M&G Corporate Bond Fund

a sub-fund of M&G Investment Funds (3)

Interim Short Report December 2020
For the six months ended 31 December 2020

Fund information

The Authorised Corporate Director (ACD) of M&G Investment Funds (3) presents its Interim Short Report for M&G Corporate Bond Fund which contains a review of the fund's investment activities and investment performance during the period. The ACD's Interim Long Report and unaudited Financial Statements for M&G Investment Funds (3), incorporating all the sub-funds and a Glossary of terms is available free of charge either from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations on 0800 390 390.

An annual assessment report is available which shows the value provided to investors in each of M&G's UK-based funds. The assessment report evaluates whether M&G's charges are justified in the context of the overall service delivered to its investors. The report can be found at https://www.mandg.co.uk/valueassessment

ACD

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

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

Important information

On 15 December 2020, the following share classes were closed within the M&G Corporate Bond Fund: Euro Class 'A' Accumulation and Euro Class 'C' Accumulation.

Investors will benefit from a reduction in the annual charge starting from 15 February 2021. The reduction in annual charge varies across the M&G funds and the detail was communicated in the shareholder letter dated 15 January 2021.

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

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

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

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

Investment objective

The fund aims to provide a higher total return (the combination of capital growth and income), net of the ongoing charge figure, than the average return of the IA Sterling Corporate Bond Sector over any five-year period.

Investment policy

At least 70% of the fund is invested, directly or indirectly through derivatives, in investment grade corporate debt securities. These securities can be issued by companies from anywhere in the world, including emerging markets. These securities are denominated in sterling or hedged back to sterling.

Other investments may include:

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

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

Investment approach

The fund is diversified across a range of investment grade debt securities from a variety of sectors and geographies. The fund's investment approach is based on the principle that returns from

Fund information

corporate bond markets are driven by a combination of macroeconomic, asset class, sector, geographic and stock-level factors. As different factors dominate returns at different stages of the economic cycle, the fund manager applies a flexible investment approach, changing the blend of duration and credit exposure in the portfolio to weight them appropriately.

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

Benchmark

Benchmark: IA Sterling Corporate Bond Sector.

The benchmark is a target which the fund seeks to outperform. The sector has been chosen as the fund's benchmark as the fund is a constituent of the sector. The benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction.

The fund is actively managed.

The fund manager has complete freedom in choosing which investments to buy, hold and sell in the fund.

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

Risk profile

The fund invests mainly in sterling-denominated fixed income securities, or bonds, issued by UK companies. It is primarily subject to the price volatility of the UK bond market as well as the performance of individual issuers. It is also influenced by developments in the broader global bond market. In addition, the fund is subject to fluctuations in currency exchange rates.

The fund's focus is on high-quality corporate bonds, securities that are normally traded with relative ease. Up to 20% of the fund may be invested in other fixed income investments, such as government bonds, which are typically highly liquid assets, or high yield corporate bonds, which are higher risk assets that could potentially experience a degree of illiquidity in times of market distress.

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

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

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

Low risk — High risk

Typically lower rewards — Typically higher rewards

1	2	3	**4**	5	6	7

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 changed during this period. From 1 July 2020 to 16 July 2020 the risk number was 3.

Investment review

As at 4 January 2021, for the six months ended 31 December 2020

Performance against objective

Between 1 July 2020 (the start of the review period) and 4 January 2021, the M&G Corporate Bond Fund delivered a positive total return (the combination of income and growth of capital) across both its sterling and euro share classes.

Fund performance was either in line with or behind the average return from the fund's benchmark, the IA Sterling Corporate Bond Sector, which was 5.5% in sterling and 4.5% in euro terms.

Over five years, the fund generated a positive total return across all its share classes, but lagged the benchmark, where the average return was 5.8% pa in sterling. Therefore the fund did not meet the objective of providing a higher total return, net of the ongoing charge figure, than the average return of the IA Sterling Corporate Bond Sector, over any five-year period.

For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Financial highlights' section of Interim Long Report and unaudited Financial Statements for M&G Investment Funds (3).

The returns for the fund's euro-denominated share classes are shown to 15 December 2020, the date when these share classes were closed.

To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period for Sterling Class 'A' (Accumulation) shares. Calculated on a price to price basis with income reinvested.

Long-term performance

Share class	Six months 01.07.20 %[a]	Three years 02.01.18 % pa	Five years 04.01.16 % pa	Since launch % pa
Sterling[b]				
Class 'A'	+5.2	+4.4	+5.1	+6.1[c]

a Absolute basis.

b Price to price with income reinvested.

c 15 April 1994. All performance data prior to 11 March 2002 (the launch date of the share class) has been calculated by reference to a conversion factor due to a change of the nominated share class.

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.

Performance review

Investor sentiment about the direction of a global economy, which had been deeply affected by worldwide pandemic-related constraints on activity, was much improved during the period under review. The running theme of central banks cutting interest rates, while also purchasing debt issued by companies in order to support the market, provided additional confidence to buyers and sellers of assets such as corporate bonds. Fiscal policy support from governments, including helping to pay wages and salaries of those most affected by lockdowns and social restrictions, was also a boost over the summer months. Overall, there was a sharp recovery in risky assets in the months that followed these moves by central banks and governments.

By the summer, lockdowns were gradually eased across Asia and Europe, although the Americas' experience of the pandemic seemed to worsen. A noisy build-up to the US presidential election combined with a second peak in the coronavirus infection rate to weaken investor appetite by the end of September, however.

There were two important drivers of investor sentiment during autumn and to the end of the period under review: news of COVID-19 vaccines being rolled out from December onwards, and the US presidential election reaching closure as Joe Biden defeated Donald Trump with room to spare. In general, risky assets responded to these key drivers with price gains.

Only safe-haven assets such as precious metals and government bonds issued by the UK and Germany experienced price declines. Overall, it was a positive period for corporate bonds – especially those issued by US companies. European and UK corporate bonds fared well as these markets received a boost from central banks buying their bonds (which increased their prices).

The biggest contribution to the fund's performance came from its holdings in corporate bonds issued by technology companies like

Investment review

Microsoft. Companies operating in sectors that can typically weather uncertain economic conditions, such as tobacco group, BAT (British American Tobacco), were also supportive of performance in the period.

Holdings of corporate bonds issued by shopping centres, and airports such as Gatwick and Heathrow, weighed against performance in the latter half of the period under review. Travel and shopping activities were severely hit by the lockdown from the end of March onwards.

One of the key drivers of a bond fund's performance is its ability to adjust the portfolio's sensitivity to changes in interest rates, known as 'duration'. Being shorter duration means that a fund is relatively less sensitive to changes in interest rates than longer duration funds. The fund has a shorter duration position compared to the iBoxx Sterling Corporate Index, a corporate bond index comprising liquid bonds developed by financial information provider Markit, and so suffered losses as the price of major government bonds rose (and yields fell). We saw a small reversal of this trend in August's market moves, as investors chose to buy riskier bonds than so-called safe haven government bonds.

During the period under review, portfolio duration stayed around its maximum short of 6.7 years, around -1.5 years underweight the iBoxx Sterling Corporate Index. In our view, interest rates have little room to move lower in the year ahead.

Investment activities

We were increasingly active in trades during the summer, taking advantage of what we considered to be some attractive prices for bonds issued in the aftermath of March's sharp correction, then consolidating through relative value trades and the secondary market. Notable trades included adding Oxford University (its sterling bond), and euro-denominated bonds issued by Exxon, Yorkshire Building Society, and Johnson & Johnson as we targeted what we viewed as some attractive prices. By the end of the period, we had removed some risk outright by selling some Heathrow bonds, which may come under pressure from further travel restrictions in 2021. We also sold some high-quality sterling bonds issued by Apple, Vodafone, and Microsoft.

While we continue to favour the investment opportunity provided by holding good quality corporate bonds, we are aware that valuations are rising all the time. In this regard, we have continued to trim credit risk and sold sectors facing tough challenges in the months ahead. By contrast, we are running greater risk in higher quality covered bonds – debt securities created from public sector loans or mortgage loans that are backed by a separate group of assets.

Outlook

As we look ahead to 2021, the world is going through a recession where we may see a sharp fall in output, followed, we hope, by a strong recovery towards previous levels. The question is how strong this economic bounce could be, and what this may mean for interest rates and corporate bonds in the future. In our view, the risk-reward for taking interest rate risk is skewed: there is limited upside on profiting from further falls in interest rates if they remain at super-low/near-zero levels. This has been demonstrated in the real world of bond investing this year.

In this regard, we believe there is a need to escape interest rates that are close to zero for micro and macro policy reasons. This will require central banks to work closely with governments. In such a scenario, fiscal and monetary policy will need to remain loose for some while, potentially aided by central banks printing money to provide the fuel to escape the near-zero interest rates. This type of policy generally leads to higher growth and inflation. This bodes well for the economy and for credit generally, but points to a rise in longer term bond yields.

Richard Woolnough & Ben Lord
Co-fund managers

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

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

Investment review

Classification of investments

The table below shows the percentage holding per sector.

as at	% of fund 31.12.20	30.06.20
Fixed Income		
Debt securities		
'AAA' credit rated bonds	17.44	6.77
'AA' credit rated bonds	15.02	10.34
'A' credit rated bonds	7.43	18.78
'BBB' credit rated bonds	49.66	49.88
'BB' credit rated bonds	4.04	3.20
'B' credit rated bonds	0.26	0.00
'CCC' credit rated bonds	0.10	0.00
‘D’ credit rated bonds	0.00	0.00
Bonds with no credit rating	0.02	6.14
Debt derivatives		
Credit default swaps	0.00	0.01
Interest rate futures	0.11	(0.10)
Currency		
Forward currency contracts	0.38	(0.19)
Cash Equivalents		
'AAA' rated money market funds[a]	4.77	3.22

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

Portfolio transactions

for the six months to 31 December	2020 £'000	2019 £'000
Total purchases	687,452	378,829
Total sales	749,989	616,107

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

Financial highlights

Fund performance

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

The following chart and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be different. For more information on the different share classes in this fund please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

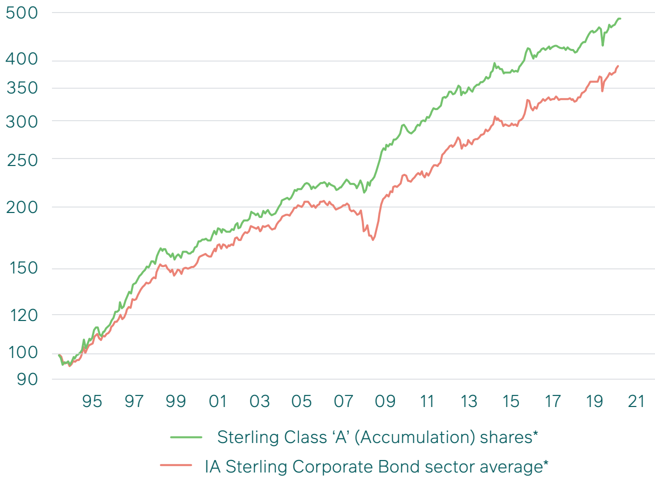
Fund level performance

Fund net asset value as at	31.12.20 £'000	30.06.20 £'000	30.06.19 £'000
Fund net asset value (NAV)	3,162,183	3,129,444	3,505,536

Performance since launch

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

April 1994 = 100, plotted monthly
Chart date 4 January 2021



Source: Morningstar, Inc. and M&G *Income reinvested

To give an indication of how the fund has performed during the period the table below shows the performance of Sterling Class 'A' (Accumulation) shares.

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.

Financial highlights

Sterling Class 'A' Accumulation share performance

The share class was launched on 15 April 1994.

Change in NAV per share	Six months to 31.12.20 UK p	Year to 30.06.20 UK p	Year to 30.06.19 UK p
Opening NAV	76.39	73.04	69.17
Return before operating charges	4.06	4.18	4.68
Operating charges	(0.43)	(0.83)	(0.81)
Return after operating charges	3.63	3.35	3.87
Distributions	(0.63)	(1.64)	(1.76)
Retained distributions	0.63	1.64	1.76
Closing NAV	80.02	76.39	73.04
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments[a]	0.00	0.00	0.00
Total direct transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs[b]	0.00	0.00	0.00
Operating charges[c]	1.09	1.10	1.16
Return after charges	+4.75	+4.59	+5.59
Distribution yield	1.47	2.05	2.39
Other information			
Closing NAV (£'000)	266,981	273,644	309,130
Closing NAV (%)	8.44	8.74	8.82
Number of shares	333,632,121	358,218,656	423,211,540
Highest share price (UK p)	80.04	77.15	73.11
Lowest share price (UK p)	76.24	67.11	68.16

a In respect of direct portfolio transaction costs.

b As a percentage of average net asset value.

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

Operating charges and portfolio transaction costs

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

Operating charges

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

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

These charges do not include portfolio transaction costs or any entry and exit charges (also known as initial and redemption charges). The charging structures of share classes may differ, and therefore the operating charges may differ.

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

Portfolio transaction costs

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

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

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

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

Operating charges and portfolio transaction costs

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

Portfolio transaction costs

as at Indirect portfolio transaction costs	31.12.20 %	30.06.20 %	30.06.19 %	Average[a] %
Average portfolio deadling spread	0.81	1.06	0.80	0.89

a Average of first three columns.

Contact

Customer relations*
0800 390 390

Write to us**
M&G Securities Limited
PO Box 9039
Chelmsford
CM99 2XG

Our website
www.mandg.co.uk

Email us with queries†
info@mandg.co.uk

* For security purposes and to improve the quality of our service, we may record and monitor telephone calls. Please have your M&G client reference to hand.

** Please remember to quote your name and M&G client reference and sign any written communication to M&G.

† Please note that information contained within an email cannot be guaranteed as secure. We advise that you do not include any sensitive information when corresponding with M&G in this way.

M&G Investments

60194_SR_310821