historic yield | 4.49 | 4.33 | 4.69 |
| Effect on yield of charges offset against capital | 1.41 | 1.41 | 1.41 |
| Other information | | | |
| Closing NAV (£'000) | 24,973 | 33,811 | 33,409 |
| Closing NAV percentage of total fund NAV (%) | 3.95 | 5.02 | 8.61 |
| Number of shares | 3,152,075 | 4,177,058 | 4,638,501 |
| Highest share price (UK p) | 820.48 | 825.61 | 777.54 |
| Lowest share price (UK p) | 747.80 | 695.22 | 679.05 |

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 7,050.45 | 6,002.23 | 6,183.29 |
| Return before operating charges and after direct portfolio transaction costs | 265.83 | 1,140.06 | (98.64) |
| Operating charges | (99.33) | (91.84) | (82.42) |
| Return after operating charges | 166.50 | 1,048.22 | (181.06) |
| Distributions | (216.97) | (234.90) | (270.55) |
| Retained distributions | 216.97 | 234.90 | 270.55 |
| Closing NAV | 7,216.95 | 7,050.45 | 6,002.23 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 2.52 | 15.04 | 2.28 |
| Dilution adjustments ^[a] | (0.77) | (7.03) | (0.53) |
| Total direct portfolio transaction costs | 1.75 | 8.01 | 1.75 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.03 | 0.12 | 0.03 |
| Operating charges | 1.42 | 1.41 | 1.41 |
| Return after operating charges | +2.36 | +17.46 | -2.93 |
| Historic yield ^[c] | 3.01 | 2.95 | 4.55 |
| Effect on yield of charges offset against capital | 0.01 | 0.01 | 1.41 |
| Other information | | | |
| Closing NAV (£'000) | 5,128 | 7,068 | 6,036 |
| Closing NAV percentage of total fund NAV (%) | 0.81 | 1.05 | 1.56 |
| Number of shares | 71,061 | 100,251 | 100,558 |
| Highest share price (UK p) | 7,312.74 | 7,047.62 | 6,186.52 |
| Lowest share price (UK p) | 6,670.33 | 5,794.08 | 5,493.35 |

^[a] In respect of direct portfolio transaction costs.

^[b] As a percentage of average net asset value.

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

M&G UK Income Distribution Fund

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Statement of total return

| for the year to 31 May | Note | 2018 £'000 | 2017 £'000 |
|---|------|-----------------|---------------|
| Income | | | |
| Net capital gains / (losses) | 3 | (5,929) | 58,495 |
| Revenue | 5 | 29,185 | 21,024 |
| Expenses | 6 | (6,545) | (4,812) |
| Net revenue / (expense) before taxation | | 22,640 | 16,212 |
| Taxation | 7 | (18) | (2) |
| Net revenue / (expense) after taxation | | 22,622 | 16,210 |
| Total return before distributions | | 16,693 | 74,705 |
| Distributions | 8 | (28,228) | (20,513) |
| Change in net assets attributable to shareholders from investment activities | | (11,535) | 54,192 |

Statement of change in net assets attributable to shareholders

| for the year to 31 May | | 2018 £'000 | 2017 £'000 |
|--|----------|----------------|----------------|
| Opening net assets attributable to shareholders | | 673,770 | 387,799 |
| Amounts received on issue of shares | 47,436 | | 25,893 |
| Value of in specie transfers received | 0 | | 251,842 |
| Amounts paid on cancellation of shares | (79,998) | | (49,204) |
| | | (32,562) | 228,531 |
| Dilution adjustments | | 145 | 1,110 |
| Change in net assets attributable to shareholders from investment activities (see above) | | (11,535) | 54,192 |
| Retained distributions on Accumulation shares | | 2,377 | 2,084 |
| Unclaimed distributions | | 54 | 54 |
| Closing net assets attributable to shareholders | | 632,249 | 673,770 |

Balance sheet

| as at 31 May | Note | 2018 £'000 | 2017 £'000 |
|--|------|-----------------|-----------------|
| Assets | | | |
| Fixed assets | | | |
| Investments | | 640,071 | 682,894 |
| Current assets | | | |
| Debtors | 9 | 4,775 | 5,696 |
| Cash and bank balances | 10 | 278 | 0 |
| Total assets | | 645,124 | 688,590 |
| Liabilities | | | |
| Creditors | | | |
| Bank overdrafts | | 0 | (107) |
| Distribution payable | | (11,682) | (12,445) |
| Other creditors | 11 | (1,193) | (2,268) |
| Total liabilities | | (12,875) | (14,820) |
| Net assets attributable to shareholders | | 632,249 | 673,770 |

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

In determining the amount available for reinvestment to Accumulation shares, all expenses with the exception of the annual management charge, administration charge and overdraft interest are offset against capital, increasing the amount available for reinvestment whilst restraining capital performance to an equivalent extent. In determining the amount available for distribution to Income shares, all expenses with the exception of overdraft interest are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

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

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

3 Net capital gains / (losses)

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|-------------------------------------|----------------|---------------|
| Non-derivative securities | (5,930) | 58,499 |
| Currency gains / (losses) | 5 | 0 |
| Transaction charges | (4) | (4) |
| Net capital gains / (losses) | (5,929) | 58,495 |

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Notes to the financial statements

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 102.

| for the year to 31 May | 2018 £'000 | % of transaction | 2017 £'000 | % of transaction |
|--|----------------|---------------------|----------------|---------------------|
| a) Purchases | | | | |
| Equities | | | | |
| Equities before transaction costs | 42,624 | | 13,557 | |
| Commissions | 15 | 0.04 | 1 | 0.01 |
| Taxes | 187 | 0.44 | 33 | 0.24 |
| Equities after transaction costs | 42,826 | | 13,591 | |
| Debt securities ^[a] | 34,829 | | 53,951 | |
| Other transaction types | | | | |
| Corporate actions | | | | |
| | 0 | | 1,120 | |
| In specie | | | | |
| In specie before transactions costs | 0 | | 250,836 | |
| Taxes | 0 | 0.00 | 1,006 | 0.40 |
| In specie after transaction costs | 0 | | 251,842 | |
| Total purchases after transaction costs | 77,655 | | 320,504 | |
| b) Sales | | | | |
| Equities | | | | |
| Equities before transaction costs | 72,221 | | 41,605 | |
| Commissions | (31) | 0.04 | (26) | 0.06 |
| Equities after transaction costs | 72,190 | | 41,579 | |
| Debt securities ^[a] | 26,721 | | 46,176 | |
| Other transaction types | | | | |
| Corporate actions | | | | |
| | 8,735 | | 2,645 | |
| Total sales after transaction costs | 107,646 | | 90,400 | |
| c) Direct portfolio transaction costs | | | | |
| | 2018 £'000 | % of average NAV | 2017 £'000 | % of average NAV |
| Commissions paid | | | | |
| Equities | 46 | 0.01 | 27 | 0.00 |
| Taxes paid | | | | |
| Equities | 187 | 0.03 | 1,039 | 0.23 |
| Total direct portfolio transaction costs ^[b] | 233 | 0.04 | 1,066 | 0.23 |
| d) Indirect portfolio transaction costs | | | | |
| | | % | | % |
| Portfolio dealing spread ^[c] | | 0.26 | | 0.26 |

^[a] These transaction types do not attract direct portfolio transaction costs.

^[b] Costs before dilution adjustments. Please refer to the 'Financial highlights' section for the effect of dilution adjustments.

^[c] Average portfolio dealing spread at the balance sheet date.

5 Revenue

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Dividends from equity investments: non-taxable | 24,243 | 16,365 |
| Dividends from equity investments: taxable | 509 | 472 |
| Interest distributions | 16 | 16 |
| Interest on debt securities | 3,435 | 2,747 |
| Stock dividends | 982 | 1,389 |
| Underwriting commission | 0 | 35 |
| Total revenue | 29,185 | 21,024 |

6 Expenses

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Payable to the ACD or associate | | |
| Annual management charge | 5,514 | 4,073 |
| Administration charge | 972 | 692 |
| | 6,486 | 4,765 |
| Payable to the Depositary or associate | | |
| Depositary's charge (including VAT) | 43 | 32 |
| Other expenses | | |
| Audit fee (including VAT) | 9 | 10 |
| Interest payable | 0 | 1 |
| Safe custody charge | 7 | 4 |
| | 16 | 15 |
| Total expenses | 6,545 | 4,812 |

7 Taxation

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| a) Analysis of charge in the year | | |
| Corporation tax | 0 | 0 |
| Withholding tax | 18 | 2 |
| Deferred tax (note 7c) | 0 | 0 |
| Total taxation | 18 | 2 |
| b) Factors affecting taxation charge for the year | | |
| Net revenue / (expense) before taxation | 22,640 | 16,212 |
| Corporation tax at 20% | 4,528 | 3,242 |
| Effects of: | | |
| Dividends from equity investments: non-taxable | (4,849) | (3,273) |
| Stock dividends not taxable | (196) | (278) |
| Current year expenses not utilised | 553 | 290 |
| Withholding tax | 18 | 2 |
| Relief for indexation on UK gilts | (36) | 0 |
| Prior year adjustment to expenses not utilised | 0 | 19 |
| Total tax charge (note 7a) | 18 | 2 |
| c) Provision for deferred taxation | | |
| Provision at the start of the year | 0 | 0 |
| Deferred tax in profit and loss account (note 7a) | 0 | 0 |
| Provision at the end of the year | 0 | 0 |

The fund has not recognised a deferred tax asset of £1,607,000 (2017: £1,054,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

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8 Distributions

| for the year to 31 May | 2018 | | 2017 | |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| | Inc ^[a] £'000 | Acc ^[b] £'000 | Inc ^[a] £'000 | Acc ^[b] £'000 |
| Dividend distributions | | | | |
| First interim | 4,718 | 367 | 2,823 | 435 |
| Second interim | 4,594 | 437 | 2,812 | 377 |
| Third interim | 4,495 | 477 | 2,812 | 330 |
| Final | 11,682 | 1,096 | 12,445 | 942 |
| Total net distributions | | 27,866 | | 22,976 |
| Income deducted on cancellation of shares | | 752 | | 561 |
| Income received on issue of shares | | (390) | | (3,024) |
| Distributions | | 28,228 | | 20,513 |
| Net revenue / (expense) per statement of total return | | 22,622 | | 16,210 |
| Expenses offset against capital | | 5,845 | | 4,386 |
| Sharing of relief between classes | | (60) | | (83) |
| Effective yield adjustments not distributed | | (179) | | 0 |
| Distributions | | 28,228 | | 20,513 |

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

| as at 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Amounts receivable on issues of shares | 142 | 148 |
| Debt security interest receivable | 1,548 | 1,758 |
| Distributions receivable | 2 | 1 |
| Dividends receivable | 3,083 | 2,937 |
| Sales awaiting settlement | 0 | 852 |
| Total debtors | 4,775 | 5,696 |

10 Cash and bank balances

| as at 31 May | 2018 £'000 | 2017 £'000 |
|-------------------------------------|---------------|---------------|
| Cash held as bank balances | 278 | 0 |
| Total cash and bank balances | 278 | 0 |

11 Other creditors

| as at 31 May | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| ACD's annual management charge payable | 150 | 146 |
| Administration charge payable | 26 | 25 |
| Amounts payable on cancellation of shares | 1,004 | 551 |
| Expenses payable | 13 | 12 |
| Purchases awaiting settlement | 0 | 1,534 |
| Total other creditors | 1,193 | 2,268 |

12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2017: same).

13 Shares in issue

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

| Share class | Opening 01.06.17 | Movements | | Closing 31.05.18 |
|------------------------|---------------------|-----------|--------------|---------------------|
| | | Issued | Cancelled | |
| Sterling | | | | |
| Class 'A' Income | 23,435,550 | 333,526 | (3,009,477) | 20,759,599 |
| Class 'A' Accumulation | 365,011 | 3,475 | (58,778) | 309,708 |
| Class 'C' Income | 9,187,604 | 325,746 | (1,170,512) | 8,342,838 |
| Class 'I' Income | 5,201,104 | 935,752 | (446,276) | 5,690,580 |
| Class 'I' Accumulation | 1,631,525 | 498,938 | (160,961) | 1,969,502 |
| Class 'R' Income | 187,092,541 | 4,856,204 | (18,068,904) | 173,879,841 |
| Class 'R' Accumulation | 245,112 | 9,547,553 | (240,533) | 9,552,132 |
| Class 'X' Income | 4,177,058 | 41,772 | (1,066,755) | 3,152,075 |
| Class 'X' Accumulation | 100,251 | 2,755 | (31,945) | 71,061 |

14 Charging structure

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

| Share class | Entry charge % | Exit charge % | Annual management charge % |
|-----------------|----------------------|---------------------|-------------------------------------|
| Sterling | | | |
| Class 'A' | nil | n/a | 1.25 |
| Class 'C' | nil | n/a | nil |
| Class 'I' | nil | n/a | 0.60 |
| Class 'R' | nil | n/a | 0.85 |
| Class 'X' | nil | n/a | 1.25 |

15 Related parties

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

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

During the year, there were transactions in Prudential plc, a related party of M&G Securities Limited with a total value of £nil (2017: £1,967,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £8,400,000 (2017: £7,999,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 3.76% (2017: 3.48%) of the fund's shares.

M&G UK Income Distribution Fund

Financial statements and notes

Notes to the financial statements

16 Events after the balance sheet date

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

17 Fair value analysis

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

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

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

Level 2: Valuation technique using observable market data

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

Level 3: Valuation technique using unobservable inputs

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

| as at 31 May | Assets | Liabilities | Assets | Liabilities |
|--------------------|----------------|-------------|----------------|-------------|
| Basis of valuation | 2018 | 2018 | 2017 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| Level 1 | 512,772 | 0 | 561,450 | 0 |
| Level 2 | 126,608 | 0 | 121,444 | 0 |
| Level 3 | 691 | 0 | 0 | 0 |
| | 640,071 | 0 | 682,894 | 0 |

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

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 8 and 9.

19 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by £31,872,000 (2017: £33,705,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

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

21 Interest rate risk sensitivity and exposure

Changes in interest rates or changes in expectations of future interest rates may result in an increase or decrease in the market value of the investments held. A one per cent increase in interest rates (based on current parameters used by the Manager's Investment Risk department) would have the effect of decreasing the return and net assets by £(8,411,072), (2017: £(9,336,000)). A one per cent decrease in interest rates would have the effect of increasing the return and net assets by £10,286,000 (2017: £11,501,000).

The table below sets out the fund's exposure to interest rate risk.

| as at 31 May | 2018 | 2017 |
|--|----------------|----------------|
| | £'000 | £'000 |
| Investments with fixed interest rates | 97,218 | 115,031 |
| Investments with variable interest rates | 40,025 | 29,757 |
| Non-interest bearing investments | 502,828 | 538,106 |
| Total | 640,071 | 682,894 |

22 Credit risk

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

| as at 31 May | 2018 | 2017 |
|-----------------------------------|----------------|----------------|
| | £'000 | £'000 |
| Investment grade securities | 116,941 | 119,212 |
| Below investment grade securities | 842 | 4,079 |
| Unrated securities | 16,829 | 12,706 |
| Other investments | 505,459 | 546,897 |
| Total | 640,071 | 682,894 |

23 Dividend distribution tables

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

| Quarterly distribution periods | | | | |
|--------------------------------|----------|----------|----------|----------|
| | Start | End | Xd | Payment |
| First interim | 01.06.17 | 31.08.17 | 01.09.17 | 31.10.17 |
| Second interim | 01.09.17 | 30.11.17 | 01.12.17 | 31.01.18 |
| Third interim | 01.12.17 | 28.02.18 | 01.03.18 | 30.04.18 |
| Final | 01.03.18 | 31.05.18 | 01.06.18 | 31.07.18 |

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

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

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

M&G UK Income Distribution Fund

Financial statements and notes

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23 Dividend distribution tables (continued)

| Sterling Class 'A' Income shares | | | | |
|---|-------------|---------------------------|--------------------------|---------|
| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution | |
| | p | p | 2018 | 2017 |
| First interim | 0.4182 | 5.8318 | 6.2500 | 6.1000 |
| Second interim | 0.0000 | 6.2500 | 6.2500 | 6.1000 |
| Third interim | 0.0000 | 6.2500 | 6.2500 | 6.1000 |
| Final | 4.7622 | 11.7699 | 16.5321 | 16.3240 |

| Sterling Class 'A' Accumulation shares | | | | |
|---|-------------|---------------------------|--------------------------|----------|
| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution | |
| | p | p | 2018 | 2017 |
| First interim | 8.2909 | 33.2091 | 41.5000 | 51.5000 |
| Second interim | 0.0000 | 41.5000 | 41.5000 | 44.0000 |
| Third interim | 0.8085 | 41.1915 | 42.0000 | 36.5000 |
| Final | 40.6800 | 53.8654 | 94.5454 | 105.9929 |

| Sterling Class 'C' Income shares | | | | |
|---|-------------|---------------------------|--------------------------|---------|
| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution | |
| | p | p | 2018 | 2017 |
| First interim | 0.5894 | 6.4106 | 7.0000 | 6.6500 |
| Second interim | 0.0000 | 7.0000 | 7.0000 | 6.6500 |
| Third interim | 0.0000 | 7.0000 | 7.0000 | 6.6000 |
| Final | 2.5825 | 15.7089 | 18.2914 | 17.9391 |

| Sterling Class 'I' Income shares | | | | |
|---|-------------|---------------------------|--------------------------|---------|
| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution | |
| | p | p | 2018 | 2017 |
| First interim | 1.1594 | 8.8406 | 10.0000 | 9.7500 |
| Second interim | 0.0000 | 10.1000 | 10.1000 | 9.7500 |
| Third interim | 0.0000 | 10.1000 | 10.1000 | 10.0000 |
| Final | 8.5795 | 18.6753 | 27.2548 | 26.5390 |

| Sterling Class 'I' Accumulation shares | | | | |
|---|-------------|---------------------------|--------------------------|---------|
| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution | |
| | p | p | 2018 | 2017 |
| First interim | 3.8038 | 6.9462 | 10.7500 | 11.7500 |
| Second interim | 0.2995 | 11.2005 | 11.5000 | 10.5000 |
| Third interim | 0.0000 | 11.6000 | 11.6000 | 9.7500 |
| Final | 10.7540 | 15.3670 | 26.1210 | 27.2169 |

| Sterling Class 'R' Income shares | | | | |
|---|-------------|---------------------------|--------------------------|--------|
| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution | |
| | p | p | 2018 | 2017 |
| First interim | 0.1488 | 0.8512 | 1.0000 | 0.9750 |
| Second interim | 0.0000 | 1.0000 | 1.0000 | 0.9750 |
| Third interim | 0.0000 | 1.0000 | 1.0000 | 0.9750 |
| Final | 0.6337 | 2.0368 | 2.6705 | 2.6197 |

| Sterling Class 'R' Accumulation shares | | | | |
|---|-------------|---------------------------|--------------------------|--------|
| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution | |
| | p | p | 2018 | 2017 |
| First interim | 0.3642 | 0.6358 | 1.0000 | 1.1500 |
| Second interim | 0.0000 | 1.1000 | 1.1000 | 1.0500 |
| Third interim | 0.0426 | 1.0674 | 1.1100 | 0.8750 |
| Final | 1.1210 | 1.2009 | 2.3219 | 2.5393 |

| Sterling Class 'X' Income shares | | | | |
|---|-------------|---------------------------|--------------------------|---------|
| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution | |
| | p | p | 2018 | 2017 |
| First interim | 0.8815 | 5.3685 | 6.2500 | 6.1500 |
| Second interim | 0.0000 | 6.2500 | 6.2500 | 6.1500 |
| Third interim | 0.0000 | 6.2500 | 6.2500 | 6.1000 |
| Final | 5.6315 | 11.1906 | 16.8221 | 16.5066 |

| Sterling Class 'X' Accumulation shares | | | | |
|---|-------------|---------------------------|--------------------------|----------|
| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution | |
| | p | p | 2018 | 2017 |
| First interim | 22.2954 | 18.7046 | 41.0000 | 51.0000 |
| Second interim | 0.0000 | 41.0000 | 41.0000 | 43.8000 |
| Third interim | 0.0000 | 41.5000 | 41.5000 | 36.0000 |
| Final | 28.3669 | 65.1073 | 93.4742 | 104.0967 |

M&G UK Select Fund

Authorised Corporate Director's Report

Investment objective and policy

The fund invests principally in the equities of UK companies with high growth potential with the sole objective of capital growth. The fund may at any time be concentrated in a limited number of equities. Income considerations are ignored.

Investment approach

The fund manager employs a bottom-up stockpicking approach, driven by the fundamental analysis of individual companies. He seeks to invest in companies with sustainable competitive advantages that have the opportunity to reinvest their capital at high rates of return. A 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 free cashflow is expected to result in dividend growth of the fund's holdings being higher than that of a broad index of UK equities over the long term. This premium dividend growth is expected to drive the fund's long-term capital growth and growth in the fund's income distributions. The fund will hold less than 50 stocks, with a long-term investment view and a typical holding period of three to five years.

Risk profile

The fund invests in the shares of UK-listed companies and is, therefore, subject to the price volatility of the UK stockmarket and the performance of individual companies. The fund typically holds around 50 stocks and this relatively concentrated profile requires the fund manager to have strong conviction in each and every holding. However, the fund is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease.

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

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



The above number:

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

Investment review

As at 1 June 2018, for the year ended 31 May 2018

Performance against objective

Between 1 June 2017 (the start of the review period) and 1 June 2018, the fund delivered a positive total return (the combination of income and growth of capital) across all share classes. The fund therefore met its objective of capital growth over the fund's first full year under our tenure. The higher returns generated by the sterling share classes compared with those of the euro share classes reflect sterling's continued weakness against the euro during the 12 months under review. However, the fund's returns in all share classes slightly lagged the FTSE All-Share Index, a comparative index, which returned 6.5% and 5.9% in sterling and euros, respectively.

Over five years and since launch, the fund has achieved capital growth in all share classes.*

* 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

Almost two years on from the UK's vote to leave the European Union, the referendum result continues to cast a long shadow over the UK market and its currency. Uncertainty over what the eventual economic framework will look like has hampered day-to-day decision-making for domestic companies and households alike, causing the UK to post the poorest performance of all European Union developed countries in terms of gross domestic product (GDP) growth in the first quarter of 2018, according to Eurostat data. However, internationally exposed companies have benefited from two factors: the weakness in sterling making their products or services cheaper for foreign buyers and a return to widespread synchronised global growth. Despite this fact, we have seen very low investor confidence and clear disaffection with the UK market by investors. However, we believe that the market underperformance presents opportunities which have started to attract international corporate investors. This has been evidenced by a raft of merger and acquisition activity as we moved through the period under review.

The trajectory of the FTSE All-Share Index, against which the fund's performance is measured, reflects the challenges we faced as investors. The index reached a year low in March only to bounce back sharply to an all-time high in May, before finishing the period under review a touch lower.

Our allocation within specific sectors was the main headwind for performance as basic materials and the oil & gas sectors were the standout performers for the period; the fund's below-index positions in both sectors weighed on relative performance. The single biggest detractor to relative performance was not owning shares in oil & gas major Royal Dutch Shell, as the stock delivered a very strong performance boosted by the sharp increases in the oil price. Finally the solid returns delivered by mining stocks BHP Billiton, Glencore and Anglo American – which we do not own – also hampered the fund's performance. We do remain reluctant to own shares in the mining sector, as these companies have historically displayed low levels of capital discipline during recovery times, and prefer to look for better opportunities in other industries where companies have greater control of their own destiny.

M&G UK Select Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

Moving on to the positive side, our above-index position in industrials (which performed well for the period), and below-index positions in both utilities and telecommunications (which performed badly) were supportive.

In terms of stockpicking, the largest detractor for the period was medical products and technology supplier Convatec, whose shares fell sharply following the loss of some orders. We engaged with the management team multiple times during the year to better understand the issues faced by the company. Our current view is that the group's desire to lower cost and increase its competitiveness has been poorly executed and involved a plan that was too ambitious leading to executional mishaps. However, the company's market share in wound products and US ostomy products remains highly attractive and we added to the position during the year.

Specialist pet supplies retailer Pets at Home disappointed, as it announced progress against a three-year restructuring plan. Our investment in Pets at Home has been predicated on growing profitability of the group's in-house vet chain offsetting the pressure from online retailers on its core offering of specialist pet food. In time, this would create an entity where the contribution to earnings from the vet model would be the core driver of future earnings growth. Progress has been hampered by questions over how quickly new vet practices can reach profitability and by the UK's Brexit vote causing a reduction in the availability of vets, given many are recruited from Europe. We are monitoring our thesis closely.

Despite the underperformance of the stocks listed above, overall stock selection was positive for the fund's performance, particularly in the financial and consumer services sectors. Merger and acquisition activity also delivered welcome support through the period. We benefited from agreed takeover deals on three of our holdings: financial technology provider Nex Group, property search company Zoopla and healthcare company Shire Pharmaceuticals.

Nex Group was our top contributor for the period, after it accepted a buyout offer from Chicago-based CME Group, boosting the stock's value by close to 40% following the announcement. We originally invested in Nex Group as we felt the company held a strategic position in the context of further digitalisation of market transactions. It was therefore rewarding to see this scenario unfold, bringing some performance support in a rather challenging market environment over the period. Other financial-related holdings that added value over the period included Intermediate Capital, Hiscox and Charter Court, all of which feature in our top 10 contributors.

Our new position in Canadian methanol gas producer Methanex also delivered solid performance, its share price rallying with the improvement in oil prices. We continue to think the company's shares look attractive, given it is still trading at a substantial discount, offering considerable room for further improvement.

Another new position, specialised veterinary product and animal health business Dechra Pharmaceuticals, delivered strong performance as well, helped by a combination of new products and acquisitions. We like the long-term trends of its markets (pets living longer and consumers spending increasing amounts on pet health, as well as the company's exposure to the fast-growing US market). Dechra reported robust half-year results in February with good growth in both European

and US sales, as well as increased profitability across the board. This led the company to increase its interim dividend by 20%. We think the shares are looking a bit expensive, prompting us to take some profits by selling part of our holding – having said that, our view of the investment case remains favourable.

Investment activities

There were nine new purchases over the period under review, spread across a number of industries including consumer discretionary (Pets at Home, Domino's Pizza and On the Beach) and financials (AIB Group, Liontrust Asset Management, Nex Group and Standard Chartered).

Within the financial sector, we reviewed our overall positioning in banks after the announcement of what is known within the financial services industry as the Basel IV accords – the last set of international banking standards – signalling an end to the heavy regulatory requirements that aimed to rebuild European banks' capital. We believe that this will bring a new clarity to the sector's earnings, better enabling stock pickers to invest selectively in banks that have completed the necessary capital improvements.

We started a new holding in AIB Group by participating in its initial public offering (IPO) in July. The investment case for Ireland's largest domestic bank is based on the potential for significant amounts of capital being returned to shareholders as non-performing loans continue to fall rapidly. We expect excess capital to accumulate without relying on growth in the Irish economy. The new holding adds to our exposure to the banking industry, which for the most part remains hampered by regulatory costs, capital requirements and the need for leverage to drive shareholder return. We remain selective on the sector and prefer fast growing economies hence our purchase of AIB and of Standard Chartered, mentioned below, whose revenues are mostly driven by emerging markets. We also favour asset managers such as Liontrust which complemented our existing positions in St James' Place and Intermediate Capital.

Allied Irish Banks is an Irish company and we own the Dublin-listed shares, which is therefore considered outside the minimum 80% we are obliged to invest in UK companies in accordance with the fund's objective and policy. In theory, we have the flexibility to invest as much as 20% in non-UK companies, but in reality we will only invest in overseas companies when we see investment opportunities that are not available in the UK or better alternatives to UK counterparts (PrairieSky Royalty and Methanex in the energy-related sphere). AIB belongs to the latter category. The fund's holdings in companies where we own non-UK listed shares was about 8% at the end of the review period.

We started a material position in Standard Chartered. The UK-listed bank has a leading position in many fast growing emerging markets. In fact more than 80% of the company's revenues are derived from Africa and the ASEAN countries. After multiple years of restructuring and reducing debt levels in the wake of the global financial crisis, we now expect profitability to improve as markets are returning to growth, with Standard Chartered already delivering impressive rates of growth in wealth management and in transaction banking.

Also in the financial sector, we initiated a position in Liontrust Asset Management, as we felt the business was at a tipping point in its growth curve given the success of two of its main teams: Economics Advantage and the Sustainable Future teams. The latter, we believe, is set to benefit from the very strong growth we expect to see in retail and institutional demand in ethical mandates. Performance across these franchises is very strong and both are raising assets rapidly.

M&G UK Select Fund

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Investment review

Investment activities (continued)

Elsewhere, we started a small holding in Domino's Pizza after the company's third-quarter trading update provided evidence that the business is returning to growth. While the structural threat of online aggregators such as Just Eat and Deliveroo cannot be ignored, Domino's Pizza has a key competitive advantage in the form of scale – a strength which we feel more comfortable about following a site visit to the company's production and logistics facilities in Milton Keynes. The investment case is not without its controversies, but we have scrutinised the business model in much detail, including several meetings with the management team, and we will be looking to add to the holding if the valuation becomes more attractive.

We also decided to build a position in On the Beach, an innovative travel company which sells bundled holidays through two websites – on the beach.co.uk and sunshine.co.uk. The company is disrupting the legacy travel market by organically building a digital offering (online & mobile) with no physical footprint. This means that it does not hold any inventory and that its aims and culture are entirely focused on building a customer-centric technology platform. Although beach holidays are cyclical, the company has continued to thrive, growing revenues by 20-30% per annum over the last five years, while reducing its marketing spend considerably.

To finance these purchases, we raised cash by selling a number of smaller holdings across all industries, including Melrose and Cobham (industrials), Ascential (media), Travis Perkins (housebuilding), Aggreko (power generation) and Saga (insurance and travel).

The fund had investments in 43 companies at the end of the review period. This concentration reflects the conviction we have in our individual holdings, and is consistent with the fund's policy of investing in a relatively small number of companies. We believe a concentrated portfolio of best ideas is an excellent way to capture the opportunities for stock selection in the UK stockmarket.

Outlook

We believe that Brexit considerations will continue to impact the UK economy and financial markets, but we reiterate our positive view on the UK stockmarket, which continues to offer excellent opportunities for stockpickers. This, we feel, is particularly the case among medium-sized companies that have potential to deliver longer term growth to shareholders. It is important to remember, too, that more than 75% of FTSE 100 companies' earnings are derived from international end markets. There are even among more domestically focused companies, considerable growth opportunities for those that nurture their competitive advantages and display financial discipline.

With this in mind, at the end of our first full-year tenure our focus remains resolutely on the analysis of company fundamentals and valuation, in the belief that these factors drive stockmarket returns over the long term. Investment decisions are based on detailed research to determine whether a stock merits its place in the fund, as competition for places in a concentrated portfolio is high. Dialogue with senior company management is integral to our approach, and we aim to make informed judgments through human engagement – this is not a mechanical function that is removed from the people who manage businesses on a day-to-day basis. The stewardship of our clients' money entails regular company meetings and the stringent

examination of long-term prospects. Through the consistent application of this disciplined process, we aim to identify the best opportunities available.

We believe the current portfolio is well-placed to take advantage of long-term growth, but we continually review our investments to ensure they remain fit for purpose, or to see whether better opportunities should be sought. In doing so, we remain focused on long-term investment in a concentrated number of companies we expect to outperform, and will always aim to minimise portfolio turnover to avoid incurring unnecessary charges. We believe the cash-generative nature of the underlying holdings, their ability to reinvest at high rates of return and their commitment to dividends as a means of ensuring capital discipline stand us in good stead for the future. We have conviction in our approach, and we continue to challenge ourselves to generate excellent long-term returns for our clients. We appreciate your continued support.

Sam Ford

Fund manager

An employee of 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 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|---|----------------|--------------|---------------------------|
| EQUITIES | 591,583 | 98.39 | 96.39 |
| Oil & gas producers | 41,365 | 6.88 | 5.26^[a] |
| 5,853,212 BP | 33,522 | 5.58 | |
| 510,537 PrairieSky Royalty | 7,843 | 1.30 | |
| Oil equipment, services & distribution | 4,254 | 0.71 | 2.56^[a] |
| 638,528 John Wood Group | 4,254 | 0.71 | |
| Chemicals | 17,189 | 2.86 | 1.99 |
| 328,643 Methanex | 17,189 | 2.86 | |
| Mining | 9,489 | 1.58 | 1.04 |
| 222,380 Rio Tinto | 9,489 | 1.58 | |
| Construction & materials | 7,611 | 1.27 | 2.89^[a] |
| 273,487 CRH | 7,611 | 1.27 | |
| Aerospace & defence | 0 | 0.00 | 0.32 |
| General industrials | 35,109 | 5.84 | 5.36 |
| 3,845,383 DS Smith | 21,403 | 3.56 | |
| 781,860 Smiths Group | 13,706 | 2.28 | |
| Industrial engineering | 10,907 | 1.81 | 1.98^[a] |
| 293,373 Kone | 10,907 | 1.81 | |
| Support services | 11,361 | 1.89 | 4.92 |
| 2,391,708 Essentra | 11,361 | 1.89 | |
| Beverages | 14,835 | 2.47 | 2.84 |
| 2,159,388 A.G. Barr | 14,835 | 2.47 | |
| Food producers | 7,609 | 1.26 | 0.00^[a] |
| 226,182 Cranswick | 7,609 | 1.26 | |

M&G UK Select Fund

Authorised Corporate Director's Report

Investments

| Portfolio statement (continued) | | | | |
|--|---------------|-------------|---------------------------|--|
| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % | |
| Household goods & home construction | 31,317 | 5.21 | 6.02 | |
| 4,289,783 Countryside Properties | 15,941 | 2.65 | | |
| 2,349,323 McCarthy & Stone | 3,007 | 0.50 | | |
| 209,035 Reckitt Benckiser | 12,369 | 2.06 | | |
| Leisure goods | 2,800 | 0.46 | 0.00 | |
| 1,400,000 Codemasters Group Holdings | 2,800 | 0.46 | | |
| Personal goods | 44,025 | 7.32 | 5.34^[a] | |
| 792,625 Burberry Group | 16,273 | 2.71 | | |
| 660,681 Unilever | 27,752 | 4.61 | | |
| Tobacco | 32,115 | 5.34 | 7.95 | |
| 427,712 British American Tobacco | 16,490 | 2.74 | | |
| 582,913 Imperial Brands | 15,625 | 2.60 | | |
| Health care equipment & services | 25,750 | 4.28 | 4.46 | |
| 5,207,010 ConvaTec | 11,981 | 1.99 | | |
| 1,003,171 Smith & Nephew | 13,769 | 2.29 | | |
| Pharmaceuticals & biotechnology | 54,633 | 9.09 | 8.55 | |
| 465,875 AstraZeneca | 25,455 | 4.24 | | |
| 276,136 Dechra Pharmaceuticals | 7,655 | 1.27 | | |
| 522,984 Shire | 21,523 | 3.58 | | |
| General retailers | 24,448 | 4.07 | 4.24 | |
| 5,189,774 Pets at Home | 6,523 | 1.09 | | |
| 903,927 WH Smith | 17,925 | 2.98 | | |
| Media | 20,628 | 3.43 | 3.33 | |
| 4,218,367 ZPG (formerly Zoopla Property Group) | 20,628 | 3.43 | | |
| Travel & leisure | 22,226 | 3.70 | 1.14 | |
| 3,005,113 Domino's Pizza Group | 11,449 | 1.91 | | |
| 2,231,210 On the Beach Group | 10,777 | 1.79 | | |
| Mobile telecommunications | 8,148 | 1.35 | 2.56 | |
| 4,200,573 Vodafone Group | 8,148 | 1.35 | | |
| Banks | 44,411 | 7.39 | 4.03 | |
| 2,364,944 AIB Group | 9,972 | 1.66 | | |
| 32,909,876 Lloyds Banking Group | 20,934 | 3.48 | | |
| 1,807,220 Standard Chartered | 13,505 | 2.25 | | |
| Non-life insurance | 14,372 | 2.39 | 2.79 | |
| 952,421 Hiscox | 14,372 | 2.39 | | |
| Life insurance | 44,218 | 7.35 | 7.87 | |
| 1,529,220 Prudential ^[b] | 27,923 | 4.64 | | |
| 1,367,011 St. James's Place | 16,295 | 2.71 | | |
| Real estate investment trusts | 7,516 | 1.25 | 1.43 | |
| 661,612 Workspace Group | 7,516 | 1.25 | | |
| Financial services | 35,709 | 5.94 | 1.58 | |
| 1,283,719 Intermediate Capital Group | 14,699 | 2.45 | | |
| 601,661 Liontrust Asset Management | 3,429 | 0.57 | | |
| 1,726,972 Nex Group | 17,581 | 2.92 | | |
| Software & computer services | 19,538 | 3.25 | 5.94 | |
| 647,541 Micro Focus International | 8,719 | 1.45 | | |
| 1,631,252 Sage Group | 10,819 | 1.80 | | |

Portfolio statement (continued)

| as at 31 May Holding | 2018 £'000 | 2018 % | 2017 % |
|--|----------------|---------------|---------------|
| Unquoted / unlisted | 0 | 0.00 | 0.00 |
| 770,825 Izodia ^[c] | 0 | 0.00 | |
| Portfolio of investments | 591,583 | 98.39 | 96.39 |
| CASH EQUIVALENTS | 11,960 | 1.99 | 4.02 |
| 'AAA' rated money market funds ^[d] | 11,960 | 1.99 | 4.02 |
| 11,960,000 Northern Trust Global Fund - Sterling | 11,960 | 1.99 | |
| Total portfolio (notes 2c & 2d on page 7) | 603,543 | 100.38 | 100.41 |
| Net other assets / (liabilities) | (2,278) | (0.38) | (0.41) |
| Net assets attributable to shareholders | 601,265 | 100.00 | 100.00 |

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

^[a] The comparative sector weightings have been re-analysed to reflect changes to the sector classifications.

^[b] Related party to the fund.

^[c] Suspended.

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

Top ten portfolio transactions

for the year to 31 May 2018

| | £'000 |
|---|----------------|
| Largest purchases | |
| Standard Chartered | 14,824 |
| Nex Group | 12,863 |
| On the Beach Group | 12,460 |
| Pets at Home | 10,842 |
| AIB Group | 10,230 |
| Domino's Pizza Group | 9,908 |
| BP | 8,697 |
| Cranswick | 7,730 |
| CRH | 7,643 |
| AstraZeneca | 7,618 |
| Other purchases | 90,474 |
| Total purchases | 193,289 |
| Largest sales | |
| Dechra Pharmaceuticals | 13,730 |
| WH Smith | 12,088 |
| John Wood Group | 11,148 |
| Sage Group | 10,615 |
| Aggreko | 10,289 |
| Micro Focus International | 10,208 |
| Ascential | 10,197 |
| CRH | 9,637 |
| Melrose Industries | 9,206 |
| International Consolidated Airlines Group | 8,561 |
| Other sales | 116,961 |
| Total sales | 222,640 |

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 show the performance for two of the fund's share classes – Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

We show performance for these two share classes because:

- The performance of the Sterling Class 'A' (Accumulation) share is what most individuals investing directly with M&G have received. It has the highest ongoing charge of all the sterling share classes. Performance is shown after deduction of this charge. All UK investors in the fund therefore received this performance or better.
- The performance of the Sterling Class 'I' (Accumulation) share is the most appropriate to compare with the average performance of the fund's comparative sector. It is the share class used by the Investment Association in the calculation of the comparative sector's average performance. This share class is available for direct investment with M&G subject to minimum investment criteria, or via third parties who may charge additional fees. The performance shown takes the deduction of the ongoing charge for this share class into account but it does not take account of charges applied by any other party through which you may have invested.

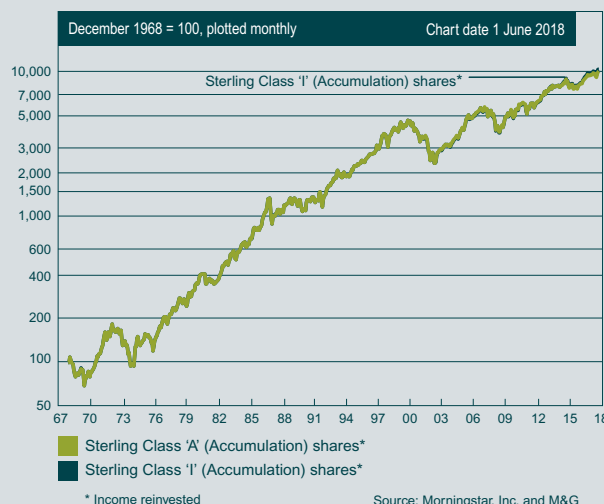
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

| Fund net asset value | | | |
|----------------------------|---------------|---------------|---------------|
| as at 31 May | 2018 £'000 | 2017 £'000 | 2016 £'000 |
| Fund net asset value (NAV) | 601,265 | 624,276 | 655,835 |

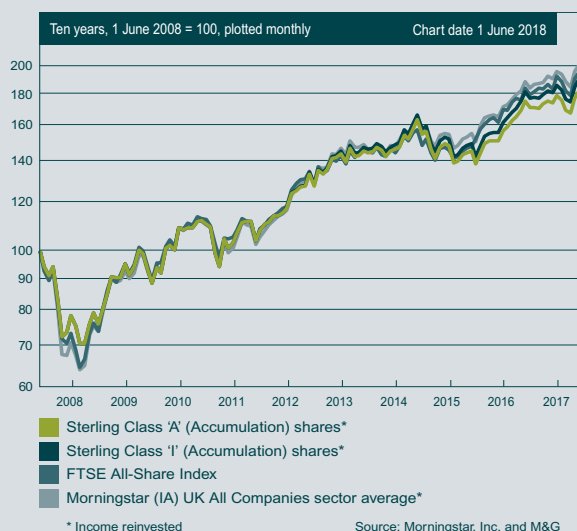
Performance since launch

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



Ten-year performance

Please note that comparative data is not available from fund launch. Therefore a ten-year comparable performance chart is shown below.



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

M&G UK Select Fund

Financial highlights

Fund performance

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

| Long-term performance by share class | | | | |
|--------------------------------------|--|-----------------------------------|----------------------------------|------------------------|
| | One year 01.06.17 % ^[a] | Three years 01.06.15 % p.a. | Five years 03.06.13 % p.a. | Since launch % p.a. |
| Euro ^[b] | | | | |
| Class 'A' | +4.2 | -2.5 | +6.0 | +3.5 ^[c] |
| Class 'C' | +5.0 | -1.7 | +6.8 | +4.3 ^[c] |
| Sterling ^[d] | | | | |
| Class 'A' | +4.9 | +4.3 | +6.7 | +9.8 ^[e] |
| Class 'C' | +6.5 | +5.9 | +8.3 | +8.9 ^[f] |
| Class 'I' | +5.7 | +5.1 | +7.5 | +9.9 ^[g] |
| Class 'R' | +5.4 | +4.8 | +7.2 | +9.7 ^[g] |
| Class 'X' | +4.9 | +4.3 | +6.7 | +9.3 ^[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.

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:

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

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

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where 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.

For this fund there is no difference between operating charges and ongoing charges figures, unless disclosed under the specific share class performance table.

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 or by calling M&G Customer Relations.

| Portfolio transaction costs | | | | |
|--|-------------|-------------|-------------|-------------------------------|
| for the year to 31 May | 2018 | 2017 | 2016 | Average ^[a] |
| Direct portfolio transaction costs ^[b] | % | % | % | % |
| Broker commission | 0.03 | 0.09 | 0.08 | 0.06 |
| Taxes | 0.14 | 0.27 | 0.15 | 0.19 |
| Costs before dilution adjustments | 0.17 | 0.36 | 0.23 | 0.25 |
| Dilution adjustments ^[c] | (0.01) | (0.02) | (0.03) | (0.02) |
| Total direct portfolio transaction costs | 0.16 | 0.34 | 0.20 | 0.23 |
| as at 31 May | 2018 | 2017 | 2016 | Average ^[a] |
| Indirect portfolio transaction costs | % | % | % | % |
| Average portfolio dealing spread | 0.09 | 0.06 | 0.09 | 0.08 |

^[a] Average of first three columns.

^[b] As a percentage of average net asset value.

^[c] 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 year are calculated as at 8 June 2018.

Euro Class 'A' Accumulation share performance

The share class was launched on 31 August 2007.

| for the year to 31 May Change in NAV per share | 2018 Euro ¢ | 2017 Euro ¢ | 2016 Euro ¢ |
|--|----------------|----------------|----------------|
| Opening NAV | 1,391.94 | 1,323.73 | 1,578.45 |
| Return before operating charges and after direct portfolio transaction costs | 81.80 | 88.92 | (232.03) |
| Operating charges | (22.59) | (20.71) | (22.69) |
| Return after operating charges | 59.21 | 68.21 | (254.72) |
| Distributions | (15.71) | (13.96) | (20.40) |
| Retained distributions | 15.71 | 13.96 | 20.40 |
| Closing NAV | 1,451.15 | 1,391.94 | 1,323.73 |
| Direct portfolio transaction costs | Euro ¢ | Euro ¢ | Euro ¢ |
| Costs before dilution adjustments | 2.34 | 4.52 | 3.19 |
| Dilution adjustments ^[a] | (0.08) | (0.19) | (0.39) |
| Total direct portfolio transaction costs | 2.26 | 4.33 | 2.80 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.16 | 0.34 | 0.20 |
| Operating charges | 1.66 | 1.66 | 1.66 |
| Return after operating charges | +4.25 | +5.15 | -16.14 |
| Historic yield | 1.08 | 1.03 | 1.61 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 2,684 | 2,829 | 4,257 |
| Closing NAV percentage of total fund NAV (%) | 0.45 | 0.45 | 0.65 |
| Number of shares | 211,045 | 232,675 | 421,452 |
| Highest share price (Euro ¢) | 1,467.79 | 1,410.99 | 1,585.52 |
| Lowest share price (Euro ¢) | 1,261.60 | 1,093.05 | 1,119.18 |

Euro Class 'C' Accumulation share performance

The share class was launched on 31 August 2007.

| for the year to 31 May Change in NAV per share | 2018 Euro ¢ | 2017 Euro ¢ | 2016 Euro ¢ |
|--|----------------|----------------|----------------|
| Opening NAV | 1,496.07 | 1,412.18 | 1,671.58 |
| Return before operating charges and after direct portfolio transaction costs | 88.76 | 96.15 | (246.12) |
| Operating charges | (13.33) | (12.26) | (13.28) |
| Return after operating charges | 75.43 | 83.89 | (259.40) |
| Distributions | (28.10) | (24.93) | (31.62) |
| Retained distributions | 28.10 | 24.93 | 31.62 |
| Closing NAV | 1,571.50 | 1,496.07 | 1,412.18 |
| Direct portfolio transaction costs | Euro ¢ | Euro ¢ | Euro ¢ |
| Costs before dilution adjustments | 2.52 | 4.87 | 3.39 |
| Dilution adjustments ^[a] | (0.08) | (0.21) | (0.42) |
| Total direct portfolio transaction costs | 2.44 | 4.66 | 2.97 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.16 | 0.34 | 0.20 |
| Operating charges | 0.91 | 0.91 | 0.91 |
| Return after operating charges | +5.04 | +5.94 | -15.52 |
| Historic yield | 1.79 | 1.70 | 2.34 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 34 | 44 | 46 |
| Closing NAV percentage of total fund NAV (%) | 0.01 | 0.01 | 0.01 |
| Number of shares | 2,465 | 3,334 | 4,282 |
| Highest share price (Euro ¢) | 1,589.23 | 1,515.89 | 1,680.79 |
| Lowest share price (Euro ¢) | 1,358.51 | 1,166.75 | 1,191.42 |

Sterling Class 'A' Income share performance

The share class was launched on 19 October 1982.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 3,015.29 | 2,558.66 | 2,915.53 |
| Return before operating charges and after direct portfolio transaction costs | 186.62 | 562.97 | (276.68) |
| Operating charges | (49.42) | (45.09) | (43.26) |
| Return after operating charges | 137.20 | 517.88 | (319.94) |
| Distributions | (83.18) | (61.25) | (36.93) |
| Closing NAV | 3,069.31 | 3,015.29 | 2,558.66 |
| Direct portfolio transaction costs | UK p | UK p | UK p |
| Costs before dilution adjustments | 5.12 | 9.85 | 6.08 |
| Dilution adjustments ^[a] | (0.17) | (0.42) | (0.74) |
| Total direct portfolio transaction costs | 4.95 | 9.43 | 5.34 |
| Performance and charges | % | % | % |
| Direct portfolio transaction costs ^[b] | 0.16 | 0.34 | 0.20 |
| Operating charges | 1.66 | 1.66 | 1.66 |
| Return after operating charges | +4.55 | +20.24 | -10.97 |
| Historic yield ^[c] | 2.71 | 2.54 | 1.48 |
| Effect on yield of charges offset against capital | 1.65 | 1.65 | 0.00 |
| Other information | | | |
| Closing NAV (£'000) | 257,652 | 289,918 | 262,780 |
| Closing NAV percentage of total fund NAV (%) | 42.85 | 46.45 | 40.07 |
| Number of shares | 8,394,454 | 9,614,954 | 10,270,202 |
| Highest share price (UK p) | 3,172.34 | 3,056.25 | 2,892.91 |
| Lowest share price (UK p) | 2,803.64 | 2,308.56 | 2,248.66 |

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.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 4,598.26 | 3,819.83 | 4,290.96 |
| Return before operating charges and after direct portfolio transaction costs | 286.79 | 845.98 | (407.27) |
| Operating charges | (75.63) | (67.55) | (63.86) |
| Return after operating charges | 211.16 | 778.43 | (471.13) |
| Distributions | (52.09) | (45.73) | (54.46) |
| Retained distributions | 52.09 | 45.73 | 54.46 |
| Closing NAV | 4,809.42 | 4,598.26 | 3,819.83 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|--------|--------|--------|
| Costs before dilution adjustments | 7.84 | 14.75 | 8.97 |
| Dilution adjustments ^[a] | (0.26) | (0.63) | (1.10) |
| Total direct portfolio transaction costs | 7.58 | 14.12 | 7.87 |

| Performance and charges | % | % | % |
|---|-------|--------|--------|
| Direct portfolio transaction costs ^[b] | 0.16 | 0.34 | 0.20 |
| Operating charges | 1.66 | 1.66 | 1.66 |
| Return after operating charges | +4.59 | +20.38 | -10.98 |
| Historic yield | 1.08 | 1.02 | 1.46 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |

Other information

| | | | |
|--|-----------|-----------|-----------|
| Closing NAV (£'000) | 203,795 | 221,522 | 199,279 |
| Closing NAV percentage of total fund NAV (%) | 33.89 | 35.48 | 30.39 |
| Number of shares | 4,237,421 | 4,817,512 | 5,216,953 |
| Highest share price (UK p) | 4,872.93 | 4,596.70 | 4,257.90 |
| Lowest share price (UK p) | 4,306.59 | 3,446.72 | 3,329.01 |

Sterling Class 'C' Income share performance

Sterling Class 'C' shares are not generally available to all investors.

The share class was launched on 13 March 2013.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 3,048.20 | 2,560.64 | 2,917.68 |
| Return before operating charges and after direct portfolio transaction costs | 191.53 | 566.54 | (276.45) |
| Operating charges | (4.88) | (4.38) | (4.15) |
| Return after operating charges | 186.65 | 562.16 | (280.60) |
| Distributions | (84.73) | (74.60) | (76.44) |
| Closing NAV | 3,150.12 | 3,048.20 | 2,560.64 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|--------|--------|--------|
| Costs before dilution adjustments | 5.22 | 9.90 | 6.10 |
| Dilution adjustments ^[a] | (0.17) | (0.42) | (0.75) |
| Total direct portfolio transaction costs | 5.05 | 9.48 | 5.35 |

| Performance and charges | % | % | % |
|---|-------|--------|-------|
| Direct portfolio transaction costs ^[b] | 0.16 | 0.34 | 0.20 |
| Operating charges | 0.16 | 0.16 | 0.16 |
| Return after operating charges | +6.12 | +21.95 | -9.62 |
| Historic yield ^[c] | 2.69 | 2.53 | 3.06 |
| Effect on yield of charges offset against capital | 0.15 | 0.15 | 0.00 |

Other information

| | | | |
|--|----------|----------|----------|
| Closing NAV (£'000) | 17,233 | 18,120 | 16,650 |
| Closing NAV percentage of total fund NAV (%) | 2.86 | 2.90 | 2.54 |
| Number of shares | 547,039 | 594,436 | 650,241 |
| Highest share price (UK p) | 3,254.26 | 3,089.82 | 2,895.23 |
| Lowest share price (UK p) | 2,868.98 | 2,312.77 | 2,256.84 |

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 1,476.12 | 1,246.28 | 1,420.09 |
| Return before operating charges and after direct portfolio transaction costs | 92.02 | 274.90 | (134.66) |
| Operating charges | (13.33) | (11.99) | (11.53) |
| Return after operating charges | 78.69 | 262.91 | (146.19) |
| Distributions | (40.84) | (33.07) | (27.62) |
| Closing NAV | 1,513.97 | 1,476.12 | 1,246.28 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|--------|--------|--------|
| Costs before dilution adjustments | 2.52 | 4.78 | 2.96 |
| Dilution adjustments ^[a] | (0.08) | (0.20) | (0.36) |
| Total direct portfolio transaction costs | 2.44 | 4.58 | 2.60 |

| Performance and charges | % | % | % |
|---|-------|--------|--------|
| Direct portfolio transaction costs ^[b] | 0.16 | 0.34 | 0.20 |
| Operating charges | 0.91 | 0.91 | 0.91 |
| Return after operating charges | +5.33 | +21.10 | -10.29 |
| Historic yield ^[c] | 2.70 | 2.54 | 2.27 |
| Effect on yield of charges offset against capital | 0.90 | 0.90 | 0.00 |

Other information

| | | | |
|--|-----------|-----------|-----------|
| Closing NAV (£'000) | 34,102 | 30,055 | 34,011 |
| Closing NAV percentage of total fund NAV (%) | 5.67 | 4.81 | 5.19 |
| Number of shares | 2,252,490 | 2,036,114 | 2,729,019 |
| Highest share price (UK p) | 1,564.38 | 1,496.22 | 1,409.12 |
| Lowest share price (UK p) | 1,380.86 | 1,125.05 | 1,096.86 |

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 1,644.85 | 1,356.20 | 1,512.06 |
| Return before operating charges and after direct portfolio transaction costs | 103.40 | 301.43 | (143.49) |
| Operating charges | (14.91) | (12.78) | (12.37) |
| Return after operating charges | 88.49 | 288.65 | (155.86) |
| Distributions | (30.98) | (27.14) | (29.49) |
| Retained distributions | 30.98 | 27.14 | 29.49 |
| Closing NAV | 1,733.34 | 1,644.85 | 1,356.20 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|--------|--------|--------|
| Costs before dilution adjustments | 2.82 | 5.09 | 3.17 |
| Dilution adjustments ^[a] | (0.09) | (0.22) | (0.39) |
| Total direct portfolio transaction costs | 2.73 | 4.87 | 2.78 |

| Performance and charges | % | % | % |
|---|-------|--------|--------|
| Direct portfolio transaction costs ^[b] | 0.16 | 0.34 | 0.20 |
| Operating charges | 0.91 | 0.91 | 0.91 |
| Return after operating charges | +5.38 | +21.28 | -10.31 |
| Historic yield | 1.79 | 1.68 | 2.23 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |

Other information

| | | | |
|--|-----------|-----------|-----------|
| Closing NAV (£'000) | 50,251 | 45,357 | 123,444 |
| Closing NAV percentage of total fund NAV (%) | 8.36 | 7.27 | 18.82 |
| Number of shares | 2,899,075 | 2,757,523 | 9,102,171 |
| Highest share price (UK p) | 1,755.90 | 1,644.30 | 1,500.51 |
| Lowest share price (UK p) | 1,549.92 | 1,224.41 | 1,179.28 |

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.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 147.33 | 124.60 | 141.98 |
| Return before operating charges and after direct portfolio transaction costs | 9.15 | 27.48 | (13.46) |
| Operating charges | (1.71) | (1.55) | (1.47) |
| Return after operating charges | 7.44 | 25.93 | (14.93) |
| Distributions | (4.05) | (3.20) | (2.45) |
| Closing NAV | 150.72 | 147.33 | 124.60 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|--------|--------|--------|
| Costs before dilution adjustments | 0.25 | 0.48 | 0.30 |
| Dilution adjustments ^[a] | (0.01) | (0.02) | (0.04) |
| Total direct portfolio transaction costs | 0.24 | 0.46 | 0.26 |

| Performance and charges | % | % | % |
|---|-------|--------|--------|
| Direct portfolio transaction costs ^[b] | 0.16 | 0.34 | 0.20 |
| Operating charges | 1.16 | 1.16 | 1.16 |
| Return after operating charges | +5.05 | +20.81 | -10.52 |
| Historic yield ^[c] | 2.68 | 2.54 | 2.02 |
| Effect on yield of charges offset against capital | 1.15 | 1.15 | 0.00 |

Other information

| | | | |
|--|-----------|---------|---------|
| Closing NAV (£'000) | 4,911 | 898 | 520 |
| Closing NAV percentage of total fund NAV (%) | 0.82 | 0.14 | 0.08 |
| Number of shares | 3,258,198 | 609,939 | 417,479 |
| Highest share price (UK p) | 155.73 | 149.33 | 140.88 |
| Lowest share price (UK p) | 137.52 | 112.46 | 109.61 |

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 162.46 | 134.28 | 150.09 |
| Return before operating charges and after direct portfolio transaction costs | 10.22 | 29.84 | (14.25) |
| Operating charges | (1.91) | (1.66) | (1.56) |
| Return after operating charges | 8.31 | 28.18 | (15.81) |
| Distributions | (2.64) | (2.33) | (2.59) |
| Retained distributions | 2.64 | 2.33 | 2.59 |
| Closing NAV | 170.77 | 162.46 | 134.28 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|--------|--------|--------|
| Costs before dilution adjustments | 0.28 | 0.52 | 0.31 |
| Dilution adjustments ^[a] | (0.01) | (0.02) | (0.04) |
| Total direct portfolio transaction costs | 0.27 | 0.50 | 0.27 |

| Performance and charges | % | % | % |
|---|-------|--------|--------|
| Direct portfolio transaction costs ^[b] | 0.16 | 0.34 | 0.20 |
| Operating charges | 1.16 | 1.16 | 1.16 |
| Return after operating charges | +5.12 | +20.99 | -10.53 |
| Historic yield | 1.54 | 1.47 | 1.98 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |

Other information

| | | | |
|--|------------|---------|---------|
| Closing NAV (£'000) | 18,947 | 407 | 363 |
| Closing NAV percentage of total fund NAV (%) | 3.15 | 0.07 | 0.05 |
| Number of shares | 11,095,303 | 250,639 | 270,582 |
| Highest share price (UK p) | 173.00 | 162.40 | 148.94 |
| Lowest share price (UK p) | 152.77 | 121.21 | 116.85 |

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 3,035.39 | 2,575.72 | 2,935.02 |
| Return before operating charges and after direct portfolio transaction costs | 187.97 | 566.68 | (278.55) |
| Operating charges | (49.71) | (45.35) | (43.52) |
| Return after operating charges | 138.26 | 521.33 | (322.07) |
| Distributions | (83.87) | (61.66) | (37.23) |
| Closing NAV | 3,089.78 | 3,035.39 | 2,575.72 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|--------|--------|--------|
| Costs before dilution adjustments | 5.15 | 9.90 | 6.12 |
| Dilution adjustments ^[a] | (0.17) | (0.42) | (0.75) |
| Total direct portfolio transaction costs | 4.98 | 9.48 | 5.37 |

| Performance and charges | % | % | % |
|---|-------|--------|--------|
| Direct portfolio transaction costs ^[b] | 0.16 | 0.34 | 0.20 |
| Operating charges | 1.66 | 1.66 | 1.66 |
| Return after operating charges | +4.55 | +20.24 | -10.97 |
| Historic yield ^[c] | 2.71 | 2.54 | 1.48 |
| Effect on yield of charges offset against capital | 1.65 | 1.65 | 0.00 |

Other information

| | | | |
|--|----------|----------|----------|
| Closing NAV (£'000) | 7,018 | 9,568 | 9,157 |
| Closing NAV percentage of total fund NAV (%) | 1.17 | 1.53 | 1.39 |
| Number of shares | 227,138 | 315,228 | 355,505 |
| Highest share price (UK p) | 3,193.63 | 3,076.62 | 2,912.25 |
| Lowest share price (UK p) | 2,822.47 | 2,323.95 | 2,263.66 |

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

| for the year to 31 May Change in NAV per share | 2018 UK p | 2017 UK p | 2016 UK p |
|--|--------------|--------------|--------------|
| Opening NAV | 4,548.91 | 3,778.84 | 4,244.91 |
| Return before operating charges and after direct portfolio transaction costs | 283.68 | 836.79 | (402.88) |
| Operating charges | (74.78) | (66.72) | (63.19) |
| Return after operating charges | 208.90 | 770.07 | (466.07) |
| Distributions | (51.56) | (45.24) | (54.02) |
| Retained distributions | 51.56 | 45.24 | 54.02 |
| Closing NAV | 4,757.81 | 4,548.91 | 3,778.84 |

| Direct portfolio transaction costs | UK p | UK p | UK p |
|--|--------|--------|--------|
| Costs before dilution adjustments | 7.75 | 14.57 | 8.88 |
| Dilution adjustments ^[a] | (0.26) | (0.62) | (1.09) |
| Total direct portfolio transaction costs | 7.49 | 13.95 | 7.79 |

| Performance and charges | % | % | % |
|---|-------|--------|--------|
| Direct portfolio transaction costs ^[b] | 0.16 | 0.34 | 0.20 |
| Operating charges | 1.66 | 1.66 | 1.66 |
| Return after operating charges | +4.59 | +20.38 | -10.98 |
| Historic yield | 1.08 | 1.02 | 1.47 |
| Effect on yield of charges offset against capital | 0.00 | 0.00 | 0.00 |

Other information

| | | | |
|--|----------|----------|----------|
| Closing NAV (£'000) | 4,638 | 5,558 | 5,328 |
| Closing NAV percentage of total fund NAV (%) | 0.77 | 0.89 | 0.81 |
| Number of shares | 97,489 | 122,172 | 141,001 |
| Highest share price (UK p) | 4,820.64 | 4,547.37 | 4,212.21 |
| Lowest share price (UK p) | 4,260.38 | 3,409.73 | 3,293.28 |

^[a] In respect of direct portfolio transaction costs.

^[b] As a percentage of average net asset value.

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

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| Statement of total return | | | | | |
|---|------|---------|---------------|---------|----------------|
| for the year to 31 May | Note | 2018 | | 2017 | |
| | | £'000 | £'000 | £'000 | £'000 |
| Income | | | | | |
| Net capital gains / (losses) | 3 | | 19,153 | | 101,428 |
| Revenue | 5 | 17,109 | | 19,403 | |
| Expenses | 6 | (8,994) | | (9,074) | |
| Net revenue / (expense) before taxation | | 8,115 | | 10,329 | |
| Taxation | 7 | (143) | | (36) | |
| Net revenue / (expense) after taxation | | | 7,972 | | 10,293 |
| Total return before distributions | | | 27,125 | | 111,721 |
| Distributions | 8 | | (12,572) | | (10,974) |
| Change in net assets attributable to shareholders from investment activities | | | 14,553 | | 100,747 |

| Statement of change in net assets attributable to shareholders | | | | | |
|--|--|----------|----------------|-----------|----------------|
| for the year to 31 May | | 2018 | | 2017 | |
| | | £'000 | £'000 | £'000 | £'000 |
| Opening net assets attributable to shareholders | | | 624,276 | | 655,835 |
| Amounts received on issue of shares | | 36,708 | | 7,722 | |
| Amounts paid on cancellation of shares | | (77,845) | | (143,294) | |
| | | | (41,137) | | (135,572) |
| Dilution adjustments | | | 46 | | 126 |
| Change in net assets attributable to shareholders from investment activities (see above) | | | 14,553 | | 100,747 |
| Retained distributions on Accumulation shares | | | 3,469 | | 3,117 |
| Unclaimed distributions | | | 58 | | 23 |
| Closing net assets attributable to shareholders | | | 601,265 | | 624,276 |

| Balance sheet | | | |
|--|------|----------------|----------------|
| as at 31 May | Note | 2018 £'000 | 2017 £'000 |
| Assets | | | |
| Fixed assets | | | |
| Investments | | 603,543 | 626,866 |
| Current assets | | | |
| Debtors | 9 | 4,752 | 5,561 |
| Cash and bank balances | 10 | 2,880 | 10 |
| Total assets | | 611,175 | 632,437 |
| Liabilities | | | |
| Creditors | | | |
| Bank overdrafts | | 0 | (2,053) |
| Distribution payable | | (6,443) | (4,857) |
| Other creditors | 11 | (3,467) | (1,251) |
| Total liabilities | | (9,910) | (8,161) |
| Net assets attributable to shareholders | | 601,265 | 624,276 |

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

In determining the amount available for distribution to Income shares, the annual 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.

In determining the amount available for distribution, ordinary stock dividends have been transferred to capital, reducing the amount available.

3 Net capital gains / (losses)

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|-------------------------------------|---------------|----------------|
| Non-derivative securities | 19,172 | 101,517 |
| Currency gains / (losses) | (14) | (80) |
| Transaction charges | (5) | (9) |
| Net capital gains / (losses) | 19,153 | 101,428 |

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4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 116.

| for the year to 31 May | 2018 £'000 | % of transaction | 2017 £'000 | % of transaction |
|---|----------------|---------------------|----------------|---------------------|
| a) Purchases | | | | |
| Equities | | | | |
| Equities before transaction costs | 192,358 | | 411,810 | |
| Commissions | 61 | 0.03 | 196 | 0.05 |
| Taxes | 870 | 0.45 | 1,667 | 0.40 |
| Equities after transaction costs | 193,289 | | 413,673 | |
| Other transaction types | | | | |
| Corporate actions | 0 | | 4,728 | |
| Total purchases after transaction costs | 193,289 | | 418,401 | |
| b) Sales | | | | |
| Equities | | | | |
| Equities before transaction costs | 222,736 | | 544,367 | |
| Commissions | (95) | 0.04 | (335) | 0.06 |
| Taxes | (1) | 0.00 | (1) | 0.00 |
| Equities after transaction costs | 222,640 | | 544,031 | |
| Other transaction types | | | | |
| Corporate actions | 0 | | 323 | |
| Total sales after transaction costs | 222,640 | | 544,354 | |
| c) Direct portfolio transaction costs | | | | |
| | 2018 £'000 | % of average NAV | 2017 £'000 | % of average NAV |
| Commissions paid | | | | |
| Equities | 156 | 0.03 | 531 | 0.09 |
| Taxes paid | | | | |
| Equities | 871 | 0.14 | 1,668 | 0.27 |
| Total direct portfolio transaction costs [a] | 1,027 | 0.17 | 2,199 | 0.36 |
| d) Indirect portfolio transaction costs | | | | |
| | | % | | % |
| Portfolio dealing spread [b] | | 0.09 | | 0.06 |

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

[b] Average portfolio dealing spread at the balance sheet date.

5 Revenue

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Bank interest | 0 | 1 |
| Dividends from equity investments: non-taxable | 16,527 | 16,465 |
| Dividends from equity investments: taxable | 215 | 152 |
| Interest distributions | 74 | 66 |
| Stock dividends | 293 | 2,648 |
| Underwriting commission | 0 | 71 |
| Total revenue | 17,109 | 19,403 |

6 Expenses

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| Payable to the ACD or associate | | |
| Annual management charge | 8,046 | 8,111 |
| Administration charge | 895 | 910 |
| | 8,941 | 9,021 |
| Payable to the Depositary or associate | | |
| Depositary's charge (including VAT) | 40 | 41 |
| Other expenses | | |
| Audit fee (including VAT) | 9 | 10 |
| Interest payable | 1 | 0 |
| Safe custody charge | 3 | 2 |
| | 13 | 12 |
| Total expenses | 8,994 | 9,074 |

7 Taxation

| for the year to 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| a) Analysis of charge in the year | | |
| Corporation tax | 0 | 0 |
| Withholding tax | 143 | 36 |
| Deferred tax (note 7c) | 0 | 0 |
| Total taxation | 143 | 36 |
| b) Factors affecting taxation charge for the year | | |
| Net revenue / (expense) before taxation | 8,115 | 10,329 |
| Corporation tax at 20% | 1,623 | 2,065 |
| Effects of: | | |
| Dividends from equity investments: non-taxable | (3,305) | (3,293) |
| Stock dividends not taxable | (59) | (530) |
| Current year expenses not utilised | 1,741 | 1,758 |
| Withholding tax | 143 | 36 |
| Total tax charge (note 7a) | 143 | 36 |
| c) Provision for deferred taxation | | |
| Provision at the start of the year | 0 | 0 |
| Deferred tax in profit and loss account (note 7a) | 0 | 0 |
| Provision at the end of the year | 0 | 0 |

The fund has not recognised a deferred tax asset of £25,283,000 (2017: £23,542,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

| | 2018 | | 2017 | |
|--|--------------|---------------|--------------|---------------|
| for the year to 31 May | Inc [a] | Acc [b] | Inc [a] | Acc [b] |
| Dividend distributions | £'000 | £'000 | £'000 | £'000 |
| Interim | 2,360 | 745 | 2,460 | 1,295 |
| Final | 6,443 | 2,724 | 4,857 | 1,822 |
| Total net distributions | | 12,272 | | 10,434 |
| Income deducted on cancellation of shares | | 523 | | 565 |
| Income received on issue of shares | | (223) | | (25) |
| Distributions | | 12,572 | | 10,974 |
| Net revenue / (expense) per statement of total return | | | | |
| Expenses offset against capital | | 7,972 | | 10,293 |
| Stock dividends not distributed | | 4,893 | | 3,329 |
| | | (293) | | (2,648) |
| Distributions | | 12,572 | | 10,974 |

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

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9 Debtors

| as at 31 May | 2018 £'000 | 2017 £'000 |
|--|---------------|---------------|
| Amounts receivable on issues of shares | 18 | 230 |
| Distributions receivable | 9 | 4 |
| Dividends receivable | 1,977 | 1,671 |
| Sales awaiting settlement | 2,748 | 3,656 |
| Total debtors | 4,752 | 5,561 |

10 Cash and bank balances

| as at 31 May | 2018 £'000 | 2017 £'000 |
|-------------------------------------|---------------|---------------|
| Cash held as bank balances | 2,880 | 10 |
| Total cash and bank balances | 2,880 | 10 |

11 Other creditors

| as at 31 May | 2018 £'000 | 2017 £'000 |
|---|---------------|---------------|
| ACD's annual management charge payable | 223 | 211 |
| Administration charge payable | 25 | 23 |
| Amounts payable on cancellation of shares | 398 | 698 |
| Expenses payable | 12 | 14 |
| Purchases awaiting settlement | 2,809 | 305 |
| Total other creditors | 3,467 | 1,251 |

12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2017: same).

13 Shares in issue

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

| Share class | Opening 01.06.17 | Movements | | Closing 31.05.18 |
|------------------------|---------------------|------------|-------------|---------------------|
| | | Issued | Cancelled | |
| Euro | | | | |
| Class 'A' Accumulation | 232,675 | 20,856 | (42,486) | 211,045 |
| Class 'C' Accumulation | 3,334 | 0 | (869) | 2,465 |
| Sterling | | | | |
| Class 'A' Income | 9,614,954 | 42,589 | (1,263,089) | 8,394,454 |
| Class 'A' Accumulation | 4,817,512 | 2,962 | (583,053) | 4,237,421 |
| Class 'C' Income | 594,436 | 17,804 | (65,201) | 547,039 |
| Class 'I' Income | 2,036,114 | 415,332 | (198,956) | 2,252,490 |
| Class 'I' Accumulation | 2,757,523 | 361,639 | (220,087) | 2,899,075 |
| Class 'R' Income | 609,939 | 3,088,749 | (440,490) | 3,258,198 |
| Class 'R' Accumulation | 250,639 | 11,112,490 | (267,826) | 11,095,303 |
| Class 'X' Income | 315,228 | 1,786 | (89,876) | 227,138 |
| Class 'X' Accumulation | 122,172 | 1,752 | (26,435) | 97,489 |

14 Charging structure

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

| Share class | Entry charge % | Exit charge % | Annual management charge % |
|-----------------|----------------------|---------------------|-------------------------------------|
| Euro | | | |
| Class 'A' | 5.25 | n/a | 1.50 |
| Class 'C' | 3.25 | n/a | 0.75 |
| Sterling | | | |
| Class 'A' | nil | n/a | 1.50 |
| Class 'C' | nil | n/a | nil |
| Class 'I' | nil | n/a | 0.75 |
| Class 'R' | nil | n/a | 1.00 |
| Class 'X' | nil | n/a | 1.50 |

15 Related parties

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

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

During the year, there were transactions in Prudential plc, a related party of M&G Securities Limited with a total value of £2,097,000 (2017: £4,743,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £27,923,000 (2017: £26,350,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 3.26% (2017: 2.82%) of the fund's shares.

16 Events after the balance sheet date

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

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17 Fair value analysis

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

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

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

Level 2: Valuation technique using observable market data

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

Level 3: Valuation technique using unobservable inputs

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

| as at 31 May | Assets 2018 | Liabilities 2018 | Assets 2017 | Liabilities 2017 |
|--------------------|----------------|---------------------|----------------|---------------------|
| Basis of valuation | £'000 | £'000 | £'000 | £'000 |
| Level 1 | 591,583 | 0 | 601,775 | 0 |
| Level 2 | 11,960 | 0 | 25,091 | 0 |
| Level 3 | 0 | 0 | 0 | 0 |
| | 603,543 | 0 | 626,866 | 0 |

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

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 8 and 9.

19 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by £29,579,000 (2017: £30,089,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

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

21 Interest rate risk sensitivity and exposure

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

22 Credit risk

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

23 Dividend distribution tables

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

| Semi-annual distribution periods | | | | |
|----------------------------------|----------|----------|----------|----------|
| | Start | End | Xd | Payment |
| Interim | 01.06.17 | 30.11.17 | 01.12.17 | 31.01.18 |
| Final | 01.12.17 | 31.05.18 | 01.06.18 | 31.07.18 |

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

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

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

Euro Class 'A' Accumulation share performance

| Ordinary distributions for the year to 31 May | Group 2 | | Group 1 & 2 | |
|---|----------------|----------------------|-------------|--------|
| | Income 2018 | Equalisation 2018 | 2018 | 2017 |
| | £ | £ | £ | £ |
| Interim | 0.7682 | 2.4527 | 3.2209 | 5.5822 |
| Final | 9.8798 | 2.6111 | 12.4909 | 8.3764 |

Euro Class 'C' Accumulation share performance

| Ordinary distributions for the year to 31 May | Group 2 | | Group 1 & 2 | |
|---|----------------|----------------------|-------------|---------|
| | Income 2018 | Equalisation 2018 | 2018 | 2017 |
| | £ | £ | £ | £ |
| Interim | 6.7229 | 0.0000 | 6.7229 | 10.6662 |
| Final | 2.1078 | 19.2710 | 21.3788 | 14.2611 |

Sterling Class 'A' Income share performance

| Ordinary distributions for the year to 31 May | Group 2 | | Group 1 & 2 | |
|---|----------------|----------------------|-------------|---------|
| | Income 2018 | Equalisation 2018 | 2018 | 2017 |
| | p | p | p | p |
| Interim | 7.4212 | 14.0788 | 21.5000 | 19.2612 |
| Final | 30.2545 | 31.4248 | 61.6793 | 41.9936 |

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23 Dividend distribution tables (continued)

Sterling Class 'A' Accumulation share performance

| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|----------------|---------------------------------|-------------------------------------|---------|
| | p | p | p | p |
| Interim | 0.0000 | 10.7073 | 10.7073 | 18.0490 |
| Final | 20.9460 | 20.4366 | 41.3826 | 27.6825 |

Sterling Class 'C' Income share performance

| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|----------------|---------------------------------|-------------------------------------|---------|
| | p | p | p | p |
| Interim | 5.1052 | 16.7049 | 21.8101 | 31.9395 |
| Final | 33.1543 | 29.7641 | 62.9184 | 42.6628 |

Sterling Class 'I' Income share performance

| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|----------------|---------------------------------|-------------------------------------|---------|
| | p | p | p | p |
| Interim | 1.5113 | 9.0297 | 10.5410 | 12.4596 |
| Final | 14.6317 | 15.6690 | 30.3007 | 20.6091 |

Sterling Class 'I' Accumulation share performance

| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|----------------|---------------------------------|-------------------------------------|---------|
| | p | p | p | p |
| Interim | 2.2246 | 5.2034 | 7.4280 | 11.4022 |
| Final | 11.0183 | 12.5342 | 23.5525 | 15.7331 |

Sterling Class 'R' Income share performance

| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|----------------|---------------------------------|-------------------------------------|--------|
| | p | p | p | p |
| Interim | 0.0000 | 1.0517 | 1.0517 | 1.1431 |
| Final | 1.0735 | 1.9202 | 2.9937 | 2.0553 |

Sterling Class 'R' Accumulation share performance

| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|----------------|---------------------------------|-------------------------------------|--------|
| | p | p | p | p |
| Interim | 0.0000 | 0.6153 | 0.6153 | 0.9692 |
| Final | 0.5819 | 1.4379 | 2.0198 | 1.3622 |

Sterling Class 'X' Income share performance

| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|----------------|---------------------------------|-------------------------------------|---------|
| | p | p | p | p |
| Interim | 12.7681 | 8.8719 | 21.6400 | 19.3896 |
| Final | 38.8459 | 23.3866 | 62.2325 | 42.2738 |

Sterling Class 'X' Accumulation share performance

| Ordinary distributions for the year to 31 May | Income 2018 | Group 2 Equalisation 2018 | Group 1 & 2 Distribution 2018 | 2017 |
|---|----------------|---------------------------------|-------------------------------------|---------|
| | p | p | p | p |
| Interim | 2.3583 | 8.2461 | 10.6044 | 17.8557 |
| Final | 19.3089 | 21.6511 | 40.9600 | 27.3856 |

M&G Investment Funds (2)

Other regulatory disclosures

Remuneration

In line with the requirements of the Undertakings for Collective Investment in Transferable Securities (UCITS) V, the UCITS Manager is subject to a remuneration policy which is consistent with the principles outlined in SYSC19E of the FCA Handbook (UCITS Remuneration Code).

The remuneration policies are designed to ensure that any relevant conflicts of interest can be managed appropriately at all times and that the remuneration of its staff is in line with the risk policies and objectives of the UCITS funds it manages. Further details of the remuneration policy applicable at an M&G Limited level can be found here:

[http://docs.mandg.com/docs/Corporate/MandG-Limited-](http://docs.mandg.com/docs/Corporate/MandG-Limited-Remuneration-Policy.pdf)

[Remuneration-Policy.pdf](http://docs.mandg.com/docs/Corporate/MandG-Limited-Remuneration-Policy.pdf). M&G's remuneration policy is reviewed on an annual basis, or more frequently where required, and approved by the M&G Remuneration Committee.

The UCITS management company is required under UCITS to make quantitative disclosures of remuneration. These disclosures are made in line with M&G's interpretation of currently available guidance on quantitative remuneration disclosures. As market or regulatory guidance evolves, M&G may consider it appropriate to make changes to the way in which quantitative disclosures are calculated. Members of staff and senior management typically provide both UCITS and non-UCITS related services and have a number of areas of responsibility. Therefore, only the portion of remuneration for those individuals' services which may be attributable to UCITS is included in the remuneration figures disclosed. Accordingly the figures are not representative of any individual's actual remuneration.

M&G Securities Limited does not directly employ any staff members. However, for the financial year ended 31 December 2017, aggregate remuneration of £39,245,473 (£4,916,932 in respect of fixed remuneration and £34,328,541 in respect of variable remuneration) was paid to individuals whose actions may have a material impact on the risk profile of the UCITS Manager, of which £1,812,300 related to senior management.

Swiss investor information

For funds registered in Switzerland we are required by FINMA to disclose the Total Expense Ratio (TER).

For these funds the TERs are the same as the operating charges disclosed in each fund's financial highlights section under 'Performance and charges'.

Glossary

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.

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.

Glossary

Issuer: An entity that sells securities, such as fixed income securities and company shares.

Investment grade bonds: Fixed income securities issued by a company with a medium or high credit rating from a recognised credit rating agency. They are considered to be at lower risk from default than those issued by companies with lower credit ratings. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

Issuer: An entity that sells securities, such as fixed income securities and company shares.

Leverage: When referring to a company, leverage is the level of a company's debt in relation to its assets. A company with significantly more debt than capital is considered to be leveraged. It can also refer to a fund that borrows money or uses derivatives to magnify an investment position.

Liquidity: A company is considered highly liquid if it has plenty of cash at its disposal. A company's shares are considered highly liquid if they can be easily bought or sold since large amounts are regularly traded.

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 includes charges for the following items: management of the fund (also known as Annual Management Charge), administration services, services provided by external parties which include depository, custody and audit, as well as incorporating the ongoing charge figure from funds held in the portfolio (taking into account any rebates).

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.

Glossary

Risk/reward ratio: A ratio comparing the expected returns of an investment with the amount of risk undertaken.

Safe-haven assets: Refers to assets that investors perceive to be relatively safe from suffering a loss in times of market turmoil.

Security: Financial term for a paper asset – usually a share in a company or a fixed income security also known as a bond.

Share class: Each M&G fund has different share classes, such as A, R and I. Each has a different level of charges and minimum investment. Details on charges and minimum investments can be found in the Key Investor Information Documents.

Share class hedging: Activities undertaken in respect of hedged shares to mitigate the impact on performance of exchange rate movements between the fund's currency exposure and the investor's chosen currency.

Short position: A way for a fund manager to express his or her view that the market might fall in value.

Short selling: This often refers to the practice whereby an investor sells an asset they do not own. The investor borrows the asset from someone who does own it and pays a fee. The investor must eventually return the borrowed asset by buying it in the open market. If the asset has fallen in price, the investor buys it for less than they sold it for, thus making a profit. The contrary may also occur.

Short-dated corporate bonds: Fixed income securities issued by companies and repaid over relatively short periods.

Short-dated government bonds: Fixed income securities issued by governments and repaid over relatively short periods.

Sovereign debt: Debt of a government. Also referred to as government bonds.

Sub-investment grade bonds: Fixed income securities issued by a company with a low rating from a recognised credit rating agency. They are considered to be at higher risk from default than those issued by companies with higher credit ratings. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

Top-down investing: An investment approach that analyses economic factors, ie surveys the 'big picture', before selecting which companies to invest in. The top-down investor will look at which industries are likely to generate the best returns in certain economic conditions and limit the search to that area.

Total return: The term for the gain or loss derived from an investment over a particular period. Total return includes income (in the form of interest or dividend payments) and capital gains.

Treasuries: Fixed income securities issued by the US government.

Triple A or AAA rated: The highest possible rating a fixed income security, also called a bond, can be assigned by credit rating agencies. Bonds that are rated AAA are perceived to have the lowest risk of default. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

UCITS: Stands for Undertakings for Collective Investment in Transferable Securities. This is the European regulatory framework for an investment vehicle that can be marketed across the European Union and is designed to enhance the single market in financial assets while maintaining high levels of investor protection.

Unconstrained: The term used to describe the mandate of a fund whereby the manager has the freedom to invest according to his or her own strategy, not being obliged to allocate capital according to the weightings of any index, for example.

Underlying value: The fundamental value of a company, reflecting both tangible and intangible assets, rather than the current market value.

Underlying yield: Refers to the income received by a managed fund, and is usually expressed annually as a percentage based on the fund's current value.

Underweight: If a portfolio is 'underweight' a stock, it holds a smaller proportion of that stock than the comparable index or sector.

Unit trust: A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

Unit/share type: Type of units/shares held by investors in a trust or fund (unit/share types differ by features such as whether income is to be paid out as cash or reinvested on the payment date).

Valuation: The worth of an asset or company based on its current price.

Volatile: When the value of a particular share, market or sector swings up and down fairly frequently and/or significantly, it is considered volatile.

Volatility: The degree to which a given security, fund, or index rapidly changes. It is calculated as the degree of deviation from the norm for that type of investment over a given time period. The higher the volatility, the riskier the security tends to be.

Warrant: A security issued by a company that gives the holder the right to buy shares in that company at a specified price and within a certain timeframe.

Yield: This refers to either the interest received from a fixed income security or to the dividends received from a share. It is usually expressed as a percentage based on the investment's costs, its current market value or its face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

Yield (equity): Refers to the dividends received by a holder of company shares and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

Yield (bonds): This refers to the interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

Yield (income): Refers to the income received from an investment and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.

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