

# M&G Dynamic Allocation Fund

Annual Long Report and audited Financial Statements  
for the year ended 31 March 2017



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# M&G Dynamic Allocation Fund

## Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Dynamic Allocation Fund presents its Annual Long Report and audited Financial Statements for the year ended 31 March 2017.

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

### Company information

This Open-Ended Investment Company (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 Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000. The Company 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 FCA.

The Company was authorised on 22 October 2009 and the fund was launched on 3 December 2009.

The Company's principal activity is to carry on business as an 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.

### Co-fund managers

Juan Nevado & Tony Finding are employed by M&G Limited which is an associate of M&G Securities Limited.

### 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

W J Nott (Chief Executive),  
G N Cotton, P R Jelfs, G W MacDowall, L J Mumford

### 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

International Financial Data Services (UK) Limited,  
IFDS House, St. Nicholas Lane, Basildon, Essex SS15 5FS, UK  
(Authorised and regulated by the Financial Conduct Authority)

### Depository

National Westminster Bank Plc, Trustee & Depository Services,  
Younger Building, 3 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  
Ten George Street, Edinburgh EH2 2DZ, UK

### Important information

Please note that from 1 July 2016, M&G Dynamic Allocation Fund began taking the annual management charge, administration charge and where relevant the share class hedging charge, from capital in the case of Income shares. These charges continue to be charged to income for Accumulation shares.

This change will have no impact on the fund's investment approach. The fund's objective and policy will remain unchanged. All costs associated with introducing the change will be borne by M&G Securities Limited.

### 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 Depository.

### 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 International Investments Limited,  
mainBuilding, Taunusanlage 19, 60325 Frankfurt am Main, Germany  
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: +49 69 1338 6767

Email: [iocs@mandg.co.uk](mailto:iocs@mandg.co.uk)

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.

# M&G Dynamic Allocation Fund

## Authorised Corporate Director's Report

### Investor information

#### 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,  
Via Ansperto 5, 20123 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 operationel, 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, P.O. Box 5070, 8021 Zurich, Switzerland

## Authorised Corporate Director's Responsibilities

The Authorised Corporate Director (ACD) is required to prepare annual and interim long and short reports for the Company. The ACD must ensure that the financial statements, contained in the Long Report, for the fund 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.

# M&G Dynamic Allocation Fund

## Authorised Corporate Director's Report

### Investment objective

The fund aims to deliver positive total returns in any three year period from a flexibly managed portfolio of global assets. There is no guarantee that the Fund will achieve a positive return over this, or any other, period and investors may not recoup the original amount they invested.

### Investment policy

The fund invests in multiple asset classes and is managed through the allocation of capital based on the fund manager's macroeconomic outlook, asset class valuations and active risk management in portfolio construction. The fund is not managed against any market index.

Depending on the fund manager's view of market conditions and relative asset valuations, at any one time the portfolio may be diversified across asset classes, sectors, currencies and countries, or may have a high concentration in one or more of these.

The fund seeks to participate in a variety of rising asset values; in times of severe market uncertainty, however, capital preservation will be central to the fund's strategy. The fund manager may use derivatives strategies to create value through additional asset exposure and/or where these may help to manage portfolio risk.

Whilst the fund aims to deliver positive total returns in any three year period there is no guarantee that this will be achieved.

The fund may invest in a range of equities, fixed income assets and other assets, including collective investment schemes, other transferable securities, cash and near cash, deposits, warrants and money market instruments. Derivatives may also be used, for both hedging and investment purposes.

### Investment approach

The fund managers believe that the fund's highly flexible investment approach has the potential to deliver returns of 5-10% per annum on average over the medium term (over three to five years), with annualised volatility in those returns of between 5% and 12%. (Volatility measures 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.)

The fund will normally invest within the following net allocation ranges: 20-60% in equities, 0-80% in fixed income securities (excluding cash and cash equivalents) and up to 20% in other assets, which can include indirect exposure to property and convertibles (fixed income investments that have the right to be converted into a predetermined number of company shares). The fund managers will actively manage the fund's foreign currency exposure to seek to enhance returns. At least 30% of the fund will be held in euro assets and at least 60% will be held in a combination of US dollar, sterling and euro assets. The fund's investment strategy may involve the use of financial instruments to take short positions, that is, positions that profit from a fall in the price of an asset, or to generate leverage (gain exposure to greater investment than the net asset value of the fund).

### Risk profile

The fund invests globally in a broad range of assets, including company shares (equities), fixed income securities (bonds), currencies and other assets such as property shares and convertible bonds. The fund is, therefore, subject to the price volatility of global financial and currency markets. Exposure to the different asset classes is typically 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.

The fund adopts a flexible approach to the allocation of capital between asset classes in response to changes in economic conditions and the valuation of assets, and the managers will seek to maximise portfolio diversity wherever possible. However, in cases where the managers believe that the opportunities are limited to a few areas, there may be a higher-than-usual concentration of asset or market exposure. Such strategies may result in higher volatility of the fund's short-term performance.

The blend of assets held in the fund is regularly adjusted depending on where the managers see the most value and to manage risks, including liquidity, credit, currency and market risks. 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 Euro 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 Dynamic Allocation Fund

## Authorised Corporate Director's Report

### Investment review

As at 3 April 2017, for the year ended 31 March 2017

#### Performance against objective

Between 1 April 2016 (the start of the review period) and 3 April 2017, the M&G Dynamic Allocation Fund delivered a positive total return (the combination of income and growth of capital) across all share classes.

Over a three-year period, the fund has achieved its aim of delivering a positive total return.<sup>[a]</sup>

#### Investment performance

The review period started off on a turbulent note as investor sentiment had reached 'peak pessimism' during the early months of 2016 amid fears of a global recession. This nervousness was compounded by the UK's decision in June's referendum to leave the European Union (EU). All this led to sharp falls in so-called 'risky' assets, such as company shares ('equities') as investors fled to the perceived safety of 'mainstream' bonds issued by highly creditworthy governments such as those of the US, UK, Germany and Japan.

However, as 2016 continued into the summer months, global financial markets began an emphatic, if turbulent, recovery, marked as it was by periods where politics dominated headlines, such as Donald Trump's surprise victory in the US presidential election in November. The events triggered a sharp reversal in stockmarkets, with 'risky' assets bouncing back strongly and 'safe' assets falling out of favour.

Heightened uncertainty in financial markets during the first half of 2016 proved to be a fertile environment for our investment philosophy of assessing genuine economic conditions (rather than market 'noise') and valuing assets in that context. We observed that the economy had actually been showing signs of robust recovery in many parts of the world for some time, and that this overly negative sentiment had driven the pricing of certain assets to unjustifiable extremes. Specifically, we felt that equities were being significantly undervalued, particularly relative to the overvaluation of mainstream government bonds. As such, we took the opportunity to increase exposure to selected areas, such as US banking stocks and Asian equities. At the same time, prices of mainstream bonds rose dramatically to levels at which we felt they looked vulnerable to 'correction', that is, reversal. Therefore, we moved our positions in mainstream government bonds further 'short' (an investment strategy designed to profit from a decline in asset values).

These decisions are the drivers of the fund's strong performance during the review period. The middle of 2016 saw a dramatic change in investor behaviour within financial markets as sentiment turned far more positive and the price declines we saw in the first half of the year quickly unwound. Furthermore, Donald Trump's victory – something which many had predicted would intensify risk aversion among investors – actually provided a further boost to confidence (and hence equity markets) by bolstering hopes that policymakers in major economies (including Trump) have started to favour fiscal policies (such as tax cuts and infrastructure spending) to boost growth, over monetary policies (such as lower interest rates and the buying of bonds) of recent years, which many now regard as ineffective.

Over the review period as a whole, the fund's exposure to developed market equities added notable value. The largest gains came from the fund's sizeable position in US banks, while European and Asian equities also contributed positively.

Within the fund's allocation to fixed income assets, the holdings in investment grade (BBB rated) corporate bonds generated positive returns; 'short' positions in mainstream government bonds (US, UK, Japan and Germany) also proved profitable. Towards the end of the review period, the fund's positions in emerging market bonds, particularly from South America, added value. (Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'. Investment grade corporate bonds refer to fixed income securities issued by a company with a medium or high credit rating from a recognised credit rating agency.)

#### Investment activities

Over the 12 months under review, the fund was positioned in favour of equities over bonds. The sustained strength of economic data suggest to us that equities still offer good value on the whole. The fund, therefore, continues to have significant exposure to the asset class – both directly and indirectly through derivatives. (Derivatives are financial contracts rather than physical holdings, and their value is dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, changes in the value of the underlying assets. We believe the use of derivatives allows for more efficient and low cost executions of our investment ideas.)

Following significant gains in equity markets, particularly over the second half of the review period, we slightly reduced our equity weighting as, by our assessment, valuations have become somewhat less attractive in certain areas compared to 12 months ago. This was largely achieved by reducing the exposure to US equities as the US market was one of the strongest performers during the period.

We also materially reduced the fund's allocation to corporate bonds over the 12 months; although corporate bonds continue to look reasonably attractive as an asset class, we remain of the view that equities are offering better value than bonds at present.

Within government bonds, we moved the fund more aggressively away from Western government bonds (that is, by increasing the size of our 'short' positions) to take advantage of opportunities in emerging market government bonds. Given the high price of mainstream government bonds at present, we believe the scope for further gains is therefore limited, and that a decline in value is therefore more likely.

Elsewhere, in currencies, we increased exposure to sterling as the British pound weakened materially in the wake of the UK's vote to leave the EU. At the same time, we decreased exposure to the US dollar as the currency strengthened significantly.

#### Outlook

The movement in asset prices towards the end of 2016 and going into the beginning of 2017 has been greeted by market observers with surprise and a large degree of scepticism. Many have found Donald Trump's victory in the US presidential election to be a convenient explanation for the direction of travel in markets, and therefore believe that a continuation of the current trend is dependent upon what the Republican administration will deliver from here.

In our view, this is only part of the story. Price action since last summer is less surprising when we consider where markets had got to in the first half of the year, and how they had arrived there. Ultimately, the movements we have seen are a partial correction of that earlier phase.

# M&G Dynamic Allocation Fund

## Authorised Corporate Director's Report

### Investment review

#### Outlook (continued)

The key issue of 2017 will be whether this correction marks the start of a sustained shift away from the bond-friendly, 'risk-off' environment of much of the last decade, toward a more meaningful improvement in sentiment in both markets and the real economy. US policy may be an element in this, but is not necessarily the only factor.

Such a shift would be supportive for the fund's longer term themes, but is it likely that the transition in regime will be subject to frequent and testing challenges. As we saw in 2016, such turbulence can present a fertile environment for the fund's approach.

#### Juan Nevado & Tony Finding

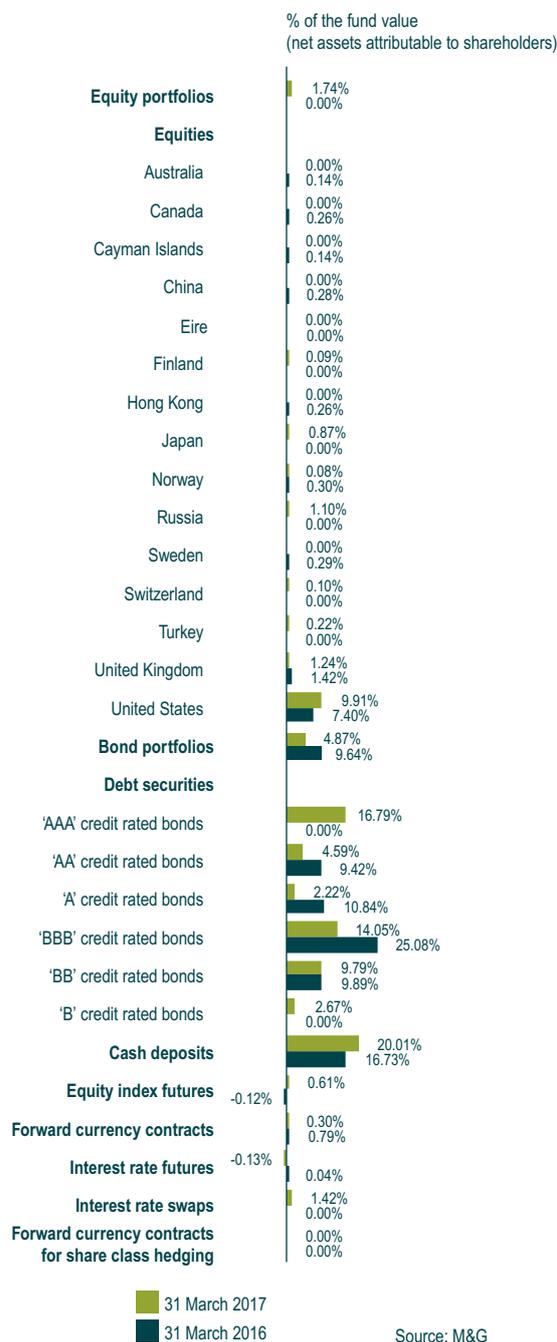
Co-fund managers

Employees of M&G Limited which is an associate of M&G Securities Limited.

[a] 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.

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



# M&G Dynamic Allocation Fund

## Authorised Corporate Director's Report

### Investments

#### Portfolio statement

as at 31 March Holding	2017 €'000	2017 %	2016 %
<b>Equity portfolios</b>	<b>73,897</b>	<b>1.74</b>	<b>0.00</b>
108,884,293 M&G Japan Fund Sterling Class 'A' (Accumulation)	73,897	1.74	
<b>Equities</b>	<b>578,454</b>	<b>13.61</b>	<b>10.49</b>
<b>Australia</b>	<b>0</b>	<b>0.00</b>	<b>0.14</b>
<b>Canada</b>	<b>0</b>	<b>0.00</b>	<b>0.26</b>
<b>Cayman Islands</b>	<b>0</b>	<b>0.00</b>	<b>0.14</b>
<b>China</b>	<b>0</b>	<b>0.00</b>	<b>0.28</b>
<b>Eire</b>	<b>0</b>	<b>0.00</b>	<b>0.00</b>
<b>Finland</b>	<b>3,624</b>	<b>0.09</b>	<b>0.00</b>
728,651 Nokia	3,624	0.09	
<b>Hong Kong</b>	<b>0</b>	<b>0.00</b>	<b>0.26</b>
<b>Japan</b>	<b>36,808</b>	<b>0.87</b>	<b>0.00</b>
1,750,700 Mitsubishi UFJ Financial	10,255	0.24	
5,285,400 Mizuho Financial Group	9,023	0.21	
270,500 Sumitomo Mitsui Financial	9,160	0.22	
259,000 Sumitomo Mitsui Trust Holdings	8,370	0.20	
<b>Norway</b>	<b>3,210</b>	<b>0.08</b>	<b>0.30</b>
213,244 Aker BP (formerly Det Norske OLJ)	3,210	0.08	
<b>Russia</b>	<b>46,969</b>	<b>1.10</b>	<b>0.00</b>
307,713 Lukoil ADR	15,235	0.36	
112,682 Magnit GDR	4,083	0.10	
1,467,302 Sberbank of Russia ADR	15,964	0.37	
866,243 Severstal GDR	11,687	0.27	
<b>Sweden</b>	<b>0</b>	<b>0.00</b>	<b>0.29</b>
<b>Switzerland</b>	<b>4,145</b>	<b>0.10</b>	<b>0.00</b>
82,347 ams	4,145	0.10	
<b>Turkey</b>	<b>9,504</b>	<b>0.22</b>	<b>0.00</b>
3,703,695 Sabanci Holdings	9,504	0.22	
<b>United Kingdom</b>	<b>52,811</b>	<b>1.24</b>	<b>1.42</b>
802,487 John Wood Group	7,115	0.17	
41,230,086 Lloyds Banking Group	31,847	0.75	
537,248 Royal Dutch Shell 'B'	13,849	0.32	
<b>United States</b>	<b>421,383</b>	<b>9.91</b>	<b>7.40</b>
184,500 AbbVie	11,306	0.27	
4,400 Alphabet	3,499	0.08	
4,300 Amazon	3,528	0.08	
453,965 American Express	33,663	0.79	
70,400 Amgen	10,835	0.26	
115,300 Anadarko Petroleum	6,713	0.16	
1,531,817 Bank of America	34,235	0.80	
763,627 Bank of New York Mellon	33,983	0.80	
39,800 Biogen	10,026	0.24	
19,900 Bioerativ	982	0.02	
97,400 Celgene	11,337	0.27	
130,200 Chevron	13,134	0.31	
608,811 Citigroup	34,492	0.81	
56,228 Concho Resources	6,723	0.16	
78,800 Criteo ADR	3,737	0.09	
27,400 Facebook	3,653	0.09	
155,300 Gilead Sciences	9,819	0.23	
140,700 Halliburton	6,459	0.15	
30,900 IPG Photonics	3,469	0.08	
404,424 JPMorgan Chase	33,712	0.79	
622,653 Kosmos Energy	3,743	0.09	
64,500 Luxoft	3,684	0.09	
316,634 Mastercard	33,393	0.79	
385,000 Methanex	17,375	0.41	
56,800 Microsoft	3,494	0.08	

#### Portfolio statement (continued)

as at 31 March Holding	2017 €'000	2017 %	2016 %
<b>United States (continued)</b>			
67,700 NXP Semiconductors	6,576	0.15	
31,900 Regeneron Pharmaceuticals	11,530	0.27	
172,100 Sabre	3,471	0.08	
92,300 Schlumberger	6,724	0.16	
67,100 Shire ADR	11,141	0.26	
1,510,200 Veon ADR (formerly Vimpelcom ADR)	5,712	0.13	
639,616 Wells Fargo	33,680	0.79	
269,100 Yandex N.V.	5,555	0.13	
<b>Bond portfolios</b>	<b>207,351</b>	<b>4.87</b>	<b>9.64</b>
41,475,356 M&G Global Convertibles Fund Sterling Class 'A' (Accumulation)	102,139	2.40	
861,627 M&G Total Return Credit Investment Fund Euro Class 'A' (Accumulation)	97,166	2.28	
275,000 SPDR® Barclays 10+ Year US Corporate Bond Fund ETF	8,046	0.19	
<b>Debt securities</b>	<b>2,131,583</b>	<b>50.11</b>	<b>55.23</b>
<b>'AAA' credit rated bonds</b>	<b>713,982</b>	<b>16.79</b>	<b>0.00</b>
€41,345,258 Germany (Federal Republic of) 0% 2017 (28 Jun)	41,437	0.98	
€83,902,374 Germany (Federal Republic of) 0% 2017 (16 Aug)	84,187	1.98	
€83,793,746 Germany (Federal Republic of) 0% 2017 (13 Sep)	84,094	1.98	
€167,304,000 Germany (Federal Republic of) 0% 2017 (15 Dec)	168,098	3.95	
€166,923,000 Germany (Federal Republic of) 0% 2018 (16 Mar)	168,075	3.95	
€166,641,000 Germany (Federal Republic of) 0% 2018 (15 Jun)	168,091	3.95	
<b>'AA' credit rated bonds</b>	<b>195,046</b>	<b>4.59</b>	<b>9.42</b>
\$30,024,000 US Treasury 0% 2017	28,109	0.66	
\$172,705,400 US Treasury 1% 2046	166,937	3.93	
<b>'A' credit rated bonds</b>	<b>94,601</b>	<b>2.22</b>	<b>10.84</b>
\$13,512,000 Amgen 4.663% 2051	12,568	0.30	
\$4,688,000 Intel 4.9% 2045	4,901	0.11	
PLN350,710,000 Poland 2.5% 2026	77,132	1.81	
<b>'BBB' credit rated bonds</b>	<b>597,718</b>	<b>14.05</b>	<b>25.08</b>
\$11,431,000 AT&T 4.5% 2048	9,536	0.22	
\$7,695,000 AT&T 6.375% 2041	8,188	0.19	
\$5,966,000 Bank of America 4.25% 2026	5,639	0.13	
\$8,465,000 BHP Billiton Finance 6.75% 2075	8,996	0.21	
COP108,004,800,000 Colombia (Republic of) 7.50% 2026	36,867	0.86	
\$9,408,000 Enel Finance International 6.8% 2037	10,892	0.26	
\$4,224,000 Energy Transfer Partners 6.125% 2045	4,196	0.10	
\$7,630,000 Energy Transfer Partners 4.05% 2025	7,037	0.17	
\$13,429,000 Exelon Generation 5.6% 2042	11,917	0.28	
\$14,211,000 Express Scripts 4.8% 2046	12,600	0.30	
\$15,486,000 FMG Resources 9.75% 2022	16,634	0.39	
\$10,951,000 Ford Motor Company 6.625% 2028	12,059	0.28	
\$9,228,000 Glencore Finance Europe 4.625% 2024	8,968	0.21	
\$10,245,000 Goldman Sachs Group 6.75% 2037	11,778	0.28	
\$11,035,000 Kraft Foods Group 6.875% 2039	12,781	0.30	
MXN2,993,047,600 Mexico (United Mexican States) 5.75% 2026	136,666	3.21	
MXN3,483,954,300 Mexico (United Mexican States) 7.75% 2042	179,507	4.22	
MXN707,473,200 Mexico (United Mexican States) 8% 2023	37,235	0.88	
\$11,389,000 Morgan Stanley 5% 2025	11,406	0.27	
\$20,660,000 Mylan 5.4% 2043	20,072	0.47	
\$15,033,000 Perrigo Finance Unlimited 4.9% 2044	13,709	0.32	
\$8,870,000 Time Warner Cable 7.3% 2038	10,160	0.24	
\$8,920,000 Weyerhaeuser 7.375% 2032	10,875	0.26	

# M&G Dynamic Allocation Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at 31 March Holding	2017 €'000	2017 %	2016 %
<b>'BB' credit rated bonds</b>			
\$9,169,000 Anglo American Capital 4.875% 2025	8,702	0.20	
BRL190,222,000 Brazil (Republic of) 10% 2027	56,273	1.32	
\$11,750,000 Freeport McMoRan Copper & Gold 5.45% 2043	9,296	0.22	
IDR551,928,000,000 Indonesia (Republic of) 8.375% 2024	41,495	0.98	
€86,124,000 Portugal (Republic of) 4.75% 2019	93,898	2.21	
€185,265,000 Portugal (Republic of) 4.8% 2020	206,917	4.86	
<b>'B' credit rated bonds</b>			
\$12,614,000 Argentina (Republic of) 5.625% 2022	12,060	0.28	
\$37,843,000 Argentina (Republic of) 6.875% 2021	37,939	0.89	
\$19,474,000 Argentina (Republic of) 6.875% 2027	18,474	0.43	
\$35,768,000 Argentina (Republic of) 7.5% 2026	35,569	0.84	
\$9,980,000 Yum! Brands 6.875% 2037	9,613	0.23	
<b>Cash deposits</b>			
€212,326,507 BNP 0.46% 2017	212,327	4.99	
€69,946,483 HSBC 0.6% 2017	69,946	1.65	
€108,016,081 National Australia Bank 0.65% 2017	108,016	2.54	
€200,019,891 Rabobank 0.55% 2017	200,020	4.70	
€260,930,840 Standard Chartered Bank 0.57% 2017	260,931	6.13	
<b>Equity index futures</b>			
20,136 BIST 30 Apr 2017	127	0.00	
1,319 CAC 40 Euro Apr 2017	1,051	0.03	
544 DAX Index Jun 2017	3,434	0.08	
2,595 EURO STOXX 50 Index Jun 2017	1,629	0.04	
1,532 FTSE 100 Index Jun 2017	(309)	(0.01)	
1,271 FTSE MIB Index Jun 2017	4,447	0.11	
1,278 IBEX 35 Index Apr 2017	4,770	0.11	
5,458 KOSPI 200 Index Jun 2017	14,014	0.33	
3,940 MSCI Taiwan Index Apr 2017	(800)	(0.02)	
(950) S&P 500 Index Jun 2017	940	0.02	
1,199 TOPIX Index Jun 2017	(3,265)	(0.08)	
<b>Forward currency contracts</b>			
AUD(106,549,305) Sold for €76,965,303 (expires 23.05.17)	972	0.02	
INR2,694,462,182 Bought for \$39,814,735 (expires 23.05.17)	1,313	0.03	
¥10,095,277,704 Bought for €84,476,084 (expires 23.05.17)	14	0.00	
¥(16,371,217,355) Sold for €136,124,034 (expires 23.05.17)	(891)	(0.02)	
MXN749,119,964 Bought for €33,832,534 (expires 23.05.17)	3,180	0.07	
MXN(3,132,106,660) Sold for €147,429,687 (expires 23.05.17)	(7,322)	(0.17)	
RUB2,092,200,443 Bought for \$35,287,577 (expires 23.05.17)	1,235	0.03	
SGD(178,959,558) Sold for €119,024,680 (expires 23.05.17)	(675)	(0.01)	
KRW73,611,075,855 Bought for \$64,667,553 (expires 23.05.17)	1,116	0.03	
£97,235,875 Bought for €114,201,773 (expires 23.05.17)	(956)	(0.02)	
CHF(14,632,023) Sold for €13,770,940 (expires 23.05.17)	74	0.00	
TRY390,195,898 Bought for €99,261,231 (expires 23.05.17)	(563)	(0.01)	
TRY(61,454,302) Sold for €15,715,605 (expires 23.05.17)	171	0.00	
\$92,980,639 Bought for CNY622,219,928 (expires 21.04.17)	2,608	0.06	
\$90,341,353 Bought for CNY607,825,660 (expires 12.05.17)	2,198	0.05	

### Portfolio statement (continued)

as at 31 March Holding	2017 €'000	2017 %	2016 %
<b>Forward currency contracts (continued)</b>			
\$39,588,816 Bought for KRW45,341,070,839 (expires 23.05.17)	(915)	(0.02)	
\$79,686,818 Bought for PHP4,060,441,789 (expires 23.05.17)	(985)	(0.02)	
\$31,432,300 Bought for RUB1,844,133,054 (expires 23.05.17)	(781)	(0.02)	
\$163,572,309 Bought for TWD5,015,944,855 (expires 23.05.17)	(1,960)	(0.05)	
\$7,850,337 Bought for CNY53,617,804 (expires 29.09.17)	132	0.00	
\$8,644,259 Bought for CNY61,166,780 (expires 17.11.17)	(121)	0.00	
\$20,919,173 Bought for CNY151,392,052 (expires 22.12.17)	(710)	(0.02)	
\$31,521,532 Bought for CNY223,724,073 (expires 23.02.18)	(414)	(0.01)	
\$219,022,731 Bought for €205,569,261 (expires 23.05.17)	(953)	(0.02)	
\$(2,136,114,563) Sold for €2,012,677,063 (expires 23.05.17)	17,069	0.40	
<b>Interest rate futures</b>			
(5,738) 5 Year US Treasury Note Jun 2017	1,267	0.03	
(2,167) 10 Year US Treasury Note Jun 2017	579	0.01	
(536) Euro Bund Jun 2017	(328)	(0.01)	
(1,116) Euro Buxl Jun 2017	(3,144)	(0.07)	
(1,408) Euro OAT Jun 2017	(599)	(0.01)	
(1,166) UK Long Gilt Bond Jun 2017	(2,662)	(0.06)	
1,988 US Ultra Long Treasury Bond Jun 2017	(793)	(0.02)	
<b>Interest rate swaps</b>			
€3,156,500,000 Pay 0.467% Receive VAR Sep 2046	2,571	0.06	
€3,164,000,000 Pay 0.4975% Receive VAR Sep 2046	2,439	0.06	
€2,463,081,000 Pay 0.80875% Receive VAR Dec 2046	166	0.00	
¥1,850,000,000 Pay 0.9425% Receive VAR Feb 2047	(474)	(0.01)	
€23,000,000 Pay 1.0925% Receive VAR Jul 2046	2,156	0.05	
€55,500,000 Pay 1.289% Receive VAR Oct 2046	1,908	0.04	
€15,000,000 Pay 1.445% Receive VAR Mar 2047	(128)	0.00	
\$76,000,000 Pay 1.793% Receive VAR Jul 2046	12,321	0.29	
\$30,000,000 Pay 1.8% Receive VAR Jul 2046	4,809	0.11	
\$90,000,000 Pay 1.837% Receive VAR Jul 2046	14,120	0.33	
\$50,000,000 Pay 1.964% Receive VAR Oct 2046	6,407	0.15	
\$150,500,000 Pay 2.1325% Receive VAR Apr 2046	14,143	0.34	
\$12,262,000 Pay 2.697% Receive VAR Dec 2046	(162)	0.00	
<b>Portfolio of investments</b>			
	<b>3,935,995</b>	<b>92.54</b>	<b>92.80</b>
<b>Forward currency contracts for share class hedging</b>			
£797,611 Bought for €923,309 (expires 03.05.17)	182	0.00	0.00
£(6,646) Sold for €7,653 (expires 03.05.17)	0	0.00	
CHF1,428,122 Bought for €1,332,619 (expires 03.05.17)	4	0.00	
CHF(6,960) Sold for €6,494 (expires 03.05.17)	0	0.00	
\$25,771,947 Bought for €23,922,134 (expires 03.05.17)	177	0.00	
\$(462,581) Sold for €428,097 (expires 03.05.17)	(5)	0.00	
<b>Total portfolio (notes 2c &amp; 2d on pages 14 &amp; 15)</b>			
	<b>3,936,177</b>	<b>92.54</b>	<b>92.80</b>
<b>Net other assets / (liabilities)</b>			
	<b>317,417</b>	<b>7.46</b>	<b>7.20</b>
<b>Net assets attributable to shareholders</b>			
	<b>4,253,594</b>	<b>100.00</b>	<b>100.00</b>

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

# M&G Dynamic Allocation 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 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 Dynamic Allocation Fund, which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

### Fund level performance

#### Fund net asset value

as at 31 March	2017 €'000	2016 €'000	2015 €'000
Fund net asset value (NAV)	4,253,594	2,694,144	1,901,284

### Performance since launch

To give an indication of how the fund has performed since launch, the chart below shows total return of Euro 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 01.04.16 % p.a. <sup>[a]</sup>	Three years 03.04.14 % p.a.	Five years 03.04.12 % p.a.	Since launch % p.a.
<b>Euro <sup>[b]</sup></b>				
Class 'A'	+14.0	+7.3	+6.7	+6.5 <sup>[c]</sup>
Class 'B'	+13.6	+6.8	n/a	+6.5 <sup>[d]</sup>
Class 'C'	+14.9	+8.2	+7.6	+7.4 <sup>[c]</sup>
<b>Sterling <sup>[e]</sup></b>				
Class 'I-H'	+15.8	n/a	n/a	+11.9 <sup>[f]</sup>
<b>Swiss franc <sup>[b]</sup></b>				
Class 'A-H'	+13.5	n/a	n/a	+2.6 <sup>[g]</sup>
Class 'C-H'	+14.3	n/a	n/a	+3.4 <sup>[g]</sup>
<b>US dollar <sup>[b]</sup></b>				
Class 'A-H'	+15.5	n/a	n/a	+4.1 <sup>[g]</sup>
Class 'C-H'	+16.5	n/a	n/a	+4.9 <sup>[g]</sup>

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

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

<sup>[c]</sup> 3 December 2009, the launch date of the fund.

<sup>[d]</sup> 26 July 2013, the launch date of the share class.

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

<sup>[f]</sup> 14 December 2015, the launch date of the share class.

<sup>[g]</sup> 5 June 2015, the launch date of the share class.

# M&G Dynamic Allocation 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, comprised of 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. The table below shows direct portfolio transaction costs paid by the fund before and after that part of the dilution adjustment relating to direct portfolio transaction costs. To give an indication of the indirect portfolio dealing costs the table also shows the average portfolio dealing spread.

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

Portfolio transaction costs				
for the year to 31 March	2017	2016	2015	Average <sup>[a]</sup>
Direct portfolio transaction costs <sup>[b]</sup>	%	%	%	%
Broker commission	0.03	0.02	0.02	0.02
Taxes	0.01	0.01	0.02	0.01
Costs before dilution adjustments	0.04	0.03	0.04	0.03
Dilution adjustments <sup>[c]</sup>	(0.01)	(0.01)	(0.02)	(0.01)
Total direct portfolio transaction costs	0.03	0.02	0.02	0.02
<b>as at 31 March</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>Average <sup>[a]</sup></b>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.22	0.59	0.34	0.38

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

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

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

# M&G Dynamic Allocation 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' Income share performance

The share class was launched on 12 July 2013.

for the year to 31 March Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,389.98	1,501.19	1,279.85
Return before operating charges and after direct portfolio transaction costs	210.98	(78.33)	247.38
Operating charges	(26.92)	(27.22)	(26.04)
Return after operating charges	184.06	(105.55)	221.34
Distributions	(23.56)	(5.66)	0.00
Closing NAV	1,550.48	1,389.98	1,501.19
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.62	0.41	0.61
Dilution adjustments <sup>[b]</sup>	(0.14)	(0.21)	(0.29)
Total direct portfolio transaction costs	0.48	0.20	0.32
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.03	0.02	0.02
Operating charges	1.84	1.91	1.93
Return after operating charges	+13.24	-7.03	+17.29
Historic yield <sup>[c]</sup>	1.97	0.43	0.01
Effect on yield of charges offset against capital	1.90	0.00	0.00
<b>Other information</b>			
Closing NAV (€'000)	268,558	178,399	96,687
Closing NAV percentage of total fund NAV (%)	6.31	6.63	5.09
Number of shares	17,320,957	12,834,689	6,440,661
Highest share price (Euro ¢)	1,565.31	1,538.79	1,508.85
Lowest share price (Euro ¢)	1,365.01	1,268.18	1,276.98

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

The share class was launched on 3 December 2009.

for the year to 31 March Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,396.82	1,502.19	1,280.57
Return before operating charges and after direct portfolio transaction costs	213.24	(77.97)	247.89
Operating charges	(27.19)	(27.40)	(26.27)
Return after operating charges	186.05	(105.37)	221.62
Distributions	(2.93)	(5.87)	0.00
Retained distributions	2.93	5.87	0.00
Closing NAV	1,582.87	1,396.82	1,502.19
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.63	0.41	0.61
Dilution adjustments <sup>[b]</sup>	(0.14)	(0.21)	(0.29)
Total direct portfolio transaction costs	0.49	0.20	0.32
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.03	0.02	0.02
Operating charges	1.84	1.92	1.93
Return after operating charges	+13.32	-7.01	+17.31
Historic yield	0.19	0.40	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (€'000)	2,339,278	1,623,886	1,243,898
Closing NAV percentage of total fund NAV (%)	55.00	60.27	65.42
Number of shares	147,787,554	116,255,819	82,805,823
Highest share price (Euro ¢)	1,590.61	1,539.84	1,509.81
Lowest share price (Euro ¢)	1,371.83	1,272.28	1,277.53

#### Euro Class 'B' Accumulation share performance

The share class was launched on 26 July 2013.

for the year to 31 March Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,115.52	1,204.63	1,031.95
Return before operating charges and after direct portfolio transaction costs	171.05	(61.53)	198.92
Operating charges	(27.49)	(27.58)	(26.24)
Return after operating charges	143.56	(89.11)	172.68
Distributions	0.00	(0.42)	0.00
Retained distributions	0.00	0.42	0.00
Closing NAV	1,259.08	1,115.52	1,204.63
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.50	0.33	0.49
Dilution adjustments <sup>[b]</sup>	(0.11)	(0.16)	(0.23)
Total direct portfolio transaction costs	0.39	0.17	0.26
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.03	0.02	0.02
Operating charges	2.34	2.42	2.40
Return after operating charges	+12.87	-7.40	+16.73
Historic yield	0.00	0.04	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (€'000)	157,601	128,187	85,598
Closing NAV percentage of total fund NAV (%)	3.71	4.76	4.50
Number of shares	12,517,149	11,491,273	7,105,713
Highest share price (Euro ¢)	1,265.39	1,234.59	1,210.94
Lowest share price (Euro ¢)	1,094.29	1,016.59	1,029.35

# M&G Dynamic Allocation Fund

## Financial highlights

### Specific share class performance

#### Euro Class 'C' Income share performance

The share class was launched on 8 August 2014.

for the year to 31 March Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,452.16	1,568.33	1,359.22
Return before operating charges and after direct portfolio transaction costs	218.02	(84.92)	224.15
Operating charges	(12.95)	(13.60)	(8.47)
Return after operating charges	205.07	(98.52)	215.68
Distributions	(25.75)	(17.65)	(6.57)
Closing NAV	1,631.48	1,452.16	1,568.33
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.65	0.42	0.42
Dilution adjustments <sup>[b]</sup>	(0.14)	(0.21)	(0.20)
Total direct portfolio transaction costs	0.51	0.21	0.22
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.03	0.02	0.02
Operating charges	0.85	0.91	0.91
Return after operating charges	+14.12	-6.28	+15.87
Historic yield <sup>[c]</sup>	1.80	1.21	0.44
Effect on yield of charges offset against capital	0.90	0.00	0.00
<b>Other information</b>			
Closing NAV (€'000)	60,793	20,853	11,152
Closing NAV percentage of total fund NAV (%)	1.43	0.77	0.59
Number of shares	3,726,259	1,435,988	711,116
Highest share price (Euro ¢)	1,646.13	1,608.11	1,577.83
Lowest share price (Euro ¢)	1,428.92	1,326.10	1,337.38

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

The share class was launched on 3 December 2009.

for the year to 31 March Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,476.33	1,575.38	1,331.45
Return before operating charges and after direct portfolio transaction costs	223.33	(85.28)	257.28
Operating charges	(13.27)	(13.77)	(13.35)
Return after operating charges	210.06	(99.05)	243.93
Distributions	(15.62)	(17.80)	(8.72)
Retained distributions	15.62	17.80	8.72
Closing NAV	1,686.39	1,476.33	1,575.38
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.67	0.43	0.64
Dilution adjustments <sup>[b]</sup>	(0.15)	(0.22)	(0.30)
Total direct portfolio transaction costs	0.52	0.21	0.34
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.03	0.02	0.02
Operating charges	0.85	0.92	0.94
Return after operating charges	+14.23	-6.29	+18.32
Historic yield	0.94	1.20	0.44
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (€'000)	1,401,141	724,817	463,949
Closing NAV percentage of total fund NAV (%)	32.94	26.90	24.40
Number of shares	83,085,054	49,095,909	29,450,002
Highest share price (Euro ¢)	1,694.28	1,615.30	1,583.07
Lowest share price (Euro ¢)	1,452.73	1,343.18	1,328.69

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

The share class was launched on 14 December 2015.

for the year to 31 March Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	99.53	100.00	n/a
Return before operating charges and after direct portfolio transaction costs	15.83	0.61	n/a
Operating charges	(0.90)	(0.32)	n/a
Return after operating charges	14.93	0.29	n/a
Distributions	(1.78)	(0.76)	n/a
Closing NAV	112.68	99.53	n/a
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.05	0.01	n/a
Dilution adjustments <sup>[b]</sup>	(0.01)	(0.01)	n/a
Total direct portfolio transaction costs	0.04	0.00	n/a
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.03	0.02	n/a
Operating charges	0.85	0.91	n/a
Return after operating charges	+15.00	+0.29	n/a
Historic yield <sup>[c]</sup>	1.79	0.43	n/a
Effect on yield of charges offset against capital	0.92	0.00	n/a
<b>Other information</b>			
Closing NAV (€'000)	26	25	n/a
Closing NAV percentage of total fund NAV (%)	0.00	0.00	n/a
Number of shares	20,000	20,000	n/a
Highest share price (UK p)	113.68	101.46	n/a
Lowest share price (UK p)	97.90	90.61	n/a

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

The share class was launched on 14 December 2015.

for the year to 31 March Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	100.25	100.00	n/a
Return before operating charges and after direct portfolio transaction costs	16.03	0.57	n/a
Operating charges	(0.91)	(0.32)	n/a
Return after operating charges	15.12	0.25	n/a
Distributions	(1.06)	(0.76)	n/a
Retained distributions	1.06	0.76	n/a
Closing NAV	115.37	100.25	n/a
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.05	0.01	n/a
Dilution adjustments <sup>[b]</sup>	(0.01)	(0.01)	n/a
Total direct portfolio transaction costs	0.04	0.00	n/a
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.03	0.02	n/a
Operating charges	0.86	0.91	n/a
Return after operating charges	+15.08	+0.25	n/a
Historic yield	0.92	0.39	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
<b>Other information</b>			
Closing NAV (€'000)	904	25	n/a
Closing NAV percentage of total fund NAV (%)	0.02	0.00	n/a
Number of shares	671,602	20,010	n/a
Highest share price (UK p)	115.89	101.46	n/a
Lowest share price (UK p)	98.49	90.88	n/a

# M&G Dynamic Allocation Fund

## Financial highlights

### Specific share class performance

#### Swiss franc Class 'A-H' Accumulation share performance

The share class was launched on 5 June 2015.

for the year to 31 March Change in NAV per share	2017 Swiss ¢	2016 Swiss ¢	2015 Swiss ¢
Opening NAV	925.99	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	136.87	(58.05)	n/a
Operating charges	(18.58)	(15.96)	n/a
Return after operating charges	118.29	(74.01)	n/a
Distributions	(1.78)	(3.92)	n/a
Retained distributions	1.78	3.92	n/a
Closing NAV	1,044.28	925.99	n/a

Direct portfolio transaction costs <sup>[a]</sup>	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.42	0.24	n/a
Dilution adjustments <sup>[b]</sup>	(0.09)	(0.12)	n/a
Total direct portfolio transaction costs	0.33	0.12	n/a

Performance and charges	%	%	%
Direct portfolio transaction costs	0.03	0.02	n/a
Operating charges	1.90	1.91	n/a
Return after operating charges	+12.77	-7.40	n/a
Historic yield	0.17	0.41	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a

Other information			
Closing NAV (€'000)	771	53	n/a
Closing NAV percentage of total fund NAV (%)	0.02	0.00	n/a
Number of shares	78,918	6,218	n/a
Highest share price (Swiss ¢)	1,049.64	1,011.62	n/a
Lowest share price (Swiss ¢)	909.95	845.00	n/a

#### Swiss franc Class 'C-H' Accumulation share performance

The share class was launched on 5 June 2015.

for the year to 31 March Change in NAV per share	2017 Swiss ¢	2016 Swiss ¢	2015 Swiss ¢
Opening NAV	931.90	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	135.58	(60.49)	n/a
Operating charges	(8.56)	(7.61)	n/a
Return after operating charges	127.02	(68.10)	n/a
Distributions	(9.66)	(11.30)	n/a
Retained distributions	9.66	11.30	n/a
Closing NAV	1,058.92	931.90	n/a

Direct portfolio transaction costs <sup>[a]</sup>	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.42	0.24	n/a
Dilution adjustments <sup>[b]</sup>	(0.09)	(0.12)	n/a
Total direct portfolio transaction costs	0.33	0.12	n/a

Performance and charges	%	%	%
Direct portfolio transaction costs	0.03	0.02	n/a
Operating charges	0.87	0.91	n/a
Return after operating charges	+13.63	-6.81	n/a
Historic yield	0.92	1.21	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a

Other information			
Closing NAV (€'000)	577	255	n/a
Closing NAV percentage of total fund NAV (%)	0.01	0.01	n/a
Number of shares	58,206	29,950	n/a
Highest share price (Swiss ¢)	1,064.14	1,012.55	n/a
Lowest share price (Swiss ¢)	917.34	850.00	n/a

#### US dollar Class 'A-H' Income share performance

The share class was launched on 5 June 2015.

for the year to 31 March Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	930.43	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	156.16	(49.09)	n/a
Operating charges	(18.85)	(16.35)	n/a
Return after operating charges	137.31	(65.44)	n/a
Distributions	(15.85)	(4.13)	n/a
Closing NAV	1,051.89	930.43	n/a

Direct portfolio transaction costs <sup>[a]</sup>	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.43	0.25	n/a
Dilution adjustments <sup>[b]</sup>	(0.09)	(0.12)	n/a
Total direct portfolio transaction costs	0.34	0.13	n/a

Performance and charges	%	%	%
Direct portfolio transaction costs	0.03	0.02	n/a
Operating charges	1.88	1.92	n/a
Return after operating charges	+14.76	-6.54	n/a
Historic yield <sup>[c]</sup>	1.95	1.20	n/a
Effect on yield of charges offset against capital	1.92	0.00	n/a

Other information			
Closing NAV (€'000)	2,642	431	n/a
Closing NAV percentage of total fund NAV (%)	0.06	0.02	n/a
Number of shares	268,307	52,700	n/a
Highest share price (US ¢)	1,061.45	1,013.35	n/a
Lowest share price (US ¢)	915.83	847.00	n/a

# M&G Dynamic Allocation Fund

## Financial highlights

### Specific share class performance

#### US dollar Class 'A-H' Accumulation share performance

The share class was launched on 5 June 2015.

for the year to 31 March Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	933.61	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	157.06	(50.16)	n/a
Operating charges	(18.71)	(16.23)	n/a
Return after operating charges	138.35	(66.39)	n/a
Distributions	(1.75)	(4.13)	n/a
Retained distributions	1.75	4.13	n/a
Closing NAV	1,071.96	933.61	n/a
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>US ¢</b>	<b>US ¢</b>	<b>US ¢</b>
Costs before dilution adjustments	0.43	0.25	n/a
Dilution adjustments <sup>[b]</sup>	(0.09)	(0.12)	n/a
Total direct portfolio transaction costs	0.34	0.13	n/a
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.03	0.02	n/a
Operating charges	1.88	1.91	n/a
Return after operating charges	+14.82	-6.64	n/a
Historic yield	0.16	0.43	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
<b>Other information</b>			
Closing NAV (€'000)	13,611	2,759	n/a
Closing NAV percentage of total fund NAV (%)	0.32	0.10	n/a
Number of shares	1,356,119	336,175	n/a
Highest share price (US ¢)	1,076.67	1,013.44	n/a
Lowest share price (US ¢)	919.02	849.00	n/a

#### US dollar Class 'C-H' Income share performance

The share class was launched on 5 June 2015.

for the year to 31 March Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	928.57	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	154.02	(52.01)	n/a
Operating charges	(9.26)	(8.13)	n/a
Return after operating charges	144.76	(60.14)	n/a
Distributions	(16.48)	(11.29)	n/a
Closing NAV	1,056.85	928.57	n/a
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>US ¢</b>	<b>US ¢</b>	<b>US ¢</b>
Costs before dilution adjustments	0.43	0.23	n/a
Dilution adjustments <sup>[b]</sup>	(0.10)	(0.12)	n/a
Total direct portfolio transaction costs	0.33	0.11	n/a
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.03	0.02	n/a
Operating charges	0.96	0.95	n/a
Return after operating charges	+15.59	-6.01	n/a
Historic yield <sup>[c]</sup>	1.77	1.21	n/a
Effect on yield of charges offset against capital	0.92	0.00	n/a
<b>Other information</b>			
Closing NAV (€'000)	494	8	n/a
Closing NAV percentage of total fund NAV (%)	0.01	0.00	n/a
Number of shares	49,946	1,000	n/a
Highest share price (US ¢)	1,065.66	1,012.78	n/a
Lowest share price (US ¢)	913.97	846.00	n/a

#### US dollar Class 'C-H' Accumulation share performance

The share class was launched on 5 June 2015.

for the year to 31 March Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	938.93	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	156.43	(53.56)	n/a
Operating charges	(8.35)	(7.51)	n/a
Return after operating charges	148.08	(61.07)	n/a
Distributions	(9.81)	(11.31)	n/a
Retained distributions	9.81	11.31	n/a
Closing NAV	1,087.01	938.93	n/a
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>US ¢</b>	<b>US ¢</b>	<b>US ¢</b>
Costs before dilution adjustments	0.42	0.25	n/a
Dilution adjustments <sup>[b]</sup>	(0.09)	(0.13)	n/a
Total direct portfolio transaction costs	0.33	0.12	n/a
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.03	0.02	n/a
Operating charges	0.85	0.87	n/a
Return after operating charges	+15.77	-6.11	n/a
Historic yield	0.91	0.43	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
<b>Other information</b>			
Closing NAV (€'000)	7,198	14,446	n/a
Closing NAV percentage of total fund NAV (%)	0.17	0.54	n/a
Number of shares	707,210	1,750,365	n/a
Highest share price (US ¢)	1,091.63	1,014.42	n/a
Lowest share price (US ¢)	924.40	853.00	n/a

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

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

# M&G Dynamic Allocation Fund

## Financial statements and notes

### Financial statements

#### Statement of total return

for the year to 31 March	Note	2017		2016	
		€'000	€'000	€'000	€'000
<b>Income</b>					
Net capital gains / (losses)	5		382,843		(251,421)
Revenue	7	67,820		66,158	
Expenses	8	(49,630)		(45,353)	
Interest payable		(1,927)		(36)	
Net revenue / (expense) before taxation		16,263		20,769	
Taxation	9	(3,243)		(3,758)	
Net revenue / (expense) after taxation			13,020		17,011
<b>Total return before distributions</b>			<b>395,863</b>		<b>(234,410)</b>
Distributions	10		(16,489)		(17,011)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>379,374</b>		<b>(251,421)</b>

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

for the year to 31 March		2017		2016	
		€'000	€'000	€'000	€'000
<b>Opening net assets attributable to shareholders</b>					
Amounts received on issue of shares	1,511,311		2,694,144		1,901,284
Amounts paid on cancellation of shares	(346,720)				(550,032)
			1,164,591		1,024,544
Dilution adjustments			2,142		3,397
Change in net assets attributable to shareholders from investment activities (see above)			379,374		(251,421)
Retained distributions on Accumulation shares			13,343		16,340
<b>Closing net assets attributable to shareholders</b>			<b>4,253,594</b>		<b>2,694,144</b>

#### Balance sheet

as at 31 March	Note	2017	2016
		€'000	€'000
<b>Assets</b>			
<b>Fixed assets</b>			
Investments		3,966,092	2,528,922
<b>Current assets</b>			
Debtors	11	91,822	25,469
Cash and bank balances	12	283,973	629,779
<b>Total assets</b>		<b>4,341,887</b>	<b>3,184,170</b>
<b>Liabilities</b>			
Investment liabilities		(29,915)	(28,782)
<b>Creditors</b>			
Bank overdrafts		(2)	0
Distribution payable		(1,529)	(381)
Other creditors	13	(56,847)	(460,863)
<b>Total liabilities</b>		<b>(88,293)</b>	<b>(490,026)</b>
<b>Net assets attributable to shareholders</b>		<b>4,253,594</b>	<b>2,694,144</b>

### Notes to the financial statements

#### 1 Statement of compliance

The financial statements 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.

Amendments to FRS 102 'Fair value hierarchy disclosures' effective for annual periods beginning on or after 1 January 2017 have been early adopted. These amendments improve the consistency of fair value disclosures for financial instruments with those required by EU-adopted International Financial Reporting Standards (IFRS).

#### 2 Summary of significant accounting policies

##### a) Basis of preparation

The financial statements 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 Dynamic Allocation Fund is euros.

##### c) Exchange rates

Transactions in currencies other than the 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 March 2017 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 March 2017, 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.

# M&G Dynamic Allocation Fund

## Financial statements and notes

### Notes to the financial statements

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

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

- 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.
- Other interest income, such as 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).
- Ordinary equity dividends, including ordinary stock dividends are treated as revenue.

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

##### g) Tax

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

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

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

# M&G Dynamic Allocation Fund

## Financial statements and notes

### Notes to the financial statements

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

##### 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 the 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 distribution policy in note 4, 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.

##### 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, foreign exchange rates, equity and commodity prices or an issuer's creditworthiness.

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

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

##### Commitment approach

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

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

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

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

##### Value at Risk approach

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

Instrument and portfolio modelling techniques are based on market accepted practices and are subject to regular audit (back-testing). Market risk factors that are analysed include LIBOR / swap rates, government yield curves, equity prices, foreign exchange, 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 Dynamic Allocation Fund	VaR

##### 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.

# M&G Dynamic Allocation Fund

## Financial statements and notes

### Notes to the financial statements

#### 3 Risk management policies (continued)

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.

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.

#### 4 Distribution policy

With effect from 1 July 2016, the distribution policy has been amended so that in determining the amount available for distribution to Income shares, the annual management charge, administration charge and where relevant the share class hedging charge are now 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.

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

	2017 €'000	2016 €'000
<b>for the year to 31 March</b>		
Non-derivative securities	243,721	(221,387)
Derivative contracts	173,862	(18,268)
Currency gains / (losses)	(34,873)	(11,747)
Management charge rebates taken to capital	140	0
Administration charge rebates taken to capital	13	0
Transaction charges	(20)	(19)
<b>Net capital gains / (losses)</b>	<b>382,843</b>	<b>(251,421)</b>

#### 6 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 9.

	2017 €'000	% of transaction	2016 €'000	% of transaction
<b>for the year to 31 March</b>				
<b>a) Purchases</b>				
<b>Equities</b>				
Equities before transaction costs	460,262		646,756	
Commissions	272	0.06	143	0.02
Taxes	230	0.05	204	0.03
<b>Equities after transaction costs</b>	<b>460,764</b>		<b>647,103</b>	
<b>Debt securities <sup>[a]</sup></b>	<b>2,777,040</b>		<b>2,003,910</b>	
<b>Total purchases after transaction costs</b>	<b>3,237,804</b>		<b>2,651,013</b>	
<b>b) Sales</b>				
<b>Equities</b>				
Equities before transaction costs	300,346		366,146	
Commissions	(147)	0.05	(136)	0.04
Taxes	(20)	0.01	(6)	0.00
<b>Equities after transaction costs</b>	<b>300,179</b>		<b>366,004</b>	
<b>Debt securities <sup>[a]</sup></b>	<b>2,186,632</b>		<b>1,088,248</b>	
<b>Other asset classes</b>				
Corporate actions	37,940		16,622	
<b>Total sales after transaction costs</b>	<b>2,524,751</b>		<b>1,470,874</b>	
<b>c) Direct portfolio transaction costs</b>	<b>2017 €'000</b>	<b>% of average NAV</b>	<b>2016 €'000</b>	<b>% of average NAV</b>
<b>Commissions paid</b>				
Equities	419	0.01	279	0.01
Derivatives	639	0.02	283	0.01
<b>Total commissions paid</b>	<b>1,058</b>	<b>0.03</b>	<b>562</b>	<b>0.02</b>
<b>Taxes paid</b>				
Equities	250	0.01	210	0.01
<b>Total direct portfolio transaction costs <sup>[b]</sup></b>	<b>1,308</b>	<b>0.04</b>	<b>772</b>	<b>0.03</b>
<b>d) Indirect portfolio transaction costs</b>		<b>%</b>		<b>%</b>
Portfolio dealing spread <sup>[c]</sup>		0.22		0.59

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

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

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

# M&G Dynamic Allocation Fund

## Financial statements and notes

### Notes to the financial statements

#### 7 Revenue

	2017	2016
for the year to 31 March	€'000	€'000
Administration charge rebates	201	226
Bank interest	82	174
Deposit interest	(1,147)	(1,899)
Derivative revenue	(3,219)	(713)
Distributions from collective investment schemes: non-taxable	0	(3)
Distributions from collective investment schemes: taxable	2,993	2,709
Dividends from equity investments: non-taxable	7,964	4,251
Dividends from equity investments: taxable	671	191
Interest on debt securities	58,215	59,003
Management charge rebates	2,061	2,221
Share class hedging revenue	(1)	(2)
<b>Total revenue</b>	<b>67,820</b>	<b>66,158</b>

#### 8 Expenses

	2017	2016
for the year to 31 March	€'000	€'000
<b>Payable to the ACD or associate</b>		
Annual management charge <sup>[a]</sup>	44,379	40,837
Administration charge <sup>[b]</sup>	4,603	4,056
Share class hedging charge	3	1
	48,985	44,894
<b>Payable to the Depositary or associate</b>		
Depositary's charge (including VAT)	121	114
<b>Other expenses</b>		
Audit fee (including VAT)	14	10
Dividend charges	10	0
Legal fees	1	0
Safe custody charge	499	334
Tax fees (including VAT)	0	1
	524	345
<b>Total expenses</b>	<b>49,630</b>	<b>45,353</b>

<sup>[a]</sup> This charge excludes management charge rebates received from M&G Securities Limited, or an associate, in relation to the annual management charge of the underlying collective investment schemes for which M&G Securities Limited, or an associate, acts as Authorised Corporate Director.

These rebates have been recognised as either capital or revenue in notes 5 and 7 and amount to €140,000 (2016: €nil) and €2,061,000 (2016: €2,221,000).

<sup>[b]</sup> This charge excludes administration charge rebates received from M&G Securities Limited, or an associate, in relation to the administration charge of the underlying collective investment schemes for which M&G Securities Limited, or an associate, acts as Authorised Corporate Director.

These rebates have been recognised as either capital or revenue in notes 5 and 7 and amount to €13,000 (2016: €nil) and €201,000 (2016: €226,000).

#### 9 Taxation

	2017	2016
for the year to 31 March	€'000	€'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	1,690	2,762
Withholding tax	2,041	1,812
Current double taxation relief	(733)	(816)
Prior year adjustment	245	0
Deferred tax (note 9c)	0	0
<b>Total taxation</b>	<b>3,243</b>	<b>3,758</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue / (expense) before taxation	16,263	20,769
Corporation tax at 20%	3,253	4,154
Effects of:		
Tax on management and administration charge rebates taken to capital	30	0
Dividends from equity investments: non-taxable	(1,593)	(850)
Distributions from collective investment schemes: non-taxable	0	1
Current year expenses not utilised	0	(541)
Withholding tax	2,041	1,812
Total double taxation relief	(733)	(816)
Prior year adjustment	245	(2)
<b>Total tax charge (note 9a)</b>	<b>3,243</b>	<b>3,758</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 9a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The fund has not recognised a deferred tax asset in the current financial year (2016: same).

#### 10 Distributions

	2017		2016	
for the year to 31 March	Inc <sup>[a]</sup>	Acc <sup>[b]</sup>	Inc <sup>[a]</sup>	Acc <sup>[b]</sup>
Dividend distributions	€'000	€'000	€'000	€'000
First interim	247	3,048	23	1,039
Second interim	1,280	4,237	154	3,226
Third interim	1,214	3,228	409	6,554
Final	1,529	2,830	381	5,521
<b>Total net distributions</b>		<b>17,613</b>		<b>17,307</b>
Income deducted on cancellation of shares		367		737
Income received on issue of shares		(1,491)		(1,033)
<b>Distributions</b>		<b>16,489</b>		<b>17,011</b>
Net revenue / (expense) per statement of total return		13,020		17,011
Expenses offset against capital		3,189		0
Sharing of relief between classes		(74)		0
Tax on management and administration charge rebates taken to capital		30		0
Income deficit transferred to capital		324		0
<b>Distributions</b>		<b>16,489</b>		<b>17,011</b>

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

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

# M&G Dynamic Allocation Fund

## Financial statements and notes

### Notes to the financial statements

#### 11 Debtors

as at 31 March	2017 €'000	2016 €'000
Administration charge rebates due	14	11
Amounts receivable on issues of shares	38,294	446
Currency deals outstanding	26,075	0
Debt security interest receivable	25,904	24,413
Dividends receivable	885	0
Management charge rebates due	149	107
Tax recoverable	423	492
Withholding tax recoverable	78	0
<b>Total debtors</b>	<b>91,822</b>	<b>25,469</b>

#### 12 Cash and bank balances

as at 31 March	2017 €'000	2016 €'000
Amounts held at futures clearing houses and brokers	129,862	98,702
Cash held as bank balances	154,111	531,077
<b>Total cash and bank balances</b>	<b>283,973</b>	<b>629,779</b>

#### 13 Other creditors

as at 31 March	2017 €'000	2016 €'000
ACD's annual management charge payable	2,920	1,882
Administration charge payable	308	189
Amounts payable on cancellation of shares	18	5,514
Corporation tax payable	587	1,946
Currency deals outstanding	26,044	0
Derivative expense payable	968	473
Expenses payable	161	115
Purchases awaiting settlement	25,841	450,744
<b>Total other creditors</b>	<b>56,847</b>	<b>460,863</b>

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

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2016: same).

#### 15 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 16.

Share class	Opening 01.04.16	Movements		Closing 31.03.17
		Issued	Cancelled	
<b>Euro</b>				
Class 'A' Income (Net)	12,834,689	5,368,851	(882,583)	17,320,957
Class 'A' Accumulation (Net)	116,255,819	39,257,085	(7,725,350)	147,787,554
Class 'B' Accumulation (Net)	11,491,273	2,977,822	(1,951,946)	12,517,149
Class 'C' Income (Net)	1,435,988	4,572,845	(2,282,574)	3,726,259
Class 'C' Accumulation (Net)	49,095,909	44,108,029	(10,118,884)	83,085,054
<b>Sterling</b>				
Class 'I-H' Income (Net)	20,000	0	0	20,000
Class 'I-H' Accumulation (Net)	20,010	679,023	(27,431)	671,602
<b>Swiss franc</b>				
Class 'A-H' Accumulation (Net)	6,218	84,826	(12,126)	78,918
Class 'C-H' Accumulation (Net)	29,950	28,997	(741)	58,206
<b>US dollar</b>				
Class 'A-H' Income (Net)	52,700	227,799	(12,192)	268,307
Class 'A-H' Accumulation (Net)	336,175	1,258,865	(238,921)	1,356,119
Class 'C-H' Income (Net)	1,000	48,946	0	49,946
Class 'C-H' Accumulation (Net)	1,750,365	175,723	(1,218,878)	707,210

#### 16 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 %
<b>Euro</b>				
Class 'A'	4.00	n/a	1.75	n/a
Class 'B'	1.25	n/a	2.25	n/a
Class 'C'	1.25	n/a	0.75	n/a
<b>Sterling</b>				
Class 'I-H'	1.25 <sup>[a]</sup>	n/a	0.75	<sup>[b]</sup>
<b>Swiss franc</b>				
Class 'A-H'	4.00	n/a	1.75	<sup>[b]</sup>
Class 'C-H'	1.25	n/a	0.75	<sup>[b]</sup>
<b>US dollar</b>				
Class 'A-H'	4.00	n/a	1.75	<sup>[b]</sup>
Class 'C-H'	1.25	n/a	0.75	<sup>[b]</sup>

<sup>[a]</sup> With effect from 16 December 2016, the entry charge has been discounted to zero on all new investments into sterling share classes.

<sup>[b]</sup> This charge may vary between 0.01% and 0.055%.

#### 17 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 10. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 11 and 13 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 8. 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 13.

Amounts paid to M&G Securities Limited in respect of rebate arrangements for the ACD's annual management charge and administration charge are disclosed in notes 5 and 7. Amounts due at the year end from the ACD, and / or associate, in respect of these rebates are disclosed in note 11.

During the year, there were transactions in shares in related parties of National Westminster Bank Plc with a total value of €166,752,000 (2016: €158,904,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of €273,202,000 (2016: €252,208,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 0.94% (2016: 0.00%) of the fund's shares.

#### 18 Events after the balance sheet date

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

# M&G Dynamic Allocation Fund

## Financial statements and notes

### Notes to the financial statements

#### 19 Portfolio 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: Quoted prices for identical instruments in active markets

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 techniques using observable market data

This includes publicly traded corporate bonds and instruments which have been valued using models with observable market data inputs such as quoted prices for similar instruments, interest rates, yield curves or credit spreads. Over-the-counter instruments have also been included in the category.

##### Level 3: Valuation techniques using non-observable market data

This refers to instruments which have been valued using models with non-observable market data inputs. This includes private equity, unlisted closed-ended funds and investment analyst recommended prices where the market price is deemed to not be a true representation of fair value. However, no such financial instruments were held.

as at 31 March	Assets	Liabilities	Assets	Liabilities
Valuation technique	2017	2017	2016	2016
	€'000	€'000	€'000	€'000
Level 1	1,527,786	(11,900)	851,094	(15,100)
Level 2	2,438,306	(18,015)	1,677,828	(13,682)
Level 3	0	0	0	0
	<b>3,966,092</b>	<b>(29,915)</b>	<b>2,528,922</b>	<b>(28,782)</b>

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 15 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

#### 20 Market risk

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 March 2017 was 14% (2016: 14%).

The lowest, highest and average VaR calculated during the financial years ended 31 March 2017 and 31 March 2016 are disclosed in the table below. The lowest, highest and average utilisation of VaR is with reference to the limit above.

for the year to 31 March	2017 %	2016 %
Lowest	4.41	3.66
Highest	7.50	7.03
Average	5.68	4.90

#### 21 Credit risk

as at 31 March	2017 €'000	2016 €'000
Investment grade securities	1,601,347	1,221,410
Below investment grade securities	530,236	266,533
Other investments	1,804,594	1,012,197
<b>Total</b>	<b>3,936,177</b>	<b>2,500,140</b>

#### 22 Counterparty exposure

as at 31 March 2017	Interest rate swaps €'000	Forward currency contracts €'000	Futures €'000	Collateral held as cash €'000	Net exposure €'000
Bank of America Merrill Lynch	0	0	20,358	(129,522)	(109,164)
BNP Paribas	0	74	0	0	74
Citigroup	6,245	2,032	0	0	8,277
HSBC	(602)	245	0	0	(357)
J.P.Morgan	0	0	0	(340)	(340)
National Australia Bank	0	4,916	0	0	4,916
State Street Bank	0	1,670	0	0	1,670
UBS	54,633	4,081	0	0	58,714
<b>Total</b>	<b>60,276</b>	<b>13,018</b>	<b>20,358</b>	<b>(129,862)</b>	<b>(36,210)</b>

as at 31 March 2016	Interest rate swaps €'000	Forward currency contracts €'000	Futures €'000	Collateral held as cash €'000	Net exposure €'000
Bank of America Merrill Lynch	0	0	(2,266)	(98,702)	(100,968)
State Street Bank	0	21,320	0	0	21,320
<b>Total</b>	<b>0</b>	<b>21,320</b>	<b>(2,266)</b>	<b>(98,702)</b>	<b>(79,648)</b>

Net exposure represents the mark-to-market value of derivative contracts less any cash collateral held. Positive exposure represents the fund's exposure to that counterparty. Negative amounts are not an exposure to the fund.

# M&G Dynamic Allocation Fund

## Financial statements and notes

### Notes to the financial statements

#### 23 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 March 2017 and 31 March 2016 are disclosed in the table below.

for the year to 31 March	2017 €'000	2017 %	2016 €'000	2016 %
Lowest	6,081,687	219	3,054,787	151
Highest	11,808,345	316	8,222,462	305
Average	7,601,253	246	5,364,419	197

#### 24 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.

#### 25 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	01.04.16	30.06.16	01.07.16	31.08.16
Second interim	01.07.16	30.09.16	03.10.16	30.11.16
Third interim	01.10.16	31.12.16	03.01.17	28.02.17
Final	01.01.17	31.03.17	03.04.17	31.05.17

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 net revenue 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 net revenue and equalisation. Equalisation is the average amount of revenue 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 net revenue and equalisation components.

#### Euro Class 'A' Income shares

Ordinary distributions for the year to 31 March	Group 2		Group 1 & 2 Distribution	
	Net revenue 2017	Equalisation 2017	2017	2016
	€	€	€	€
First interim	0.0000	0.8548	0.8548	0.0000
Second interim	3.8299	4.3446	8.1745	0.7922
Third interim	2.2606	5.0293	7.2899	2.5015
Final	2.9309	4.3080	7.2389	2.3647

#### Euro Class 'A' Accumulation shares

Ordinary distributions for the year to 31 March	Group 2		Group 1 & 2 Distribution	
	Net revenue 2017	Equalisation 2017	2017	2016
	€	€	€	€
First interim	0.0000	0.8578	0.8578	0.0000
Second interim	0.5655	0.9680	1.5335	0.8391
Third interim	0.0762	0.4656	0.5418	2.6630
Final	0.0000	0.0000	0.0000	2.3644

#### Euro Class 'B' Accumulation shares

Ordinary distributions for the year to 31 March	Group 2		Group 1 & 2 Distribution	
	Net revenue 2017	Equalisation 2017	2017	2016
	€	€	€	€
First interim	0.0000	0.0000	0.0000	0.0000
Second interim	0.0000	0.0000	0.0000	0.0000
Third interim	0.0000	0.0000	0.0000	0.0000
Final	0.0000	0.0000	0.0000	0.4182

#### Euro Class 'C' Income shares

Ordinary distributions for the year to 31 March	Group 2		Group 1 & 2 Distribution	
	Net revenue 2017	Equalisation 2017	2017	2016
	€	€	€	€
First interim	0.7796	3.0700	3.8496	2.5015
Second interim	2.8519	4.9679	7.8198	4.5616
Third interim	3.0452	4.0551	7.1003	5.2234
Final	2.3926	4.5893	6.9819	5.3587

#### Euro Class 'C' Accumulation shares

Ordinary distributions for the year to 31 March	Group 2		Group 1 & 2 Distribution	
	Net revenue 2017	Equalisation 2017	2017	2016
	€	€	€	€
First interim	1.1696	2.7314	3.9010	2.5241
Second interim	2.0236	2.5901	4.6137	4.5730
Third interim	1.6394	2.0817	3.7211	5.2754
Final	1.3324	2.0528	3.3852	5.4267

#### Sterling Class 'I-H' Income shares

Ordinary distributions for the year to 31 March	Group 2		Group 1 & 2 Distribution	
	Net revenue 2017	Equalisation 2017	2017	2016
	p	p	p	p
First interim	0.2632	0.0000	0.2632	n/a
Second interim	0.5494	0.0000	0.5494	n/a
Third interim	0.4794	0.0000	0.4794	0.3762
Final	0.4923	0.0000	0.4923	0.3791

# M&G Dynamic Allocation Fund

## Financial statements and notes

### Notes to the financial statements

#### 25 Dividend distribution tables (continued)

##### Sterling Class 'I-H' Accumulation shares

Ordinary distributions for the year to 31 March	Group 2		Group 1 & 2 Distribution	
	Net revenue 2017	Equalisation 2017	2017	2016
	p	p	p	p
First interim	0.2611	0.0057	0.2668	n/a
Second interim	0.3201	0.0000	0.3201	n/a
Third interim	0.0797	0.1637	0.2434	0.3761
Final	0.2322	0.0000	0.2322	0.3809

##### Swiss franc Class 'A-H' Accumulation shares

Ordinary distributions for the year to 31 March	Group 2		Group 1 & 2 Distribution	
	Net revenue 2017	Equalisation 2017	2017	2016
	¢	¢	¢	¢
First interim	0.5206	0.0000	0.5206	0.0350
Second interim	0.9713	0.0000	0.9713	0.8679
Third interim	0.0000	0.2869	0.2869	1.4546
Final	0.0000	0.0000	0.0000	1.5650

##### Swiss franc Class 'C-H' Accumulation shares

Ordinary distributions for the year to 31 March	Group 2		Group 1 & 2 Distribution	
	Net revenue 2017	Equalisation 2017	2017	2016
	¢	¢	¢	¢
First interim	0.5002	1.9227	2.4229	1.6340
Second interim	1.0896	1.7730	2.8626	2.8880
Third interim	0.7355	1.5393	2.2748	3.3893
Final	0.3225	1.7734	2.0959	3.3932

##### US dollar Class 'A-H' Income shares

Ordinary distributions for the year to 31 March	Group 2		Group 1 & 2 Distribution	
	Net revenue 2017	Equalisation 2017	2017	2016
	¢	¢	¢	¢
First interim	0.0588	0.4528	0.5116	0.0230
Second interim	0.6932	4.8020	5.4952	1.0352
Third interim	1.1671	3.6658	4.8329	1.4303
Final	2.4263	2.5826	5.0089	1.6427

##### US dollar Class 'A-H' Accumulation shares

Ordinary distributions for the year to 31 March	Group 2		Group 1 & 2 Distribution	
	Net revenue 2017	Equalisation 2017	2017	2016
	¢	¢	¢	¢
First interim	0.0000	0.5224	0.5224	0.0230
Second interim	0.2208	0.7642	0.9850	1.0352
Third interim	0.0000	0.2459	0.2459	1.4303
Final	0.0000	0.0000	0.0000	1.6396

##### US dollar Class 'C-H' Income shares

Ordinary distributions for the year to 31 March	Group 2		Group 1 & 2 Distribution	
	Net revenue 2017	Equalisation 2017	2017	2016
	¢	¢	¢	¢
First interim	2.3733	0.0000	2.3733	1.6390
Second interim	5.0634	0.0000	5.0634	2.9390
Third interim	4.4684	0.0000	4.4684	3.2262
Final	0.7111	3.8646	4.5757	3.4879

##### US dollar Class 'C-H' Accumulation shares

Ordinary distributions for the year to 31 March	Group 2		Group 1 & 2 Distribution	
	Net revenue 2017	Equalisation 2017	2017	2016
	¢	¢	¢	¢
First interim	0.4743	1.9771	2.4514	1.6390
Second interim	1.2973	1.6365	2.9338	2.9390
Third interim	0.7930	1.4591	2.2521	3.2262
Final	0.5542	1.6181	2.1723	3.5021

# M&G Dynamic Allocation Fund

## Financial statements and notes

### 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.

P JELFS

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} Directors

18 May 2017

# M&G Dynamic Allocation Fund

## Depository's Responsibilities and Report

### Statement of the Depository's Responsibilities and Report of the Depository to the Shareholders of M&G Dynamic Allocation Fund ('the Company') for the period ended 31 March 2017

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 (this requirement on the Depository applied from 18 March 2016) 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  
18 May 2017

National Westminster Bank Plc  
Trustee and Depository Services

# M&G Dynamic Allocation Fund

## Independent Auditor's Report

### Independent Auditor's Report to the shareholders of M&G Dynamic Allocation Fund

We have audited the financial statements of the M&G Dynamic Allocation Fund ('the Company') for the year ended 31 March 2017 which comprise the Statement of Total Return, Statement of Change in Net Assets attributable to shareholders, Balance Sheet, and the related notes 1 to 25. 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 FRS102 'The Financial Reporting Standard applicable to the UK and the Republic of Ireland'.

This report is made solely to the Company's members, 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 members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Authorised Corporate Director and Auditor

As explained more fully in the Authorised Corporate Director's responsibilities statement set out on page 2, the Authorised Corporate Director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Authorised Corporate Director; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual investment report and accounts to identify material inconsistencies with the audited financial statements and to identify

any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the financial position of the Company as at 31 March 2017 and of the net revenue and the net capital gains on the scheme property of the Company for the year then ended; and
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

### Opinion 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 Authorised Corporate Director's report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- 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; and
- we have received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Edinburgh  
18 May 2017

Ernst & Young LLP  
Statutory Auditor

The financial statements are published at [www.mandg.com/GDAF-Annual](http://www.mandg.com/GDAF-Annual), which is a website maintained by M&G Securities Limited and M&G Financial Services Limited (M&G). The maintenance and integrity of the M&G website is the responsibility of the directors; 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.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

# M&G Dynamic Allocation Fund

## Other regulatory disclosures

### Remuneration

In line with the requirements of the Undertakings for Collective Investment in Transferable Securities (UCITS) V, the 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 it manages. Further details of the remuneration policy applicable at an M&G Limited level can be found here: <http://www.mandg.com/en/corporate/about-mg/our-people/>.

Implementation of the UCITS Remuneration Code remains ongoing and will apply in full for the first time for M&G's 2017 performance year. Quantitative remuneration disclosures will be made following completion of the 2017 performance year (the relevant data/information to make these disclosures will only be available at this time).

### Swiss investor information

For funds registered in Switzerland we are required by FINMA to disclose the Total Expense Ratio (TER).

For this fund the TERs are the same as the operating charges disclosed in the fund's financial highlights section.

# 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.

# Glossary

**Distribution yield:** Expresses the amount that is expected to be distributed by the fund over the next 12 months as a percentage of the share price as at a certain date. It is based on the expected gross income less the ongoing charges.

**Diversification:** The practice of investing in a variety of assets. This is a risk management technique where, in a well-diversified portfolio, any loss from an individual holding should be offset by gains in other holdings, thereby lessening the impact on the overall portfolio.

**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.

# Glossary

**Investment Association (IA):** The UK trade body that represents fund managers. It works with investment managers, liaising with government on matters of taxation and regulation, and also aims to help investors understand the industry and the investment options available to them.

**Issuer:** An entity that sells securities, such as fixed income securities and company shares.

**Investment grade bonds:** Fixed income securities issued by a company with a medium or high credit rating from a recognised credit rating agency. They are considered to be at lower risk from default than those issued by companies with lower credit ratings. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**Issuer:** An entity that sells securities, such as fixed income securities and company shares.

**Leverage:** When referring to a company, leverage is the level of a company's debt in relation to its assets. A company with significantly more debt than capital is considered to be leveraged. It can also refer to a fund that borrows money or uses derivatives to magnify an investment position.

**Liquidity:** A company is considered highly liquid if it has plenty of cash at its disposal. A company's shares are considered highly liquid if they can be easily bought or sold since large amounts are regularly traded.

**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.

**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.

**Real yield:** The return of an investment, adjusted for changes in prices in an economy.

**Retail Prices Index (RPI):** A UK inflation index that measures the rate of change in prices for a basket of goods and services in the UK, including mortgage payments and council tax.

**Risk:** The chance that an investment's return will be different to what is expected. Risk includes the possibility of losing some or all of the original investment.

**Risk management:** The term used to describe the activities the fund manager undertakes to limit the risk of a loss in a fund.

**Risk premium:** The difference between the return from a risk-free asset, such as a high-quality government bond or cash, and the return from an investment in any other asset. The risk premium can be considered the 'price' or 'pay-off' for taking on increased risk. A higher risk premium implies higher risk.

**Risk-free asset:** An asset that notionally carries no risk of non-payment by the borrower such as a high-quality fixed income security issued by a government or cash.

**Risk/reward ratio:** A ratio comparing the expected returns of an investment with the amount of risk undertaken.

**Safe-haven assets:** Refers to assets that investors perceive to be relatively safe from suffering a loss in times of market turmoil.

# Glossary

**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.

M&G Securities Limited is authorised and regulated by the Financial Conduct Authority and provides investment products. The Company's registered office is Laurence Pountney Hill, London EC4R 0HH. Registered in England number 90776.

