M&G Investment Funds (3)

Annual Long Report and audited Financial Statements
for the year ended 30 June 2020



M&G INVESTMENTS

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M&G Investment Funds (3)

Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Investment Funds (3) presents its Annual Long Report and audited Financial Statements for the year ended 30 June 2020.

The audited financial statements of M&G Investment Funds (3) and the investment report and audited financial statements and notes of each sub-fund are presented in their individual sections of this report as set out in the contents page.

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

Company information

M&G Investment Funds (3) is an umbrella Open-Ended Investment Company (OEIC) and contains seven sub-funds, hereinafter referred to as 'funds' in the rest of this report. Each fund is a UCITS (Undertakings for Collective Investment in Transferable Securities) scheme as defined in the Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Conduct Authority (FCA). This OEIC is an Investment Company with Variable Capital (ICVC) incorporated under the Open-Ended Investment Companies Regulations 2001. It is authorised and regulated by the FCA under the Financial Services and Markets Act 2000.

The Company was authorised on 8 August 2001 and was launched on 7 March 2002, following the conversion of a series of authorised unit trusts.

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

As at 30 June 2020 none of the funds held shares of the other funds within this OEIC.

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

Fund managers

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

M&G Corporate Bond Fund

Richard Woolnough & Ben Lord

M&G Dividend Fund

Michael Stiasny

M&G Emerging Markets Bond Fund

Claudia Calich

M&G European Corporate Bond Fund

Stefan Isaacs

M&G Global Government Bond Fund

Claudia Calich

M&G Recovery Fund

Tom Dobell

M&G Smaller Companies Fund

Garfield Kiff

ACD

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

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

Directors of the ACD

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

* Resigned 30 June 2020.

Investment manager

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

Registrar

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

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

Depositary

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

Independent auditor

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

M&G Investment Funds (3)

Authorised Corporate Director's Report

Important information

The M&G Fund of Investment Trusts commenced its termination on 14 June 2019 and is not available for investment. The sub-fund will be formally terminated 14 August 2020.

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

On 5 August 2019, M&G Corporate Bond Fund, M&G Emerging Markets Bond Fund and M&G Recovery Fund launched Sterling Class 'PP' (Income) shares.

The distribution frequency, investment objective and policy were changed for the M&G Dividend Fund on 29 November 2019.

The M&G European High Yield Bond Fund commenced its termination on 29 November 2019 and is not available for investment. The sub-fund will be formally terminated 14 August 2020.

On 23 March 2020 the investment objective and policy were changed for M&G Corporate Bond Fund, M&G Emerging Markets Bond Fund, M&G European Corporate Bond Fund and M&G Global Government Bond Fund.

The World Health Organisation declared the COVID-19 outbreak a pandemic on 11 March 2020. Global financial markets have been reacting to the outbreak. All markets have incurred increased volatility and uncertainty since the onset of the pandemic.

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

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

Investor information

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

Customer services and administration for UK clients:

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

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

Telephone: 0800 390 390 (UK only)

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

Customer services and administration for non-UK clients:

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

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

Telephone: +352 2605 9944
Email: csmandg@rbc.com

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

Austrian paying and information agent:

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

Belgian financial agent:

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

Danish representative agent:

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

French centralising agent:

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

German information agent:

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

M&G Investment Funds (3)

Authorised Corporate Director's Report

Investor information

Irish facilities agent:

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

Italian paying agents:

Allfunds Bank, S.A.,
Via Santa Margherita 7, 20121 Milano, Italy

Banca Monte dei Paschi di Siena S.p.A.,
Piazza Salimbeni 3, 53100 Siena, Italy

Banca Sella Holding S.p.A.,
Piazza Gaudenzio Sella 1, 13900 Biella, Italy

BNP PARIBAS Securities Services,
Piazza Lina Bo Bardi 3, 20124 Milano, Italy

CACEIS Bank Luxembourg,
Milan Branch, Piazza Cavour 2, 20121 Milano, Italy

RBC Investor Services Bank S.A., Milan Branch
Via Vittor Pisani 26, 20124 Milano, Italy

State Street Bank S.p.A.,
Via Ferrante Aporti 10, 20125 Milano, Italy

Société Générale Securities Services S.A.,
Via Benigno Crespi 19A - MAC 2, 20159 Milano, Italy

Luxembourg paying and information agent:

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

Portuguese distributor:

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

Spanish representative:

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

Swedish paying agent:

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

Swiss paying agent and representative:

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

Authorised Corporate Director's Responsibilities

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

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

Directors' statement

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

M&G Securities Limited
14 August 2020

M&G Investment Funds (3)

Depositary's Responsibilities and Report

Statement of the Depositary's Responsibilities and Report of the Depositary to the Shareholders of M&G Investment Funds (3) ('the Company') for the year ended 30 June 2020

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

The Depositary 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 Depositary must ensure that:

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

The Depositary 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 Depositary 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
14 August 2020

NatWest Trustee and
Depositary Services Limited

M&G Investment Funds (3)

Independent Auditor's Report

Independent Auditor's Report to the shareholders of M&G Investment Funds (3)

Opinion

We have audited the financial statements of M&G Investment Funds (3) ("the Company") for the year ended 30 June 2020 which comprise the Statement of Total Return and Statement of Change in Net Assets Attributable to Shareholders together with the Balance Sheet for each of the Company's funds, the accounting policies of the Company, the related notes for each fund and the Distribution Tables, including the summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Company comprising each of its funds as at 30 June 2020 and of the net revenue / (expenses) and the net capital gains / (losses) on the scheme property of the Company comprising each of its funds for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

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

In our opinion:

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

M&G Investment Funds (3)

Independent Auditor's Report

Independent Auditor's Report to the shareholders of M&G Investment Funds (3)

Matters on which we are required to report by exception

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

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

Responsibilities of the Authorised Corporate Director (ACD)

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Edinburgh
14 August 2020

Ernst & Young LLP
Statutory Auditor

M&G Investment Funds (3)

Financial statements and notes

The financial statements for M&G Investment Funds (3) comprise the individual financial statements for the fund and the notes below.

Notes to the financial statements

1 Statement of compliance

The financial statements of M&G Investment Funds (3) have been prepared in compliance with UK Financial Reporting Standard 102 (FRS 102) and in accordance with the Statement of Recommended Practice (SORP) for Authorised Funds issued by the Investment Association in May 2014 and amended in June 2017.

2 Summary of significant accounting policies

a) Basis of preparation

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

The financial statements of M&G Investment Funds (3) 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

Where the functional and presentational currency of a fund is not UK sterling this is disclosed in the 'Financial statements and notes' of that fund.

c) Exchange rates

Transactions in currencies other than each fund's functional currency are translated at the rate of exchange ruling on the date of the transaction and where applicable assets and liabilities are translated into the fund's functional currency at the rate of exchange ruling as at 12 noon on 30 June 2020 being the last business day of the accounting period.

d) Investments - recognition and valuation

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

At the end of the reporting period all investments have been measured at their fair value using the prices and the portfolio holdings determined at 12 noon on 30 June 2020, being the last valuation point of the accounting period, as this is not materially different from a valuation carried out at close of business on the balance sheet date.

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

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

e) Recognition of income and expenses

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

M&G Investment Funds (3)

Financial statements and notes

Notes to the financial statements

2 Summary of significant accounting policies (continued)

e) Recognition of income and expenses (continued)

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

f) Treatment of income and expenses

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

g) Tax

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

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

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

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

h) Allocation of returns to share classes

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

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

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

M&G Investment Funds (3)

Financial statements and notes

Notes to the financial statements

3 Risk management policies

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

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

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

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

Market risk

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

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

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

Commitment approach

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

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

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

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

Value at Risk approach

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

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

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

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

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

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

Fund	Global exposure approach
M&G Corporate Bond Fund	VaR
M&G Dividend Fund	Commitment
M&G Emerging Markets Bond Fund	VaR
M&G European Corporate Bond Fund	VaR
M&G Global Government Bond Fund	VaR
M&G Recovery Fund	Commitment
M&G Smaller Companies Fund	Commitment

Liquidity risk following market events of early 2020

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

M&G Investment Funds (3)

Financial statements and notes

Notes to the financial statements

3 Risk management policies **(continued)**

Liquidity risk

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

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

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

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

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

Liquidity in funds is independently assessed and challenged through the internal governance process at M&G. Fund liquidity is modelled and compared against potential liability scenarios such as severe redemption or collateral calls and any funds with liquidity issues are flagged to the internal committee. Funds flagged to the internal committee are escalated and remedial action agreed. None of the funds have been escalated for remedial action.

Credit risk

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

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

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

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

M&G Corporate Bond Fund

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Investment objective up to 22 March 2020

The fund aims to provide income and capital growth.

Investment objective from 23 March 2020

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

Investment policy up to 22 March 2020

At least 70% of the fund is invested in sterling-denominated corporate debt instruments. The fund's exposure to corporate debt may be gained through the use of derivatives. Derivatives may also be used for efficient portfolio management. Any currency exposures within the fund may be managed by currency hedges into sterling. The fund may also invest in collective investment schemes, other transferable securities and other debt instruments (including corporate debt and government and public securities denominated in any currency), cash, near cash, other money market securities, warrants and other derivative instruments.

Investment policy from 23 March 2020

At least 70% of the fund is invested, directly or indirectly 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 up to 22 March 2020

The fund's strategy is based on the principle that corporate bond market returns are driven by a combination of macroeconomic, asset, sector and stock-level factors. As different factors dominate returns at different stages of the economic cycle, the manager applies a dynamic investment approach, changing the blend of duration and credit exposure in the portfolio to weight them appropriately.

The fund manager has the investment freedom to take a high-conviction approach when selecting credits for the portfolio. Diversification – across individual issuers as well as industries – is an essential element of the fund's strategy to limit the potential for losses in the event of default.

The fund's investment style combines top-down and bottom-up analysis, and the fund manager is assisted in the selection of individual credits by a large team of independent sovereign and public credit analysts.

Investment approach from 23 March 2020

The fund is diversified across a range of investment grade debt securities from a variety of sectors and geographies. The fund's investment approach is based on the principle that returns from corporate bond markets are driven by a combination of macroeconomic, asset class, sector, geographic and stock-level factors. As different factors dominate returns at different stages of the economic cycle, the fund manager applies a flexible investment approach, changing the blend of duration and credit exposure in the portfolio to weight them appropriately.

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

Benchmark up to 22 March 2020

Benchmark: IA Sterling Corporate Bond sector.

The fund is actively managed. The benchmark is a comparator against which the fund's performance can be measured. The sector has been chosen as the fund's comparator benchmark as the fund is a constituent of the sector. The comparator benchmark does not constrain the fund's portfolio construction.

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

Benchmark from 23 March 2020

Benchmark: IA £ 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.

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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 not changed during this period.

Investment review

As at 1 July 2020, for the year ended 30 June 2020

Performance against objective

Between 1 July 2019 (the start of the review period) and 1 July 2020, 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 slightly behind the average return from the fund's benchmark, the IA £ Corporate Bond Sector, which was 5.4% and 4.3% in sterling and euro terms, respectively over the same period.

The fund's objective changed on 23 March 2020 to include reference to the IA £ Corporate Bond Sector. Over the review period and over five years, the fund did not meet its new objective, which is to provide a combination of capital growth and income, net of the ongoing charge figure, higher than the average return of the IA £ Corporate Bond Sector over any five-year period.* For the five-year period, all of the fund's share classes recorded positive total returns, although they were either in line with or slightly behind the average return of the fund's benchmark, which was 4.8% and 0.1% p.a. in sterling and euro terms, respectively.

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

Investment performance

The start of the period under review saw a series of interest rate decisions from central banks in response to mounting uncertainties about the path of global economic growth. Both the Federal Reserve (Fed) and the European Central Bank (ECB) cut interest rates, while the Bank of England held rates (at 0.75%) although it did include 'lower for longer' language, due to the rising risk of a 'no deal' Brexit. Volatility continued too, driven by the prospect of the latter and, more significantly, concerns about the US economy. The US manufacturing sector showed signs of increasing weakness despite continued accommodative policy from the Fed. Oil prices spiked on rising tensions in the Middle East, which added to investor unease at the beginning of the period.

The final few months of 2019 were generally positive for investors more inclined to take positions in developing market equities (which are shares of ownership in a company, which have the potential to participate in profits but also the risk of losing the entire investment in case of bankruptcy) and bonds, and also in lower-rated bonds issued by US companies. (A bond is a loan in the form of a security, usually issued by a government or company. It normally pays a fixed rate of interest, also known as a coupon, over a given time period at the end of which the initial amount borrowed is repaid.) During the last quarter of 2019, investor appetite received a boost from strong signs of a resolution to US-China trade wars, Brexit on the cusp of clearing the final hurdle following a resounding victory for the pro-Brexit Conservative Party in December's UK general election, and the Fed easing interest rates while announcing it would resume securities purchases to grow its balance sheet. The ECB resuming its own purchases of bonds from the markets (in November) was an additional source of support for European corporate bonds.

Throughout the final quarter of last year, as risk-taking appetite returned, government bond yields trended higher, while corporate bond prices, especially those of US companies' bonds, rose. The yield refers to the interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. Bond yields move inversely to bond prices. It was a more mixed period for European corporate bonds, although emerging market bonds fared better, particularly in a strong October and December.

December was partly dominated by the UK general election, and most opinion polls indicated a comfortable win for the ruling Conservative Party and its pro-Brexit stance.

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Investment performance (continued)

A promising start to 2020, with risky assets tracking strong growth and jobs data, had fallen away by the middle of January as investors retreated on the news of the coronavirus outbreak in China. By the end of January, traditional 'risk-off' favourites like government bonds, gold and the US dollar – the dollar index being one of the few assets in the currency space to deliver positive returns in the month – were seeing heavy inflows.

Expectations of a reduction in international travel and activity as a result of the virus outbreak resulted in oil prices suffering after they surged at the end of 2019 following increased tensions in the Middle East.

February began on a mildly positive note, as credit spreads – the difference between corporate bond yields and government bond yields – tightened. As the risk premium – the additional return investors require to hold assets considered to be riskier than traditionally safe ones like government bonds - attached to holding corporate bonds over government bonds was reduced, the market for bond issuance remained fairly active. But as the number of coronavirus cases increased across Europe, 'risk-off' sentiment returned to markets with a vengeance. With a significant widening in credit spreads, the last week of February was the worst for many markets since the global financial crisis.

Certain safe-haven assets rallied, such as the Japanese yen, US Treasuries, UK gilts and German bunds. Italian government bonds lost money, with Italy at the centre of the European outbreak.

March and April saw further confirmation that the coronavirus pandemic would lead to a severe stalling in economic activity worldwide, as governments imposed lockdowns to try to slow down the outbreak. Central banks cut interest rates and purchased debt issued by companies in order to support the market. Many governments resorted to paying the wages of employees no longer able to work because of the lockdown, and to extending loans to businesses to bridge cashflow.

There was a sharp recovery in risky assets in the months that followed and to the end of the period under review. Investors generally took their cue from the fiscal and monetary stimulus of governments and central banks in trying to kickstart economic activity, and the full range of assets rose as a result.

The biggest contribution to the fund's performance came from its holdings in corporate bonds issued by telecom and technology companies like Vodafone, AT&T, and Microsoft. Companies operating in sectors that can typically weather uncertain economic conditions, such as beermaker Anheuser-Busch and tobacco group, BAT (British American Tobacco), were also supportive of performance in the period. We also found holding bonds issued by UK insurers and UK banks was helpful during the latter stages of 2019, although less of a positive as the domestic economy began to weaken following the lockdown at the end of March 2020.

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 benchmark, and so suffered losses as the price of major government bonds rose (and yields fell) from around February onwards.

During the course of the reporting period, we moved the fund's duration slightly between 6.5 years and 6.7 years, keeping it roughly the same amount short (around 1.5 years short) of the iBoxx £ Corporate Index, a corporate bond index comprising liquid bonds developed by financial information provider Markit.

Investment activities

During the period under review, we focused on reducing some exposure to mainstream European financials, while broadly maintaining credit risk (corporate bonds are seen as having credit risk while government bonds are generally considered risk-free) by rotating into new issues in long-dated telecom bonds from Vodafone, and defensive favourites like BAT and Nationwide. We took profits on some of the better performing US dollar bonds from telecom companies and banks.

While we have rotated into some financials in the period, on valuations, we continued to believe the sector more generally is overvalued and we have sold bonds from HSBC, JP Morgan, and Société Générale.

In January and February, in what began as a strong period for new issues but fell away, portfolio activity focused on selling US dollar and sterling-denominated financials following good performance. We took profits on some strong-performing financial names, including HSBC, Wells Fargo, and Goldman Sachs.

In addition, we took profits on John Lewis and General Motors debt, and rotated into some residential mortgage-backed bonds (RMBS) on the recommendation of our credit experts here at M&G. We also trimmed Orange and Vodafone, using the money to buy Apple Inc's long-dated (2046) US dollar-denominated bonds.

We were increasingly active in trades during the final few months of the period under review, taking advantage of some attractive prices for bonds issued in the aftermath of March's sharp correction, then consolidating through relative value trades and the secondary market. Companies added include defensive favourites Philip Morris, Exxon, Tesco, Thames Water and Experian. In April, for the first time in a long time, we bought a few utility companies' bonds with maturity dates of around 5-7 years. Valuations within this sector were fairly compelling given the lockdown – and sudden halt in economic activity – that we all endured.

By the end of the period, we had removed some risk outright by selling some of the shorter dated sterling bonds that had performed well in April/May, like Severn Trent Water, Aviva, Land Security, Oxford University and Wellcome Trust. Strongly performing US dollar credits including IBM were also sold. We

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Investment activities (continued)

used the proceeds to shore up longer dated sterling exposures in firms like SSE Power and Bupa. The healthcare names add to the defensive part of our portfolio, given the uncertain situation we currently face.

Outlook

We continue to back the valuation signal offered by the debt issued by companies with straightforward business models and fairly steady cashflows – a relatively uncomplicated portfolio of plain vanilla bonds issued by companies at the higher end of the BBB rated universe. With the tilt to reflationary sectors – those we consider likely to benefit the most from potential economic expansion following governments' stimulus efforts – we hope the fund will be in a good position to benefit once we come out of the crisis, even if the UK ends up in a deeper recession than forecast.

We will also continue to use our strong in-house expertise in corporate bonds and consider names on a case-by-case basis, based on the long-held assumption that inefficient markets create attractive valuations over time and in all types of economic cycles.

Richard Woolnough & Ben Lord
Co-fund managers

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

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

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Portfolio statement

as at 30 June Holding		2020 £'000	2020 %	2019 %
	FIXED INCOME	2,973,639	95.02	94.42
	Debt securities	**2,976,282**	**95.11**	**94.72**
	'AAA' credit rated bonds	**211,842**	**6.77**	**7.13**
£742,267	Alba FRN 1% 24/04/2049	745	0.02	
£10,000,000	Barclays Bank 4.25% 12/01/2022	10,587	0.34	
£3,840,000	Broadgate Financing 4.821% 05/07/2033	5,214	0.17	
£170,273	Broadgate Financing 4.949% 05/04/2029	198	0.01	
£4,600,000	Cie de Financement Foncier 5.5% 26/01/2027	6,000	0.19	
£10,000,000	CPPIB Capital 1.125% 14/12/2029	10,249	0.33	
£3,942,000	Delamare Cards FRN 0.6326% 03/10/2022	3,937	0.13	
£20,000,000	European Investment Bank 5.5% 15/04/2025	24,906	0.80	
US$500,000	Johnson & Johnson 3.55% 01/03/2036	479	0.01	
US$1,794,000	Johnson & Johnson 5.85% 15/07/2038	2,200	0.07	
£5,000,000	KFW 0.875% 15/03/2022	5,062	0.16	
£1,000,000	KFW 5.5% 18/06/2025	1,257	0.04	
US$57,305,000	Microsoft 2.675% 01/06/2060	48,456	1.55	
US$10,000,000	Microsoft 3.45% 08/08/2036	9,782	0.31	
US$11,542,000	Microsoft 3.95% 08/08/2056	12,131	0.39	
£15,000,000	Nationwide Building Society FRN 0.6099% 10/01/2025	15,063	0.48	
£11,000,000	Nationwide Building Society FRN 0.8099% 10/01/2024	11,126	0.35	
£3,354,623	Residential Mortgage Securities No. 30 FRN 0.9819% 20/03/2050	3,342	0.11	
£15,000,000	Santander FRN 0.6138% 12/02/2027	14,895	0.48	
£10,000,000	Santander FRN 0.7938% 12/02/2024	10,099	0.32	
£7,680,223	Warwick Finance Residential Mortgages No. 1 FRN 1.6819% 21/09/2049	7,675	0.24	
£3,394,000	Wellcome Trust 2.517% 07/02/2118	5,322	0.17	
£3,000,000	Wellcome Trust Finance 4.75% 28/05/2021	3,117	0.10	
	'AA' credit rated bonds	**323,661**	**10.34**	**5.65**
US$3,247,000	Apple 1.65% 11/05/2030	2,694	0.09	
US$1,513,000	Apple 2.65% 11/05/2050	1,272	0.04	
US$5,000,000	Apple 4.65% 23/02/2046	5,574	0.18	
£511,440	Autolink Concessionaires 8.39% 15/06/2022	551	0.02	
US$10,000,000	BP Capital Markets America 3.633% 06/04/2030	9,239	0.29	
£815,000	Broadgate Financing 4.999% 05/10/2031	975	0.03	
US$1,230,000	Chevron 2.978% 11/05/2040	1,059	0.03	
£285,500	Coventry & Rugby Hospital IL 3.246% 30/06/2040	735	0.02	
7,500,000	Deutsche Bahn Finance 1.375% 07/07/2025	7,723	0.25	
£5,000,000	Deutsche Bahn Finance 3.125% 24/07/2026	5,695	0.18	
US$13,837,000	Exxon Mobil 4.227% 19/03/2040	13,567	0.43	
£4,101,000	Federal National Mortgage Association 5.375% 07/12/2028	5,633	0.18	
£2,672,040	Integrated Accommodation Services 6.48% 31/03/2029	3,311	0.11	
£960,000	Investor 5.5% 05/05/2037	1,466	0.05	
£17,025,000	Land Securities Capital Markets 1.974% 08/02/2024	17,450	0.56	
£16,000,000	Land Securities Capital Markets 2.375% 29/03/2027	16,967	0.54	
£8,858,000	Land Securities Capital Markets 2.399% 08/02/2029	9,495	0.30	
£553,000	Land Securities Capital Markets Var. Rate 5.391% 31/03/2027	645	0.02	
£18,660,000	MassMutual Global Funding II 1.375% 15/12/2026	19,125	0.61	
£6,807,000	Mercantile Investment Trust 6.125% 25/02/2030	9,466	0.30	
£2,000,000	Metropolitan Life Global Funding I 1.625% 21/09/2029	2,054	0.07	
£4,840,000	New York Life Global Funding 1.25% 17/12/2026	4,884	0.16	
US$10,000,000	Shell International Finance 2.75% 06/04/2030	8,810	0.28	
US$10,000,000	Shell International Finance 3.25% 06/04/2050	8,661	0.28	
£2,000,000	SLM Student Loan Trust FRN 0.7538% 15/12/2039	1,853	0.06	
£12,500,000	SNCF Réseau 4.83% 25/03/2060	24,956	0.80	
£10,000,000	SNCF Réseau 5% 11/03/2052	18,926	0.60	
£6,363,000	SNCF Réseau 5.25% 07/12/2028	8,615	0.28	
£6,000,000	SNCF Réseau 5.25% 31/01/2035	9,227	0.29	
£5,000,000	Societe Nationale SNCF 5.375% 18/03/2027	6,433	0.21	
£5,000,000	Southern Water Services Finance 5% 31/03/2021	5,142	0.16	
£5,400,000	Trafford Centre Finance FRN 1.3563% 28/07/2038	4,701	0.15	
£35,000,000	UK Treasury 0.5% 22/07/2022	35,432	1.13	
£25,000,000	UK Treasury 1.5% 22/01/2021	25,208	0.81	
£25,000,000	UK Treasury 3.75% 07/09/2021	26,117	0.83	
	'A' credit rated bonds	**587,603**	**18.78**	**21.79**
US$1,837,000	AbbVie 4.05% 21/11/2039	1,745	0.06	
£10,000,000	América Móvil 4.375% 07/08/2041	13,145	0.42	
US$6,000,000	Amgen 2.3% 25/02/2031	5,044	0.16	

M&G Corporate Bond Fund

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Portfolio statement (continued)

as at 30 June Holding		2020 £'000	2020 %	2019 %
	FIXED INCOME (continued)			
	Debt securities (continued)			
	'A' credit rated bonds (continued)			
£4,000,000	Anglian Water Services Financing 2.75% 26/10/2029	4,448	0.14	
£5,186,000	Anheuser-Busch InBev 2.25% 24/05/2029	5,361	0.17	
US$750,000	Anheuser-Busch InBev Worldwide 4.9% 01/02/2046	743	0.02	
US$9,889,000	Anheuser-Busch InBev Worldwide 5.45% 23/01/2039	10,158	0.32	
US$13,518,000	Anheuser-Busch InBev Worldwide 5.55% 23/01/2049	14,673	0.47	
US$15,000,000	Anheuser-Busch InBev Worldwide 5.8% 23/01/2059	17,192	0.55	
£3,912,000	Aviva Var. Rate 4% 03/06/2055	3,951	0.13	
£20,000,000	Bank of America 2.3% 25/07/2025	21,048	0.67	
£4,400,000	Banque Federative du Credit Mutuel 1.25% 05/12/2025	4,451	0.14	
£10,500,000	BNP Paribas 1.875% 14/12/2027	10,557	0.34	
£4,926,000	BNP Paribas 3.375% 23/01/2026	5,374	0.17	
€5,000,000	BP Capital Markets 1.594% 03/07/2028	4,715	0.15	
£6,435,000	BP Capital Markets 1.827% 08/09/2025	6,678	0.21	
£4,362,000	Brown-Forman 2.6% 07/07/2028	4,801	0.15	
£10,000,000	Canadian Imperial Bank of Commerce FRN 0.5231% 10/01/2022	10,006	0.32	
£13,187,000	Canadian Imperial Bank of Commerce FRN 0.5448% 28/10/2022	13,196	0.42	
US$3,509,000	Cigna 4.375% 15/10/2028	3,372	0.11	
US$4,505,000	Cigna 4.8% 15/08/2038	4,659	0.15	
£7,000,000	CK Hutchison Group Telecom Finance 2% 17/10/2027	7,022	0.22	
£11,257,000	CK Hutchison Group Telecom Finance 2.625% 17/10/2034	11,339	0.36	
US$3,474,000	Cloverie Var. Rate 5.625% 24/06/2046	3,221	0.10	
US$10,000,000	Comcast 4.95% 15/10/2058	11,526	0.37	
£15,000,000	Comcast 5.5% 23/11/2029	20,712	0.66	
£5,000,000	Deutsche Pfandbriefbank 1% 04/12/2020	5,012	0.16	
US$7,207,000	DuPont de Nemours 5.319% 15/11/2038	7,390	0.24	
US$6,687,000	DuPont de Nemours 5.419% 15/11/2048	7,146	0.23	
£3,607,000	Eastern Power Networks 2.125% 25/11/2033	3,877	0.12	
US$8,000,000	Électricité de France 4.5% 04/12/2069	7,118	0.23	
US$4,000,000	Électricité de France 6% 22/01/2114	4,224	0.14	
£9,900,000	Électricité de France 6% 23/01/2114	16,563	0.53	
£3,000,000	Électricité de France 6.125% 02/06/2034	4,373	0.14	
US$7,000,000	Eni 4.75% 12/09/2028	6,472	0.21	
£2,842,000	Experian Finance 3.25% 07/04/2032	3,288	0.11	
£4,000,000	GlaxoSmithKline Capital 1.25% 12/10/2028	4,039	0.13	
£25,000,000	Heathrow Funding 6.75% 03/12/2026	31,151	1.00	
£12,000,000	Heathrow Funding 7.075% 04/08/2028	15,757	0.50	
£2,192,000	Housing Finance 5% 30/09/2027	2,673	0.09	
£2,992,026	Housing Finance 8.625% 13/11/2023	3,697	0.12	
US$1,208,000	International Business Machines 1.95% 15/05/2030	1,002	0.03	
US$1,000,000	International Business Machines 2.85% 15/05/2040	844	0.03	
£4,000,000	INTU Finance 3.875% 17/03/2023	2,220	0.07	
£35,000,000	Lloyds Bank 5.125% 07/03/2025	42,078	1.34	
£350,000	Lloyds Bank 11.75% Perpetual	718	0.02	
£3,386,000	London & Quadrant Housing Trust 2.625% 05/05/2026	3,585	0.11	
£2,000,000	London & Quadrant Housing Trust 2.625% 28/02/2028	2,134	0.07	
£695,000	London & Quadrant Housing Trust 3.125% 28/02/2053	841	0.03	
£3,000,000	National Grid Electricity Transmission IL 3.806% 27/07/2020	5,073	0.16	
£4,973,000	National Westminster Bank FRN 0.6605% 22/03/2023	4,999	0.16	
£2,000,000	Northern Powergrid 7.25% 15/12/2022	2,313	0.07	
£3,750,000	Northern Powergrid Yorkshire 4.375% 05/07/2032	4,878	0.16	
£6,116,000	Notting Hill Genesis 3.25% 12/10/2048	7,179	0.23	
£1,339,000	Penarian Housing Finance 3.212% 07/06/2052	1,573	0.05	
€8,970,000	Philip Morris International 1.875% 06/11/2037	8,208	0.26	
£9,000,000	Places for People 5.875% 23/05/2031	12,174	0.39	
£2,402,091	Quadrant Housing Finance Var. Rate 7.93% 10/02/2033	3,408	0.11	
£6,176,000	South Eastern Power Networks 5.5% 05/06/2026	7,635	0.24	
£8,100,000	South Eastern Power Networks 6.375% 12/11/2031	12,234	0.39	
£1,000,000	T.H.F.C Funding No. 3 5.2% 11/10/2043	1,600	0.05	
£10,000,000	Total Capital International 1.405% 03/09/2031	10,246	0.33	
£1,000,000	UNITE (USAF) II 3.374% 30/06/2023	1,038	0.03	
£6,000,000	Wales & West Utilities Finance 4.625% 13/12/2023	6,758	0.22	
£8,000,000	Wales & West Utilities Finance 5% 07/03/2028	10,211	0.33	
£4,500,000	Wales & West Utilities Finance 5.75% 29/03/2030	6,302	0.20	

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Portfolio statement (continued)

as at 30 June Holding		2020 £'000	2020 %	2019 %
	FIXED INCOME (continued)			
	Debt securities (continued)			
	'A' credit rated bonds (continued)			
US$1,471,000	Walt Disney 2.65% 13/01/2031	1,268	0.04	
US$3,661,000	Walt Disney 3.5% 13/05/2040	3,234	0.10	
£25,000,000	Wells Fargo 2% 28/07/2025	25,608	0.82	
£7,728,000	Wells Fargo 2.125% 24/09/2031	7,946	0.25	
£20,000,000	Wells Fargo Bank 5.25% 01/08/2023	22,214	0.71	
US$1,000,000	Willow No. 2 Var. Rate 4.25% 01/10/2045	845	0.03	
£3,426,000	Yorkshire Power Finance 7.25% 04/08/2028	4,895	0.16	
£7,600,000	Yorkshire Water Finance 1.75% 26/11/2026	7,701	0.25	
£6,000,000	Yorkshire Water Finance 6.5876% 21/02/2023	6,883	0.22	
£5,420,000	Zurich Finance Var. Rate 6.625% Perpetual	5,841	0.19	
	'BBB' credit rated bonds	**1,560,827**	**49.88**	**49.72**
3,176,000	3i 3.75% 05/06/2040	3,330	0.11	
£7,500,000	3i 5.75% 03/12/2032	9,728	0.31	
€1,500,000	Altria 2.2% 15/06/2027	1,441	0.05	
€4,524,000	Altria 3.125% 15/06/2031	4,499	0.14	
US$1,212,000	Altria 3.4% 06/05/2030	1,059	0.03	
US$5,000,000	Altria 3.875% 16/09/2046	4,061	0.13	
US$3,476,000	Altria 5.375% 31/01/2044	3,395	0.11	
US$5,000,000	Altria 5.8% 14/02/2039	5,078	0.16	
US$7,500,000	Altria 5.95% 14/02/2049	7,927	0.25	
US$2,300,000	Altria 6.2% 14/02/2059	2,503	0.08	
£4,000,000	América Móvil 4.948% 22/07/2033	5,282	0.17	
£3,500,000	Anglian Water Services Financing 4.5% 22/02/2026	3,828	0.12	
£5,000,000	Anglo American Capital 3.375% 11/03/2029	5,273	0.17	
US$1,581,000	Anglo American Capital 5.625% 01/04/2030	1,544	0.05	
£3,889,000	Annington Funding 3.184% 12/07/2029	4,247	0.14	
£3,703,000	Annington Funding 3.685% 12/07/2034	4,238	0.14	
£2,812,000	Annington Funding 3.935% 12/07/2047	3,426	0.11	
£5,752,000	APT Pipelines 3.125% 18/07/2031	6,168	0.20	
£5,000,000	Aroundtown 3% 16/10/2029	5,029	0.16	
£9,300,000	AT&T 4.25% 01/06/2043	11,451	0.37	
£9,710,000	AT&T 4.375% 14/09/2029	11,525	0.37	
£25,948,000	AT&T 4.875% 01/06/2044	34,801	1.11	
£5,000,000	AT&T 5.2% 18/11/2033	6,580	0.21	
£9,950,000	Aviva Var. Rate 4.375% 12/09/2049	10,641	0.34	
£21,100,000	Aviva Var. Rate 6.125% 14/11/2036	24,853	0.79	
£9,900,000	Aviva Var. Rate 6.875% 20/05/2058	14,133	0.45	
£6,500,000	AXA Var. Rate 5.453% Perpetual	7,166	0.23	
£15,000,000	AXA Var. Rate 5.625% 16/01/2054	18,307	0.59	
£14,630,000	AXA Var. Rate 6.6862% Perpetual	17,307	0.55	
£15,000,000	Bank of America 5.5% 22/11/2021	15,843	0.51	
US$8,000,000	BAT Capital 4.39% 15/08/2037	7,122	0.23	
£44,076,000	BAT International Finance 2.25% 09/09/2052	36,090	1.15	
£13,500,000	BAT International Finance 4% 23/11/2055	15,770	0.50	
£11,000,000	BAT International Finance 5.75% 05/07/2040	14,925	0.48	
US$10,000,000	Bayer US Finance II 4.375% 15/12/2028	9,509	0.30	
US$5,000,000	Bayer US Finance II 4.625% 25/06/2038	4,973	0.16	
US$4,000,000	Bayer US Finance II 4.7% 15/07/2064	3,921	0.13	
US$7,500,000	Bayer US Finance II 4.875% 25/06/2048	7,778	0.25	
US$10,000,000	BNP Paribas 4.625% 13/03/2027	9,127	0.29	
5,114,000	BP Capital Markets Var. Rate 4.25% Perpetual	5,124	0.16	
£9,000,000	BPCE 5.25% 16/04/2029	11,011	0.35	
£20,000,000	British Telecommunications 3.125% 21/11/2031	22,080	0.71	
£2,500,000	British Telecommunications 3.625% 21/11/2047	2,958	0.09	
US$15,887,000	British Telecommunications 9.625% 15/12/2030	21,132	0.68	
US$2,500,000	Broadcom 5% 15/04/2030	2,342	0.08	
£13,455,000	Cadent Finance 2.125% 22/09/2028	14,246	0.46	
£1,666,000	Channel Link Enterprises Finance 3.848% 30/06/2050	2,038	0.07	
£10,000,000	Channel Link Enterprises Finance Var. Rate 3.043% 30/06/2050	10,269	0.33	
£2,500,000	Cie de Saint-Gobain 4.625% 09/10/2029	3,095	0.10	
£5,000,000	Citigroup 4.5% 03/03/2031	5,822	0.19	
£10,000,000	Cooperatieve Rabobank 4.625% 23/05/2029	11,804	0.38	
£293,000	Cooperatieve Rabobank 5.25% 14/09/2027	353	0.01	

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Portfolio statement (continued)

as at 30 June Holding		2020 £'000	2020 %	2019 %
	FIXED INCOME (continued)			
	Debt securities (continued)			
	'BBB' credit rated bonds (continued)			
£3,785,000	CPUK Finance 3.69% 28/08/2028	3,772	0.12	
£6,000,000	CPUK Finance 7.239% 28/02/2024	6,734	0.22	
£5,000,000	Credit Suisse Var. Rate 2.125% 12/09/2025	5,096	0.16	
£2,703,000	CRH Finance 4.125% 02/12/2029	3,181	0.10	
US$5,000,000	Daimler Finance North America 3.75% 22/02/2028	4,383	0.14	
£5,003,330	Delamare Finance 5.5457% 19/02/2029	5,722	0.18	
£582,000	Deutsche Telekom 3.125% 06/02/2034	674	0.02	
US$16,000,000	Deutsche Telekom International Finance 8.75% 15/06/2030	20,326	0.65	
£3,000,000	Deutsche Telekom International Finance 8.875% 27/11/2028	4,763	0.15	
£3,806,000	Digital Stout 3.3% 19/07/2029	4,201	0.13	
US$3,750,000	Dow Chemical 5.55% 30/11/2048	3,997	0.13	
£1,500,000	E.ON International Finance 5.875% 30/10/2037	2,330	0.07	
£5,000,000	Electricity North West 8.875% 25/03/2026	7,020	0.22	
8,000,000	Enel 5.75% 22/06/2037	11,975	0.38	
US$8,500,000	Enel Finance International 3.5% 06/04/2028	7,429	0.24	
US$1,319,000	Enel Finance International 3.625% 25/05/2027	1,164	0.04	
US$2,500,000	Enel Finance International 4.875% 14/06/2029	2,399	0.08	
£2,500,000	Enel Finance International 5.625% 14/08/2024	2,944	0.09	
US$500,000	Energy Transfer Operating 4.9% 15/03/2035	412	0.01	
US$1,000,000	Energy Transfer Operating 6.125% 15/12/2045	843	0.03	
US$3,572,000	Energy Transfer Operating 6.5% 01/02/2042	3,176	0.10	
€15,583,000	Engie 5.95% 16/03/2111	29,536	0.94	
£132,000	ENW Capital Finance 6.125% 21/07/2021	139	0.00	
£5,000,000	FCE Bank 3.25% 19/11/2020	4,959	0.16	
£1,150,000	Fiserv 2.25% 01/07/2025	1,204	0.04	
US$2,500,000	Ford Motor 4.75% 15/01/2043	1,614	0.05	
US$5,000,000	Ford Motor Credit 4.389% 08/01/2026	3,884	0.12	
£5,500,000	Gatwick Funding 2.625% 07/10/2046	4,826	0.15	
£9,626,000	Gatwick Funding 2.875% 05/07/2049	8,823	0.28	
£17,500,000	Gatwick Funding 3.125% 28/09/2039	17,174	0.55	
£10,000,000	Gatwick Funding 3.25% 26/02/2048	9,856	0.32	
£1,355,000	Gatwick Funding 4.625% 27/03/2034	1,567	0.05	
£10,000,000	Gatwick Funding 6.125% 02/03/2026	11,751	0.38	
US$12,000,000	GE Capital Funding 4.4% 15/05/2030	10,113	0.32	
US$12,000,000	GE Capital Funding 4.55% 15/05/2032	10,122	0.32	
£921,502	General Electric 6.44% 15/11/2022	945	0.03	
US$2,500,000	General Motors 5.15% 01/04/2038	1,982	0.06	
US$3,000,000	General Motors 6.6% 01/04/2036	2,638	0.08	
US$7,000,000	General Motors Financial 4.3% 13/07/2025	5,896	0.19	
£6,000,000	Goldman Sachs 3.125% 25/07/2029	6,629	0.21	
£2,500,000	Goldman Sachs 6.875% 18/01/2038	3,715	0.12	
£4,200,000	Goldman Sachs 7.125% 07/08/2025	5,370	0.17	
3,781,000	Grainger 3% 03/07/2030	3,800	0.12	
£2,172,720	Greene King Finance 4.0643% 15/03/2035	2,240	0.07	
£2,168,790	Greene King Finance 5.318% 15/09/2031	2,385	0.08	
£8,000,000	H.J. Heinz Finance 6.25% 18/02/2030	9,746	0.31	
US$955,000	HCA 5% 15/03/2024	866	0.03	
US$5,000,000	HCA 5.5% 15/06/2047	4,990	0.16	
£2,500,000	Heathrow Funding 5.225% 15/02/2023	2,682	0.09	
£3,150,000	Heathrow Funding 9.2% 29/03/2021	3,308	0.11	
£3,500,000	Iberdrola Finanzas 7.375% 29/01/2024	4,283	0.14	
US$772,000	Imperial Brands Finance 3.5% 26/07/2026	671	0.02	
US$1,890,000	Imperial Brands Finance 3.875% 26/07/2029	1,625	0.05	
£20,000,000	Imperial Brands Finance 4.875% 07/06/2032	23,970	0.77	
£19,500,000	Imperial Brands Finance 5.5% 28/09/2026	23,347	0.75	
£11,500,000	Imperial Brands Finance 8.125% 15/03/2024	14,053	0.45	
£3,566,000	Informa 3.125% 05/07/2026	3,618	0.12	
£8,000,000	InterContinental Hotels 2.125% 24/08/2026	7,579	0.24	
£7,362,000	Intesa Sanpaolo 2.5% 15/01/2030	7,099	0.23	
£4,808,000	INTU Finance 4.25% 17/09/2030	2,680	0.09	
£5,500,000	INTU Finance 4.625% 17/03/2028	3,076	0.10	
£7,000,000	INTU Metrocentre Finance 4.125% 06/12/2023	3,564	0.11	
£915,000	Italy (Republic of) 5.25% 07/12/2034	1,161	0.04	

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Portfolio statement (continued)

as at 30 June Holding		2020 £'000	2020 %	2019 %
	FIXED INCOME (continued)			
	Debt securities (continued)			
	'BBB' credit rated bonds (continued)			
£26,716,000	Italy (Republic of) 6% 04/08/2028	33,277	1.06	
US$3,259,000	JPMorgan Chase Var. Rate 2.956% 13/05/2031	2,796	0.09	
US$2,500,000	Kinder Morgan 5.05% 15/02/2046	2,339	0.08	
US$6,000,000	Kinder Morgan Energy Partners 6.95% 15/01/2038	6,654	0.21	
£12,500,000	KPN 5% 18/11/2026	14,588	0.47	
£12,000,000	KPN 5.75% 17/09/2029	15,082	0.48	
US$5,000,000	Kraft Heinz Foods 4.375% 01/06/2046	3,976	0.13	
£10,000,000	LafargeHolcim Sterling Finance 3% 12/05/2032	10,757	0.34	
£17,500,000	Legal & General Var. Rate 5.125% 14/11/2048	19,071	0.61	
£18,720,000	Legal & General Var. Rate 5.375% 27/10/2045	20,642	0.66	
£20,000,000	Legal & General Var. Rate 5.5% 27/06/2064	22,602	0.72	
£5,000,000	Lloyds Bank 7.625% 22/04/2025	6,175	0.20	
£5,000,000	Lloyds Bank 9.625% 06/04/2023	5,982	0.19	
£10,000,000	Lloyds Bank Var. Rate 5.75% 09/07/2025	10,005	0.32	
£1,562,000	Logicor Financing 2.75% 15/01/2030	1,523	0.05	
£1,750,000	Longstone Finance 4.896% 19/04/2031	2,111	0.07	
US$1,250,000	McDonald's 6.3% 15/10/2037	1,474	0.05	
US$2,000,000	McDonald's 6.3% 01/03/2038	2,374	0.08	
£19,000,000	Mexico (United Mexican States) 5.625% 19/03/2114	19,584	0.63	
£2,993,200	Mitchells & Butlers Finance 5.574% 15/12/2030	3,281	0.11	
£418,391	Mitchells & Butlers Finance 5.965% 15/12/2023	428	0.01	
£2,969,700	Mitchells & Butlers Finance FRN 0.7933% 15/12/2033	2,252	0.07	
£1,000,000	Mondelēz International 3.875% 06/03/2045	1,255	0.04	
£1,750,000	Mondelēz International 4.5% 03/12/2035	2,274	0.07	
£3,000,000	Morgan Stanley 2.625% 09/03/2027	3,254	0.10	
US$500,000	Nationwide Building Society 4% 14/09/2026	438	0.01	
US$10,000,000	Nationwide Building Society Var. Rate 4.125% 18/10/2032	8,807	0.28	
£2,246,000	Next 3% 26/08/2025	2,244	0.07	
£12,500,000	Next 3.625% 18/05/2028	12,477	0.40	
£10,500,000	Next 4.375% 02/10/2026	11,122	0.36	
£10,000,000	NGG Finance Var. Rate 5.625% 18/06/2073	11,185	0.36	
£5,000,000	NIE Finance 6.375% 02/06/2026	6,478	0.21	
£7,000,000	Northumbrian Water 6.875% 06/02/2023	8,041	0.26	
£3,000,000	Orange 3.25% 15/01/2032	3,501	0.11	
£19,250,000	Orange 8.125% 20/11/2028	29,452	0.94	
US$11,149,000	Orange 9% 01/03/2031	14,799	0.47	
2,500,000	Pearson Funding 3.75% 04/06/2030	2,644	0.08	
US$4,884,000	Reynolds American 5.7% 15/08/2035	4,864	0.16	
US$7,479,000	Reynolds American 5.85% 15/08/2045	7,503	0.24	
US$1,000,000	Reynolds American 6.15% 15/09/2043	1,010	0.03	
£7,500,000	Royal Bank of Scotland Var. Rate 2.875% 19/09/2026	7,787	0.25	
£1,548,000	Royal Bank of Scotland Var. Rate 3.125% 28/03/2027	1,624	0.05	
US$5,000,000	Royal Bank of Scotland Var. Rate 4.892% 18/05/2029	4,774	0.15	
£6,258,000	Scottish Hydro Electric Transmission 2.25% 27/09/2035	6,720	0.21	
US$1,000,000	Security Capital 7.7% 15/06/2028	994	0.03	
£1,000,000	Severn Trent IL 1.3% 11/07/2022	1,251	0.04	
£9,000,000	Severn Trent Utilities Finance 2.75% 05/12/2031	10,347	0.33	
£11,661,000	Severn Trent Utilities Finance 3.625% 16/01/2026	13,249	0.42	
£6,195,000	Severn Trent Utilities Finance 6.25% 07/06/2029	8,784	0.28	
£2,888,000	Society of Lloyd's Var. Rate 4.875% 07/02/2047	2,971	0.10	
£2,533,000	Southern Gas Networks 3.1% 15/09/2036	3,039	0.10	
£5,000,000	Southern Gas Networks 4.875% 05/10/2023	5,620	0.18	
£6,738,000	Southern Water Services Finance 2.375% 28/05/2028	6,842	0.22	
£6,224,000	Southern Water Services Finance 3% 28/05/2037	6,422	0.21	
£5,445,000	SP Transmission 2% 13/11/2031	5,722	0.18	
10,000,000	SSE 3.74% Perpetual	10,014	0.32	
£5,559,000	SSE 6.25% 27/08/2038	9,113	0.29	
£6,000,000	SSE 8.375% 20/11/2028	9,137	0.29	
£2,000,000	Student Finance 2.6663% 30/09/2024	2,017	0.06	
£6,500,000	Telefónica Emisiones 5.289% 09/12/2022	7,150	0.23	
US$8,000,000	Telefónica Emisiones 7.045% 20/06/2036	9,418	0.30	
£211,030	Telereal Securitisation 6.1645% 10/12/2031	265	0.01	
£1,480,000	Tesco Corporate Treasury Services 2.75% 27/04/2030	1,576	0.05	

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Portfolio statement (continued)

as at 30 June Holding		2020 £'000	2020 %	2019 %
	FIXED INCOME (continued)			
	Debt securities (continued)			
	'BBB' credit rated bonds (continued)			
£5,350,317	Tesco Property Finance 4 5.8006% 13/10/2040	7,232	0.23	
£9,799,903	Tesco Property Finance 5 5.6611% 13/10/2041	13,175	0.42	
£5,000,000	Thames Water Utilities Finance 1.875% 24/01/2024	5,094	0.16	
£2,000,000	Thames Water Utilities Finance 2.375% 22/04/2040	2,055	0.07	
£5,000,000	Thames Water Utilities Finance 2.625% 24/01/2032	5,385	0.17	
£3,543,000	Thames Water Utilities Finance 2.875% 03/05/2027	3,459	0.11	
£3,727,000	Thames Water Utilities Finance 3.375% 21/07/2021	6,440	0.21	
£5,000,000	Thames Water Utilities Finance 3.5% 25/02/2028	5,652	0.18	
£5,000,000	Thames Water Utilities Finance 4% 19/06/2025	5,618	0.18	
£10,000,000	Thames Water Utilities Finance 4.375% 03/07/2034	12,864	0.41	
£5,000,000	Thames Water Utilities Finance 4.625% 04/06/2046	7,315	0.23	
£3,590,000	Thames Water Utilities Finance 5.125% 28/09/2037	5,116	0.16	
£12,500,000	Thames Water Utilities Finance 6.75% 16/11/2028	17,433	0.56	
£4,000,000	Thames Water Utilities Finance Var. Rate 5.75% 13/09/2030	4,184	0.13	
€2,443,000	Thermo Fisher Scientific 1.875% 01/10/2049	2,137	0.07	
£5,000,000	Time Warner Cable 5.25% 15/07/2042	6,289	0.20	
US$994,000	Time Warner Cable 5.5% 01/09/2041	970	0.03	
£3,500,000	Time Warner Cable 5.75% 02/06/2031	4,382	0.14	
£4,066,000	United Utilities Water Finance 2% 14/02/2025	4,277	0.14	
£5,000,000	Verizon Communications 1.875% 19/09/2030	5,155	0.16	
£6,500,000	Verizon Communications 3.125% 02/11/2035	7,691	0.25	
£20,000,000	Vodafone 3% 12/08/2056	21,907	0.70	
£2,000,000	Vodafone 3.375% 08/08/2049	2,315	0.07	
US$3,081,000	Vodafone 4.875% 19/06/2049	3,152	0.10	
US$7,500,000	Vodafone 5.125% 19/06/2059	7,931	0.25	
US$1,165,000	Vodafone 5.25% 30/05/2048	1,235	0.04	
£6,000,000	Volkswagen Financial Services 1.875% 03/12/2024	5,984	0.19	
£2,000,000	Volkswagen Financial Services 4.25% 09/10/2025	2,215	0.07	
£1,100,000	Volkswagen International Finance 3.375% 16/11/2026	1,176	0.04	
£21,500,000	Volkswagen International Finance 4.125% 17/11/2031	23,859	0.76	
£6,000,000	Walgreens Boots Alliance 3.6% 20/11/2025	6,196	0.20	
£5,500,000	Wells Fargo 4.875% 29/11/2035	6,928	0.22	
£5,000,000	Welltower 4.5% 01/12/2034	5,652	0.18	
£5,000,000	Welltower 4.8% 20/11/2028	5,697	0.18	
£3,323,000	WPP Finance 2.875% 14/09/2046	2,912	0.09	
£9,994,000	WPP Finance 3.75% 19/05/2032	10,409	0.33	
	'BB' credit rated bonds	**100,267**	**3.20**	**3.68**
£2,050,000	Daily Mail & General Trust 6.375% 21/06/2027	2,338	0.07	
£8,920,000	Delamare Finance 6.067% 19/02/2029	11,198	0.36	
£7,000,000	Ford Motor Credit 4.535% 06/03/2025	6,596	0.21	
£11,000,000	Kraft Heinz Foods 4.125% 01/07/2027	11,671	0.37	
US$4,000,000	Kraft Heinz Foods 4.625% 01/10/2039	3,264	0.10	
US$3,524,000	Kraft Heinz Foods 4.875% 01/10/2049	2,936	0.09	
£3,000,000	Lloyds Banking Var. Rate 7.625% Perpetual	3,054	0.10	
£3,367,000	Lloyds Banking Var. Rate 7.875% Perpetual	3,727	0.12	
£885,000	Marston's Issuer Var. Rate 1.4% 15/10/2027	737	0.02	
£2,000,000	Marston's Issuer Var. Rate 5.1774% 15/07/2032	1,896	0.06	
£1,141,084	Mitchells & Butlers Finance 6.013% 15/12/2028	1,215	0.04	
£921,000	Nationwide Building Society Var. Rate 5.875% Perpetual	920	0.03	
£26,321	Road Management Consolidated 9.18% 10/06/2021	27	0.00	
US$3,300,000	Royal Bank of Scotland 6% 19/12/2023	2,998	0.10	
US$7,000,000	Royal Bank of Scotland 6.125% 15/12/2022	6,211	0.20	
£2,931,000	Royal Bank of Scotland Var. Rate 3.622% 14/08/2030	3,000	0.10	
US$2,244,000	Royal Bank of Scotland Var. Rate 3.754% 01/11/2029	1,890	0.06	
£10,000,000	Telecom Italia 5.875% 19/05/2023	10,795	0.35	
£19,275,592	Tesco Property Finance 3 5.744% 13/04/2040	25,794	0.82	
	Bonds with no credit rating	**192,082**	**6.14**	**6.75**
€1,822,000	Assicurazioni Generali Var. Rate 5.5% 27/10/2047	1,891	0.06	
£3,500,000	Assicurazioni Generali Var. Rate 6.269% Perpetual	3,899	0.12	
£3,250,000	Assura Financing 3% 19/07/2028	3,526	0.11	
£5,000,000	BUPA Finance 1.75% 14/06/2027	4,959	0.16	
£2,000,000	BUPA Finance 4.125% 14/06/2035	2,005	0.06	
£3,000,000	BUPA Finance 5% 08/12/2026	3,290	0.11	

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Portfolio statement (continued)

as at 30 June Holding		2020 £'000	2020 %	2019 %
	FIXED INCOME (continued)			
	Debt securities (continued)			
	Bonds with no credit rating (continued)			
£1,982,067	Charter Mortgage Funding 2018-1 FRN 0.6676% 12/06/2055	1,967	0.06	
£3,286,515	CMF 2020-1 FRN 0.6627% 16/01/2057	3,263	0.10	
£8,847,000	DP World 4.25% 25/09/2030	8,624	0.28	
£70,338	Duncan Funding FRN 1.4298% 17/04/2063	70	0.00	
£4,152,000	Eversholt Funding 3.529% 07/08/2042	4,474	0.14	
£4,065,525	Friary No. 6 FRN 0.9874% 21/11/2067	4,077	0.13	
£4,000,000	Grand Union 4.625% 04/12/2043	5,959	0.19	
£1,620,954	Greater Gabbard OFTO 4.137% 29/11/2032	1,918	0.06	
£7,800,000	Grosvenor UK Finance 6.5% 29/09/2026	10,040	0.32	
£12,000,000	Hammerson 6% 23/02/2026	11,819	0.38	
£10,000,000	Hammerson 7.25% 21/04/2028	10,222	0.33	
£368,000	Heathrow Finance 4.125% 01/09/2029	342	0.01	
£3,577,815	Highbury Finance 7.017% 20/03/2023	3,958	0.13	
£190,051	INTU Debenture 5.562% 31/12/2027	93	0.00	
£2,500,000	John Lewis 4.25% 18/12/2034	2,082	0.07	
£3,200,000	Landesbank Baden-Wuerttemberg 1.5% 03/02/2025	3,214	0.10	
£2,333,000	Leeds Building Society Var. Rate 3.75% 25/04/2029	2,330	0.07	
£4,000,000	London Merchant Securities 6.5% 16/03/2026	5,104	0.16	
£3,399,543	London Wall Mortgage Capital FRN 1.0123% 15/05/2050	3,338	0.11	
£7,477,000	Moat Homes Finance 5% 23/09/2041	10,888	0.35	
£7,095,355	Offa No. 1 FRN 1.4433% 14/06/2050	7,087	0.23	
£7,071,000	Orbit Capital 3.375% 14/06/2048	8,786	0.28	
£4,984,000	Orbit Capital 3.5% 24/03/2045	6,190	0.20	
£2,772,000	Orbita Funding 2020-1 FRN 0.6477% 17/03/2027	2,753	0.09	
£9,300,000	Peel South East 10% 30/04/2026	12,499	0.40	
£5,000,000	Places for People 3.625% 22/11/2028	5,606	0.18	
£327,670	Road Management Services IL 3.642% 31/03/2028	674	0.02	
£2,736,000	Skipton Building Society FRN 0.7429% 22/02/2024	2,753	0.09	
£4,750,000	South West Water Finance 5.875% 16/07/2040	7,461	0.24	
£2,731,000	Southern Housing 3.5% 19/10/2047	3,385	0.11	
£1,481,504	Summit Finance Law 6.484% 31/03/2028	1,734	0.06	
£414,674	THFC Social Housing Finance 8.75% 18/12/2021	454	0.01	
£1,180,761	Together Asset Backed Securitisation No. 1 FRN 1.0931% 12/03/2049	1,178	0.04	
£449,000	University of Oxford 2.544% 08/12/2117	679	0.02	
£250,000	Washington Mutual Bank 5.5% 10/06/2019 [a]	0	0.00	
£5,000,000	Whitbread 3.375% 16/10/2025	4,937	0.16	
£3,462,000	Wm Morrison Supermarkets 2.5% 01/10/2031	3,638	0.12	
£5,011,000	Wm Morrison Supermarkets 4.75% 04/07/2029	6,187	0.20	
£1,250,000	Yorkshire Building Society 3.5% 21/04/2026	1,390	0.04	
£1,288,000	Yorkshire Building Society Var. Rate 3% 18/04/2025	1,339	0.04	
	Debt derivatives	**(2,643)**	**(0.09)**	**(0.30)**
	Credit default swaps	**260**	**0.01**	**0.00**
€15,000,000	Mexico (United Mexican States) Dec 2024	260	0.01	
	Interest rate futures	**(2,903)**	**(0.10)**	**(0.30)**
(967)	10 Year US Treasury Note Sep 2020	(389)	(0.02)	
(1,100)	10 Year US Treasury Ultra Sep 2020	(953)	(0.03)	
(300)	UK Long Gilt Bond Sep 2020	(233)	(0.01)	
(700)	US Long Treasury Bond Sep 2020	(658)	(0.02)	
(699)	US Ultra Long Treasury Bond Sep 2020	(670)	(0.02)	
	CURRENCY	(5,922)	(0.19)	(0.32)
	Forward currency contracts	**(5,922)**	**(0.19)**	**(0.32)**
€20,872,821	Bought for £18,800,221 (expires 01.07.20)	267	0.01	
€(21,940,800)	Sold for £19,905,286 (expires 21.10.20)	(175)	(0.01)	
€(19,305,028)	Sold for £17,339,097 (expires 26.08.20)	(311)	(0.01)	
€(18,316,256)	Sold for £16,140,497 (expires 29.07.20)	(598)	(0.02)	
€(28,186,421)	Sold for £24,709,901 (expires 01.07.20)	(1,038)	(0.03)	
US$269,936,163	Bought for £217,136,147 (expires 01.07.20)	2,852	0.09	
US$11,194,467	Bought for £8,859,641 (expires 29.07.20)	262	0.01	
US$(269,936,163)	Sold for £218,297,980 (expires 01.07.20)	(1,690)	(0.05)	
US$(242,179,404)	Sold for £195,618,298 (expires 29.07.20)	(1,717)	(0.06)	
US$(206,802,826)	Sold for £166,703,532 (expires 26.08.20)	(1,781)	(0.06)	

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Portfolio statement (continued)

as at 30 June Holding		2020 £'000	2020 %	2019 %
	CURRENCY (continued)			
	Forward currency contracts (continued)			
US$(222,863,121)	Sold for £179,513,631 (expires 21.10.20)	(1,993)	(0.06)	
Portfolio of investments		2,967,717	94.83	94.10
	CASH EQUIVALENTS	100,592	3.22	4.56
	'AAA' rated money market funds [b]	**100,592**	**3.22**	**4.56**
100,592,137	Northern Trust Global Fund - Sterling	100,592	3.22	
Total portfolio (notes 2c & 2d on page 7)		3,068,309	98.05	98.66
Net other assets / (liabilities)		**61,135**	**1.95**	**1.34**
Net assets attributable to shareholders		3,129,444	100.00	100.00

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

[a] Defaulted bond.

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

M&G Corporate Bond Fund

Financial highlights

Fund performance

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

The following chart and tables 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.

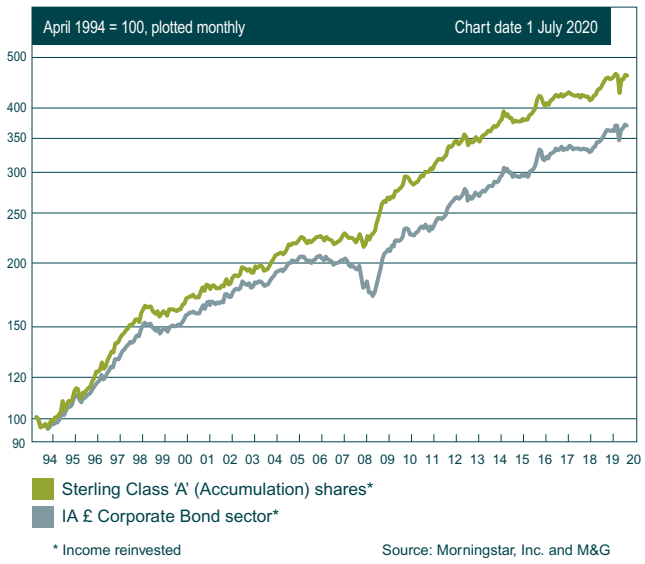
Fund level performance

Fund net asset value

as at 30 June	2020 £'000	2019 £'000	2018 £'000
Fund net asset value (NAV)	3,129,444	3,505,536	3,696,143

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.



* Income reinvested

Source: Morningstar, Inc. and M&G

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

Long-term performance by share class

	One year 01.07.19 % [a]	Three years 03.07.17 % p.a.	Five years 01.07.15 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+3.2	+2.1	-0.6	+4.0 [c]
Class 'C'	+4.0	+2.9	+0.1	+4.5 [c]
Sterling [d]				
Class 'A'	+4.2	+3.3	+4.4	+6.0 [e]
Class 'I'	+4.7	+3.8	+4.9	+6.5 [f]
Class 'PP'	+4.9	n/a	n/a	+6.5 [g]
Class 'R'	+4.5	+3.6	+4.6	+4.5 [h]
Class 'X'	+4.2	+3.3	+4.3	+5.9 [i]

[a] Absolute basis.

[b] Price to price with gross income reinvested.

[c] 29 November 2002, the launch date of the share class.

[d] Price to price with income reinvested.

[e] 15th 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.

[f] 2 July 2007, the launch date of the share class.

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

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

[i] 15 April 1994, the end of the initial offer period of the predecessor unit trust.

M&G Corporate Bond Fund

Financial highlights

Operating charges and portfolio transaction costs

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

Operating charges

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

- **Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge.

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

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

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

as at 30 June	2020	2019	2018	Average [a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	1.06	0.80	0.72	0.86

[a] Average of first three columns.

M&G Corporate Bond Fund

Financial highlights

Specific share class performance

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

Euro Class 'A' Accumulation share performance

The share class was launched on 29 November 2002. for the year to 30 June	2020	2019	2018
Change in NAV per share	**Euro ¢**	**Euro ¢**	**Euro ¢**
Opening NAV	1,921.75	1,847.42	1,869.07
Return before operating charges and after direct portfolio transaction costs	74.38	100.77	4.65
Operating charges	(27.27)	(26.44)	(26.30)
Return after operating charges	47.11	74.33	(21.65)
Distributions	(38.83)	(42.26)	(41.42)
Retained distributions	38.83	42.46	41.42
Closing NAV	1,968.86	1,921.75	1,847.42
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.04	0.02	0.02
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.04	0.02	0.02
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	1.35	1.41	1.41
Return after operating charges	+2.45	+4.02	-1.16
Distribution yield	1.80	2.14	2.19
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	7,441	9,331	14,337
Closing NAV percentage of total fund NAV (%)	0.24	0.27	0.39
Number of shares	413,721	541,193	875,979
Highest share price (Euro ¢)	2,178.23	1,976.54	1,916.24
Lowest share price (Euro ¢)	1,697.48	1,793.34	1,795.84

Euro Class 'C' Accumulation share performance

The share class was launched on 29 November 2002. for the year to 30 June	2020	2019	2018
Change in NAV per share	**Euro ¢**	**Euro ¢**	**Euro ¢**
Opening NAV	2,072.44	1,977.46	1,985.70
Return before operating charges and after direct portfolio transaction costs	79.95	108.24	4.89
Operating charges	(13.08)	(13.26)	(13.13)
Return after operating charges	66.87	94.98	(8.24)
Distributions	(58.36)	(60.46)	(59.15)
Retained distributions	58.36	60.46	59.15
Closing NAV	2,139.31	2,072.44	1,977.46
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.04	0.02	0.02
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.04	0.02	0.02
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	0.60	0.66	0.66
Return after operating charges	+3.23	+4.80	-0.41
Distribution yield	2.55	2.89	2.94
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	1,152	1,482	3,234
Closing NAV percentage of total fund NAV (%)	0.04	0.04	0.09
Number of shares	58,938	79,693	184,614
Highest share price (Euro ¢)	2,360.36	2,129.24	2,044.58
Lowest share price (Euro ¢)	1,840.55	1,926.74	1,910.26

Sterling Class 'A' Income share performance

The share class was launched on 15 April 1994. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	40.43	39.70	41.21
Return before operating charges and after direct portfolio transaction costs	2.27	2.64	0.45
Operating charges	(0.45)	(0.46)	(0.48)
Return after operating charges	1.82	2.18	(0.03)
Distributions	(1.35)	(1.45)	(1.48)
Closing NAV	40.90	40.43	39.70
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	1.10	1.16	1.16
Return after operating charges	+4.50	+5.49	-0.07
Distribution yield	3.14	3.53	3.59
Effect on yield of charges offset against capital	1.10	1.15	1.15
Other information			
Closing NAV (£'000)	142,625	158,362	224,543
Closing NAV percentage of total fund NAV (%)	4.56	4.52	6.08
Number of shares	348,704,444	391,692,816	565,571,858
Highest share price (UK p)	41.99	40.84	41.95
Lowest share price (UK p)	36.53	38.61	39.95

M&G Corporate Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 15 April 1994. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	73.04	69.17	69.24
Return before operating charges and after direct portfolio transaction costs	4.18	4.68	0.74
Operating charges	(0.83)	(0.81)	(0.81)
Return after operating charges	3.35	3.87	(0.07)
Distributions	(1.64)	(1.76)	(1.72)
Retained distributions	1.64	1.76	1.72
Closing NAV	76.39	73.04	69.17
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	1.10	1.16	1.16
Return after operating charges	+4.59	+5.59	-0.10
Distribution yield	2.05	2.39	2.44
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	273,644	309,130	367,913
Closing NAV percentage of total fund NAV (%)	8.74	8.82	9.95
Number of shares	358,218,656	423,211,540	531,917,115
Highest share price (UK p)	77.15	73.11	70.75
Lowest share price (UK p)	67.11	68.16	68.85

Sterling Class 'I' Income share performance

The share class was launched on 2 July 2007. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	41.06	40.12	41.44
Return before operating charges and after direct portfolio transaction costs	2.32	2.68	0.44
Operating charges	(0.25)	(0.27)	(0.27)
Return after operating charges	2.07	2.41	0.17
Distributions	(1.38)	(1.47)	(1.49)
Closing NAV	41.75	41.06	40.12
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	0.60	0.66	0.66
Return after operating charges	+5.04	+6.01	+0.41
Distribution yield	3.13	3.53	3.59
Effect on yield of charges offset against capital	0.60	0.65	0.65
Other information			
Closing NAV (£'000)	1,579,582	2,054,827	2,073,188
Closing NAV percentage of total fund NAV (%)	50.47	58.62	56.09
Number of shares	3,783,337,526	5,004,202,980	5,167,353,603
Highest share price (UK p)	42.77	41.48	42.22
Lowest share price (UK p)	37.23	39.12	40.36

Sterling Class 'I' Accumulation share performance

The share class was launched on 2 July 2007. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	76.84	72.40	72.12
Return before operating charges and after direct portfolio transaction costs	4.40	4.93	0.76
Operating charges	(0.47)	(0.49)	(0.48)
Return after operating charges	3.93	4.44	0.28
Distributions	(2.13)	(2.21)	(2.16)
Retained distributions	2.13	2.21	2.16
Closing NAV	80.77	76.84	72.40
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	0.60	0.66	0.66
Return after operating charges	+5.11	+6.13	+0.39
Distribution yield	2.55	2.89	2.94
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	510,336	554,172	573,803
Closing NAV percentage of total fund NAV (%)	16.31	15.81	15.52
Number of shares	631,854,911	721,174,779	792,512,099
Highest share price (UK p)	81.40	76.91	73.89
Lowest share price (UK p)	70.86	71.50	71.87

Sterling Class 'PP' Income share performance

The share class was launched on 5 August 2019. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	100.00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	3.22	n/a	n/a
Operating charges	(0.41)	n/a	n/a
Return after operating charges	2.81	n/a	n/a
Distributions	(3.25)	n/a	n/a
Closing NAV	99.56	n/a	n/a
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	n/a	n/a
Dilution adjustments [a]	0.00	n/a	n/a
Total direct portfolio transaction costs	0.00	n/a	n/a
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	n/a	n/a
Operating charges	0.44	n/a	n/a
Return after operating charges	+2.81	n/a	n/a
Distribution yield	3.13	n/a	n/a
Effect on yield of charges offset against capital	0.44	n/a	n/a
Other information			
Closing NAV (£'000)	212,426	n/a	n/a
Closing NAV percentage of total fund NAV (%)	6.79	n/a	n/a
Number of shares	213,365,789	n/a	n/a
Highest share price (UK p)	101.93	n/a	n/a
Lowest share price (UK p)	88.75	n/a	n/a

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Specific share class performance

Sterling Class 'PP' Accumulation share performance

The share class was launched on 8 April 2019. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	102.82	100.00	n/a
Return before operating charges and after direct portfolio transaction costs	5.90	2.94	n/a
Operating charges	(0.48)	(0.12)	n/a
Return after operating charges	5.42	2.82	n/a
Distributions	(3.01)	(0.81)	n/a
Retained distributions	3.01	0.81	n/a
Closing NAV	108.24	102.82	n/a
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	n/a
Dilution adjustments [a]	0.00	0.00	n/a
Total direct portfolio transaction costs	0.00	0.00	n/a
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	n/a
Operating charges [c]	0.45	0.51	n/a
Return after operating charges	+5.27	+2.82	n/a
Distribution yield	2.70	3.04	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV (£'000)	3,570	493	n/a
Closing NAV percentage of total fund NAV (%)	0.11	0.01	n/a
Number of shares	3,298,600	479,751	n/a
Highest share price (UK p)	109.02	102.90	n/a
Lowest share price (UK p)	94.92	100.00	n/a

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	108.91	106.69	110.46
Return before operating charges and after direct portfolio transaction costs	6.13	7.09	1.20
Operating charges	(0.94)	(0.97)	(1.00)
Return after operating charges	5.19	6.12	0.20
Distributions	(3.64)	(3.90)	(3.97)
Closing NAV	110.46	108.91	106.69
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	0.85	0.91	0.91
Return after operating charges	+4.77	+5.74	+0.18
Distribution yield	3.13	3.53	3.59
Effect on yield of charges offset against capital	0.85	0.90	0.90
Other information			
Closing NAV (£'000)	10,580	9,810	9,318
Closing NAV percentage of total fund NAV (%)	0.34	0.28	0.25
Number of shares	9,577,914	9,007,249	8,733,707
Highest share price (UK p)	113.29	110.01	112.50
Lowest share price (UK p)	98.58	103.89	107.33

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	135.48	127.97	127.78
Return before operating charges and after direct portfolio transaction costs	7.75	8.69	1.36
Operating charges	(1.19)	(1.18)	(1.17)
Return after operating charges	6.56	7.51	0.19
Distributions	(3.40)	(3.58)	(3.50)
Retained distributions	3.40	3.58	3.50
Closing NAV	142.04	135.48	127.97
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	0.85	0.91	0.91
Return after operating charges	+4.84	+5.87	+0.15
Distribution yield	2.30	2.64	2.69
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	18,982	18,304	15,318
Closing NAV percentage of total fund NAV (%)	0.61	0.52	0.41
Number of shares	13,363,338	13,510,595	11,969,919
Highest share price (UK p)	143.31	135.59	130.75
Lowest share price (UK p)	124.70	126.24	127.27

Sterling Class 'X' Income share performance

The share class was launched on 15 April 1994. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	40.39	39.67	41.17
Return before operating charges and after direct portfolio transaction costs	2.27	2.63	0.45
Operating charges	(0.45)	(0.46)	(0.47)
Return after operating charges	1.82	2.17	(0.02)
Distributions	(1.35)	(1.45)	(1.48)
Closing NAV	40.86	40.39	39.67
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	1.10	1.16	1.16
Return after operating charges	+4.51	+5.47	-0.05
Distribution yield	3.14	3.53	3.59
Effect on yield of charges offset against capital	1.10	1.15	1.15
Other information			
Closing NAV (£'000)	353,157	372,605	394,950
Closing NAV percentage of total fund NAV (%)	11.28	10.63	10.69
Number of shares	864,228,323	922,450,949	995,698,514
Highest share price (UK p)	41.95	40.80	41.91
Lowest share price (UK p)	36.49	38.57	39.91

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Specific share class performance

Sterling Class 'X' Accumulation share performance

The share class was launched on 15 April 1994. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	70.89	67.13	67.20
Return before operating charges and after direct portfolio transaction costs	4.05	4.55	0.71
Operating charges	(0.80)	(0.79)	(0.78)
Return after operating charges	3.25	3.76	(0.07)
Distributions	(1.60)	(1.71)	(1.67)
Retained distributions	1.60	1.71	1.67
Closing NAV	74.14	70.89	67.13
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	1.10	1.16	1.16
Return after operating charges	+4.58	+5.60	-0.10
Distribution yield	2.05	2.39	2.44
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	15,949	17,020	19,539
Closing NAV percentage of total fund NAV (%)	0.51	0.48	0.53
Number of shares	21,511,791	24,007,590	29,105,020
Highest share price (UK p)	74.88	70.96	68.67
Lowest share price (UK p)	65.14	66.15	66.83

[a] In respect of direct portfolio transaction costs.

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

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

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Statement of total return

for the year to 30 June	Note	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Income					
Net capital gains / (losses)	3		72,285		101,501
Revenue	5	110,686		133,574	
Expenses	6	(24,877)		(28,655)	
Net revenue / (expense) before taxation		85,809		104,919	
Taxation	7	120		(49)	
Net revenue / (expense) after taxation			85,929		104,870
Total return before distributions			158,214		206,371
Distributions	8		(103,329)		(125,188)
Change in net assets attributable to shareholders from investment activities			54,885		81,183

Statement of change in net assets attributable to shareholders

for the year to 30 June	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Opening net assets attributable to shareholders		**3,505,536**		**3,696,143**
Amounts received on issue of shares	377,537		345,199	
Amounts paid on cancellation of shares	(833,962)		(645,675)	
		(456,425)		(300,476)
Dilution adjustments		3,889		2,710
Change in net assets attributable to shareholders from investment activities (see above)		54,885		81,183
Retained distributions on Accumulation shares		21,544		25,946
Unclaimed distributions		15		30
Closing net assets attributable to shareholders		3,129,444		3,505,536

M&G Corporate Bond Fund

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Financial statements (continued)

Balance sheet

as at 30 June	Note	2020 £'000	2019 £'000
Assets			
Fixed assets			
Investments		2,979,923	3,320,641
Current assets			
Debtors	9	71,043	53,533
Cash and bank balances	10	34,038	42,395
Cash equivalents		100,592	159,695
Total assets		**3,185,596**	**3,576,264**
Liabilities			
Investment liabilities		(12,206)	(21,799)
Creditors			
Overdrawn positions at futures clearing houses and collateral manager		(285)	(10,190)
Distribution payable		(18,235)	(23,961)
Other creditors	11	(25,426)	(14,778)
Total liabilities		**(56,152)**	**(70,728)**
Net assets attributable to shareholders		**3,129,444**	**3,505,536**

M&G Corporate Bond Fund

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Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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

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

3 Net capital gains / (losses)

for the year to 30 June	2020 £'000	2019 £'000
Non-derivative securities	157,912	158,922
Derivative contracts	(89,594)	(57,320)
Currency gains / (losses)	3,966	(85)
Transaction charges	1	(16)
Net capital gains / (losses)	**72,285**	**101,501**

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 24.

for the year to 30 June	2020 £'000	2019 £'000
a) Purchases		
Debt securities [a]	972,175	831,276
b) Sales		
Debt securities [a]	1,473,840	1,180,648
Other transaction types		
Corporate actions	11,426	45,047
Total sales	**1,485,266**	**1,225,695**

c) Direct portfolio transaction costs	2020 £'000	% of average NAV	2019 £'000	% of average NAV
Commissions paid				
Derivatives	31	0.00	24	0.00
Taxes paid				
Derivatives	32	0.00	16	0.00
Total direct portfolio transaction costs [b]	**63**	**0.00**	**40**	**0.00**
d) Indirect portfolio transaction costs		**%**		**%**
Portfolio dealing spread [c]		1.06		0.80

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

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

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

5 Revenue

for the year to 30 June	2020 £'000	2019 £'000
Bank interest	62	65
Derivative revenue	(2,459)	(1,572)
Interest distributions	1,127	1,085
Interest on debt securities	111,386	133,996
Rebate of ongoing charges from underlying funds	570	0
Total revenue	**110,686**	**133,574**

6 Expenses

for the year to 30 June	2020 £'000	2019 £'000
Payable to the ACD or associate		
Annual charge	22,325	0
Annual management charge [a]	2,002	22,884
Administration charge [a]	479	5,458
	24,806	28,342
Payable to the Depositary or associate		
Depositary's charge (including VAT) [a]	12	133
Other expenses		
Audit fee (including VAT) [a] [b]	1	11
Interest payable	46	16
Safe custody charge [a]	12	153
	59	180
Total expenses	**24,877**	**28,655**

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

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

7 Taxation

for the year to 30 June	2020 £'000	2019 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	(120)	49
Deferred tax (note 7c)	0	0
Total taxation	**(120)**	**49**
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	85,809	104,919
Corporation tax at 20%	17,162	20,984
Effects of:		
Interest distributions	(17,162)	(20,984)
Withholding tax	(120)	49
Total tax charge (note 7a)	**(120)**	**49**
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	**0**	**0**

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

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8 Distributions

	2020		2019	
for the year to 30 June	Inc [a]	Acc [b]	Inc [a]	Acc [b]
Interest distributions	**£'000**	**£'000**	**£'000**	**£'000**
First interim	21,915	6,021	23,695	6,588
Second interim	20,868	5,478	26,124	6,703
Third interim	18,771	5,111	23,553	6,264
Final	18,235	4,934	23,961	6,391
Total net distributions		101,333		123,279
Income deducted on cancellation of shares		4,222		3,056
Income received on issue of shares		(2,226)		(1,147)
Distributions		**103,329**		**125,188**
Net revenue / (expense) per statement of total return		85,929		104,870
Expenses offset against capital		17,401		20,316
Undistributed income brought forward		4		6
Undistributed income carried forward		(5)		(4)
Distributions		**103,329**		**125,188**

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 30 June	2020 £'000	2019 £'000
Amounts receivable on issues of shares	1,541	148
Currency deals outstanding	6,623	0
Debt security interest receivable	42,849	53,234
Distributions receivable	20	74
Management charge rebates due	21	0
Rebate of ongoing charges from underlying funds	3	0
Sales awaiting settlement	19,986	0
Withholding tax recoverable	0	77
Total debtors	**71,043**	**53,533**

10 Cash and bank balances

as at 30 June	2020 £'000	2019 £'000
Amounts held at futures clearing houses and collateral manager	23,222	39,813
Cash held as bank balances	10,816	2,582
Total cash and bank balances	**34,038**	**42,395**

11 Other creditors

as at 30 June	2020 £'000	2019 £'000
ACD's annual management charge payable	0	668
Administration charge payable	0	160
Amounts payable on cancellation of shares	3,783	3,421
Annual charge payable	941	0
Bank overdraft interest payable	4	0
Currency deals outstanding	6,564	0
Derivative expense payable	365	63
Expenses payable	12	98
Purchases awaiting settlement	13,757	10,368
Total other creditors	**25,426**	**14,778**

12 Contingent assets, liabilities and outstanding commitments

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

13 Shares in issue

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

Share class	Opening 01.07.19	Movements Issued	Movements Cancelled	Closing 30.06.20
Euro				
Class 'A' Accumulation	541,193	33,967	(161,439)	413,721
Class 'C' Accumulation	79,693	8,943	(29,698)	58,938
Sterling				
Class 'A' Income	391,692,816	13,161,999	(56,150,371)	348,704,444
Class 'A' Accumulation	423,211,540	14,472,600	(79,465,484)	358,218,656
Class 'I' Income	5,004,202,980	270,497,930	(1,491,363,384)	3,783,337,526
Class 'I' Accumulation	721,174,779	23,914,220	(113,234,088)	631,854,911
Class 'PP' Income	0	215,028,613	(1,662,824)	213,365,789
Class 'PP' Accumulation	479,751	3,159,229	(340,380)	3,298,600
Class 'R' Income	9,007,249	1,503,533	(932,868)	9,577,914
Class 'R' Accumulation	13,510,595	1,446,063	(1,593,320)	13,363,338
Class 'X' Income	922,450,949	18,973,399	(77,196,025)	864,228,323
Class 'X' Accumulation	24,007,590	954,294	(3,450,093)	21,511,791

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual charge [a] %
Euro			
Class 'A'	3.25	n/a	1.40
Class 'C'	1.25	n/a	0.65
Sterling			
Class 'A'	n/a	n/a	1.15
Class 'I'	n/a	n/a	0.65
Class 'PP'	n/a	n/a	0.50
Class 'R'	n/a	n/a	0.90
Class 'X'	n/a	n/a	1.15

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

15 Related parties

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

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

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15 Related parties (continued)

At the balance sheet date, shareholders from within M&G plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 39.66% (2019: 36.11%) of the fund's shares.

16 Events after the balance sheet date

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

17 Fair value analysis

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

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

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

Level 2: Valuation technique using observable market data

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

Level 3: Valuation technique using unobservable inputs

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

as at 30 June Basis of valuation	Assets 2020 £'000	Liabilities 2020 £'000	Assets 2019 £'000	Liabilities 2019 £'000
Level 1	121,195	(2,903)	73,091	(9,950)
Level 2	2,858,728	(9,303)	3,247,550	(11,849)
Level 3	0	0	0	0
	2,979,923	**(12,206)**	**3,320,641**	**(21,799)**

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

18 Risk management policies

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

19 Market risk sensitivity and exposure

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

The VaR limit set during the financial year to 30 June 2020 was 15% (2019: 11%).

The lowest, highest and average VaR as well as utilisation of VaR with reference to the limit above, are calculated during the financial years ended 30 June 2020 and 30 June 2019.

for the year to 30 June	2020 % of VaR	2020 Utilisation of VaR [a] 15%	2019 % of VaR	2019 Utilisation of VaR [a] 11%
Lowest	1.72	11.47	1.67	15.18
Highest	10.05	67.00	2.53	23.02
Average	4.19	27.96	2.14	19.43

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

20 Credit risk

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

as at 30 June	2020 £'000	2019 £'000
Investment grade securities	2,683,933	2,954,240
Below investment grade securities	100,267	128,913
Unrated securities	192,082	236,604
Other investments	(8,565)	(20,915)
Total	**2,967,717**	**3,298,842**

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

as at 30 June 2020	Swaps £'000	Forward currency contracts £'000	Futures £'000
Bank of America Merrill Lynch	0	(783)	(2,903)
Barclays Bank	260	(15)	0
BNP Paribas	0	(353)	0
Citigroup	0	(487)	0
HSBC	0	(142)	0
JPMorgan	0	372	0
Royal Bank of Canada	0	3	0
Standard Chartered Bank	0	(1,306)	0
State Street Bank	0	(2,458)	0
UBS	0	(753)	0
Total	**260**	**(5,922)**	**(2,903)**

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20 Credit risk (continued)

as at 30 June 2019	Swaps £'000	Forward currency contracts £'000	Futures £'000
Bank of America Merrill Lynch	0	2	(9,950)
Barclays Bank	61	(3)	0
Citigroup	0	(9)	0
HSBC	0	(10,504)	0
JPMorgan	0	692	0
National Australia Bank	0	10	0
State Street Bank	0	(1,052)	0
UBS	0	(162)	0
Total	**61**	**(11,026)**	**(9,950)**

21 Leverage risk

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

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

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 30 June 2020 and 30 June 2019 are disclosed in the table below.

for the year to 30 June	2020 [a] £'000	2020 [a] % [b]	2019 [a] £'000	2019 [a] % [b]
Lowest	1,086,102	33.70	835,383	22.50
Highest	1,731,143	51.90	1,523,337	43.60
Average	1,286,727	38.70	1,024,315	28.10

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

[b] Expressed as a percentage over fund valuation.

22 Interest distribution tables

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

Quarterly distribution periods

	Start	End	Xd	Payment
First interim	01.07.19	30.09.19	01.10.19	30.11.19
Second interim	01.10.19	31.12.19	02.01.20	29.02.20
Third interim	01.01.20	31.03.20	01.04.20	31.05.20
Final	01.04.20	30.06.20	01.07.20	31.08.20

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

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

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

Euro Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 Euro ¢	Group 2 Equalisation 2020 Euro ¢	Group 1 & 2 Distribution 2020 Euro ¢	Group 1 & 2 Distribution 2019 Euro ¢
First interim	5.0163	5.4327	10.4490	9.9301
Second interim	1.9067	8.1456	10.0523	10.7143
Third interim	4.8524	4.5455	9.3979	10.8080
Final	2.9932	5.9375	8.9307	10.8064

Euro Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 Euro ¢	Group 2 Equalisation 2020 Euro ¢	Group 1 & 2 Distribution 2020 Euro ¢	Group 1 & 2 Distribution 2019 Euro ¢
First interim	6.7317	8.5735	15.3052	14.2576
Second interim	0.1604	14.9634	15.1238	15.2679
Third interim	5.8758	8.3626	14.2384	15.3811
Final	2.8258	10.8651	13.6909	15.5530

Sterling Class 'A' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	0.1580	0.2008	0.3588	0.3502
Second interim	0.1550	0.1830	0.3380	0.3729
Third interim	0.1531	0.1761	0.3292	0.3543
Final	0.1444	0.1803	0.3247	0.3735

Sterling Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	0.0504	0.3896	0.4400	0.4151
Second interim	0.2055	0.2042	0.4097	0.4509
Third interim	0.1864	0.2137	0.4001	0.4343
Final	0.1884	0.2055	0.3939	0.4565

Sterling Class 'I' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	0.1414	0.2231	0.3645	0.3542
Second interim	0.1267	0.2172	0.3439	0.3775
Third interim	0.1650	0.1706	0.3356	0.3593
Final	0.1628	0.1684	0.3312	0.3790

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22 Interest distribution tables (continued)

Sterling Class 'I' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	0.2706	0.2909	0.5615	0.5235
Second interim	0.2657	0.2657	0.5314	0.5659
Third interim	0.2179	0.3033	0.5212	0.5448
Final	0.2208	0.2960	0.5168	0.5768

Sterling Class 'PP' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	0.8411	0.0000	0.8411	n/a
Second interim	0.8186	0.0000	0.8186	n/a
Third interim	0.0157	0.7838	0.7995	n/a
Final	0.0911	0.6986	0.7897	n/a

Sterling Class 'PP' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	0.1889	0.6022	0.7911	n/a
Second interim	0.2803	0.4711	0.7514	n/a
Third interim	0.6289	0.1089	0.7378	n/a
Final	0.1869	0.5461	0.7330	0.8071

Sterling Class 'R' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	0.3249	0.6418	0.9667	0.9416
Second interim	0.8011	0.1104	0.9115	1.0029
Third interim	0.4102	0.4780	0.8882	0.9539
Final	0.3028	0.5739	0.8767	1.0055

Sterling Class 'R' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	0.2835	0.6197	0.9032	0.8467
Second interim	0.2700	0.5782	0.8482	0.9172
Third interim	0.3781	0.4523	0.8304	0.8829
Final	0.4274	0.3934	0.8208	0.9319

Sterling Class 'X' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	0.1074	0.2510	0.3584	0.3499
Second interim	0.1063	0.2314	0.3377	0.3725
Third interim	0.1098	0.2191	0.3289	0.3542
Final	0.1103	0.2141	0.3244	0.3731

Sterling Class 'X' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	0.2296	0.1974	0.4270	0.4029
Second interim	0.3397	0.0579	0.3976	0.4376
Third interim	0.1826	0.2057	0.3883	0.4214
Final	0.2224	0.1599	0.3823	0.4433

M&G Dividend Fund

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Investment objective and policy up to 28 November 2019

The fund invests mainly in a range of UK equities with the aim of achieving a steadily increasing income stream. The fund will target a yield higher than that of the FTSE All-Share Index. Subject to this, the aim will be to maximise total return (the combination of income and growth of capital).

Investment objective from 29 November 2019

The fund has three aims:

- To provide an annual yield higher than that of the FTSE All-Share Index;
- To provide an income stream that increases every year;
- To provide a higher total return (the combination of capital growth and income), net of the ongoing charge figure, than that of the FTSE All-Share Index over any five-year period.

Investment policy from 29 November 2019

At least 70% of the fund is invested in equity securities and equity-related securities of companies across any sector and market capitalisation, that are incorporated, domiciled, listed or do most of their business in the United Kingdom.

The fund may also invest in other transferable securities, including the shares of non-UK companies, cash and near cash directly or via collective investment schemes (including funds managed by M&G).

Derivatives may be used for efficient portfolio management and hedging.

Investment approach up to 28 November 2019

The M&G Dividend Fund employs a bottom-up stockpicking approach, driven by the fundamental analysis of individual companies. The fund manager seeks to invest in companies with excellent capital discipline and long-term dividend growth potential. The fund manager believes rising dividends create upward pressure on the value of shares. Dividend yield is not the primary consideration for stock selection. The fund manager aims to create a diversified portfolio with exposure to a broad range of sectors. He selects stocks with different drivers of dividend growth to construct a portfolio that has the potential to cope in a variety of market conditions. The fund invests with a long-term investment view and a typical holding period of three to five years.

Investment approach from 29 November 2019

The fund employs a disciplined approach to investment which concentrates on the analysis and selection of individual companies.

The fund typically invests in a well-diversified portfolio of high-yielding UK stocks. The yield premium attached to the fund generally means that there is a bias towards good value, out of favour stocks (i.e. those stocks which the fund manager considered to be undervalued by the market). The emphasis on yield helps to identify stocks that are relatively cheap and to avoid those that are expensive. From the universe of high yielding stocks, the fund manager identifies companies that are competitive, with a strong business franchise and that have attractive dividend growth prospects.

Benchmark

Benchmark: FTSE All-Share Index.

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

The fund is actively managed.

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

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

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Risk profile

The fund invests in the shares of UK-listed companies and is, therefore, subject to the price volatility of the UK stockmarket and the performance of individual companies. The fund's focus is on shares of companies that have the potential to grow their dividends over the long term. Income distributions from the fund's holdings, however, are not guaranteed and may vary. Diversification is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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

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 not changed during this period.

Investment review

As at 1 July 2020, for the year ended 30 June 2020

Performance against objective

The fund did not achieve the objective of growing its income distribution over the 12-month review period. The fund distributed income of 2.47p per Sterling Class 'A' (Income) share, a decrease of 16.9% over the 2.97p payment made in the same period last year. The inflation rate in June 2020 was 1.1%, as measured by the Retail Prices Index (RPI), while on the Consumer Prices Index (CPI) measure it was 0.6%.

However, as at 1 July 2020, the 5.54% yield on the fund's Sterling Class 'A' (Income) shares* was 18.8% above the benchmark FTSE All-Share Index yield of 4.66%, meeting the fund's objective to exceed the index yield.

Over five years, the fund has lagged the benchmark FTSE All-Share Index in total return terms (the combination of capital growth and income), thereby missing its objective. Over this period, the index returned 2.6% p.a.*

* For details of the fund's historic yields and the performance of each share class, please refer to the 'Specific share class performance' tables and the 'Long-term performance by share class' table in the 'Financial highlights' section of this report.

Performance review

After finishing the first half of the 12 months under review just ahead of the FTSE All-Share Index and with a good income trajectory, the fund's high yield portfolio was overwhelmed in the second half by the impact of dividend omissions, cuts and suspensions from UK PLC's companies in 2020 as a result of the pandemic. This left the fund lagging the index for the 12 months as a whole and also facing the need to cut its full year income distribution. The performance impact was reflected in a negative contribution from stock selection. Sector allocation, however, mitigated the underperformance to some extent, primarily reflecting the fund's natural defensive bias, especially through above-market weightings in pharmaceutical, tobacco and utility companies.

At the stock level, value was lost primarily within the fund's medium-sized company holdings and to a lesser extent within larger companies. The main individual detractors from performance were largely the result of market reactions to the pandemic-driven lockdown, with cuts to dividends a common denominator. These included property company NewRiver REIT (real estate investment trust), cinema chain Cineworld, plastic components manufacturer Essentra, brewer plus pub operator Marston's and oil major BP, which succumbed to the collapse in oil prices, but held its latest quarterly dividend payment, unlike rival Royal Dutch Shell, which implemented a two-thirds reduction in its payout. In addition, in the technology sector, which is a relatively small segment of the UK market, Micro Focus was a source of disappointment as the software firm has struggled to absorb the purchase of HP's Enterprise software business over the past 12 months. Nevertheless, we used the opportunity presented by share price weakness to add to the fund's holding, as this is a company where short-term difficulties dominate, but where we believe this is already reflected in the share price.

Conversely, the main individual contributors to performance tended to reflect the defensive qualities represented by their reliable earnings streams and included two pharmaceutical firms, AbbVie and Roche, cigarette manufacturer British American Tobacco, and a couple of utility companies, Pennon and National Grid. Pennon was also lifted by the sale of its Viridor waste management arm to private equity firm KKR. In addition, Ladbrokes Coral owner GVC performed better than expected during the lockdown.

Turning to markets, like other stockmarkets around the world, the UK experienced a painful 12 months overall as COVID-19 extended its spread worldwide in the second half of the period under review, leading to a significant slowdown in economic activity and the onset of a recession.

The first half of the reporting period had seen global equity markets mostly make solid progress. Investors were encouraged by interest rate cuts and the recommencement of quantitative easing programmes in the US and Europe in response to market volatility and worries about slowing growth. There was also increased optimism about a US-China trade deal and some improvement in global economic data. As a result, many global equity indices were near or at all-time records at the end of 2019, led by the US. UK equities lagged, however, as Brexit and political uncertainty weighed on sterling, deterring investors in the domestic market. However, the market and the currency started to recover some risk appetite from October 2019 after new prime minister Boris Johnson secured an exit deal with the European

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Performance review (continued)

Union (EU) and went on to win a decisive victory for the Conservative Party in the December general election. This was followed by the UK's departure from the EU at the end of January 2020, albeit abiding by EU rules until the end of the year.

The outbreak of the coronavirus in China in late 2019 initially made little impact on markets. But, by February 2020, COVID-19 had spread beyond China, swiftly reaching most countries, including the UK. By late March, the FTSE All-Share Index had fallen 35% from its January highs. Authorities around the world started adopting far-reaching measures, aimed at containing the virus and reducing its impact on the global economy. In March in the UK, these steps included two cuts in interest rates to 0.1%, extensive stimulus and support packages, as well as a population lockdown and temporary closure of non-essential businesses. Despite a troubling macroeconomic picture, equity markets experienced a resurgence after the March nadir. By 30 June 2020 the FTSE All-Share Index was up 26% from its low. Similarly, sterling staged a sharp recovery in the currency markets, rising over 7% against the US dollar from US$1.15 in March. The combination of massive stimulus and emerging green shoots of economic optimism as countries eased their respective lockdowns re-energised financial markets. However, the gains in share prices towards the end of the 12-month period were not enough to outweigh the earlier substantial losses.

Larger companies underperformed in the UK stockmarket sell-off. This was reflected in a weak performance from the FTSE 350 Higher Yield Index, which ended the 12-month period down over 21%, affected by dividend cuts, especially within banks, insurers, oil companies and telecoms firms. Banks and insurers came under pressure from the regulators to stop their payouts, whereas energy companies and Royal Dutch Shell in particular were hit by a collapse in oil prices to historic lows in March as a result of oversupply and falling demand. Meanwhile, medium-sized companies, and to a greater extent smaller companies, were hit by concerns about their exposure to the domestic economy lockdown and affected sectors such as travel, media, financials and industrial transportation. The more resilient sectors were, unsurprisingly given the circumstances, healthcare, utilities and consumer staples.

Investment activities

The focus of activity during the 12 months under review changed as the period progressed from the normal concentration on managing the fund's income growth to mitigating the impact of dividend cuts in 2020 and increasing the exposure to companies with higher dividend yields as far as possible, without damaging the portfolio's total return credentials.

With regard to our purchases and sales since the pandemic began to affect markets and dividend payments we have sought (and continue to seek) to strike the right balance between companies with a good chance of maintaining their dividend, those that we believe present valuation opportunities and those which, in our opinion, will recover post the crisis and, once their dividends are reinstated, deliver attractive yields given the current share prices. Accordingly, we sold travel operator Tui, plus Wagamama owner Restaurant Group, which had already cut its dividend, in view of the problems facing the consumer sectors. Elsewhere, we also sold insurer Hiscox and Scandinavian banking group Nordea as both were bowing to pressure from their industry regulators to cut their dividends.

Meanwhile, notably, some holdings were sold in the first half as their yields had become less attractive from an income standpoint after a long period of outperformance. These included media company RELX and plastic pipe manufacturer Polypipe. In addition, we exited a position in European warehouse logistics investment trust Tritax EuroBox, taking advantage of an uptick in performance following a lacklustre last 12 months. One holding exited the portfolio at a healthy premium as a result of a takeover: brewer and pub operator Greene King.

Elsewhere, fund positions started to be reduced in companies that we felt were most affected by lockdowns and where future prospects were less assured than other corporates. This category included cinema owner Cineworld, events business Informa and brewer plus pub operator Marston's. To raise cash, profits were realised in holdings that had performed well, including pharmaceutical manufacturer AstraZeneca, consumer goods business Unilever, soft drinks group Britvic and flexible workspace provider IWG. Meanwhile, the biggest dividend payer in the UK market, Royal Dutch Shell, was also reduced after the oil major cut its dividend by 66% for the first time since WWII, owing to the dramatic fall in oil prices. Some of the proceeds were switched into rivals BP and French oil major Total.

Conversely, amongst new positions established were housebuilder Persimmon, miniature wargames manufacturer Games Workshop, utility company Drax, US-based but UK-listed energy company Diversified Gas & Oil, and bookmaker William Hill.

Although it has cut its dividend in the short term due to the lockdown, Persimmon is one of the stronger housebuilders and represented a long-term opportunity for the fund. Games Workshop monetises its intellectual property (IP) through selling its miniatures globally and by licensing the brand. We believe the company has a very long-term growth opportunity, especially through further IP licenses, which are a particularly good earnings stream. Drax offered an attractive yield and it is switching from coal-fired power stations to cleaner energy in the form of sustainable biomass. Diversified Gas & Oil was part of the switch out of Royal Dutch Shell and is a high-yielding business, focused on managing cost savings and economies of scale from existing gas fields. William Hill has also cancelled its dividend this year due to the disruption to its sporting calendar; but again, we are hopeful that this is a short-term issue as historically the company has been a good dividend payer and has scope to expand in the US.

The fund has always had the facility to invest overseas and the market setback enabled us to invest in some companies that we have been following for some time as their yields had become more attractive. These included Japanese drugmaker Takeda Pharmaceutical, Finnish pulp and paper producer UPM Kymmene,

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Investment activities (continued)

Swiss insurer Zurich Insurance and French oil major Total. In addition, we took the opportunity to add to an existing holding in Finnish winter tyre manufacturer Nokian Renkaat. Conversely, in the first half, after a long period of outperformance, we sold out of Finnish lift manufacturer Kone.

In other activity, we took advantage of cheaper valuations to add to the fund's positions in telecoms groups BT and Vodafone, the world's largest advertising agency, WPP, broadcaster ITV, insurers Aviva, Direct Line, Phoenix and Chesnara, plus the software firm Micro Focus.

Outlook

Policymakers globally have responded to the pandemic and have shown they are prepared to take unprecedented action to mitigate the global growth slowdown, but a recession is now evident. In the UK, the government has pledged vast sums to support individuals, jobs and the economy. However, recent data on the economy has indicated the impact of the domestic population lockdown, with gross domestic product contracting by 5.8% in March and a further 20% in April, followed by a lower-than-expected 1.8% expansion in May as the lockdown has been eased. Meanwhile, fiscal and monetary policies are providing a buffer against the economic fallout, and risk assets have staged a sharp recovery, albeit the UK market is still back at levels last visited after the 2016 referendum.

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

Confronted with the pandemic, many companies have announced the omission, cancellation or suspension of dividend payments. This has been another factor undermining the domestic market, as dividends form a major component of returns from UK equities, as well as a basis for valuing them.

On a more positive note, the current situation differs from previous market setbacks as the sharp economic deterioration has been caused by governments shutting down their economies, and not more typically by rising interest rates, corporate failure, a geopolitical event or an oil price rise shock. Indeed, although the latter has risen off historic lows, it is hovering around US$40 per barrel which should provide a boost to most of the global economy – although since March the oil price has been a negative force on the FTSE 100 Index due to concerns about its impact on the oil majors' dividends. Global policymakers are beginning to take the view that the worst of the pandemic is behind us and are starting to switch their economies back on again. The bounce-back could be fairly swift, albeit to a lower rate of growth than before. In some countries, such as China and South Korea, this is already starting to occur. The worry remains of a secondary rise in infections if lockdowns are lifted too early. One thing is for certain, the wave of capital raisings is likely to continue as companies seek to repair their balance sheets and ultimately return to paying dividends.

Distribution prospects

The first of the fund's new quarterly distributions was paid at the end of May.

As a result of the omission and delay of dividends across the UK market, the fund has had to cut its yearly distribution for 2019/20 by 16.9%. We have been able to deliver a slightly smaller cut than the market's -17.9%, due to the management of income over the course of the fund's financial year. However, the distribution cut would have been lower if it had not been for a couple of companies delaying their results, which meant their dividend payments slipped into the fund's next financial year.

We are beginning to think about what 2021 might look like for income. The spectrum of possible outcomes is still very wide. It is entirely possible that many companies simply refrain from paying any dividends for much of the rest of this calendar year and even beyond; although equally we might end up in a situation where companies not only pay the dividends due in the second half of 2020, but also make additional payments to compensate for dividends passed at this stage of the crisis. We will seek to retain the fund's premium income yield versus the FTSE All-Share Index, but the reduction in income across the UK market means we currently anticipate a 5%-10% cut in the fund's income for the year to June 2021, although we aim to mitigate this through active management. We expect income for the UK market overall to be down circa 11% in the same period, subject to events over the next 11 months.

Finally, despite the setbacks so far in 2020, we remain convinced of the longer term opportunity presented by higher-yielding equities.

Michael Stiasny
Fund manager

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

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

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Portfolio statement

as at 30 June Holding		2020 £'000	2020 %	2019 %
	EQUITIES	969,888	101.87	102.55
	Software & computer services	**11,458**	**1.20**	**2.11**
2,600,000	Micro Focus International	11,458	1.20	
	Technology hardware & equipment	**7,566**	**0.80**	**0.96** [a]
1,375,000	SES FDR	7,566	0.80	
	Telecommunications service providers	**31,100**	**3.27**	**1.77**
8,000,000	BT	9,224	0.97	
17,040,401	Vodafone	21,876	2.30	
	Pharmaceuticals & biotechnology	**122,245**	**12.84**	**8.20**
250,000	AbbVie	19,649	2.07	
612,500	AstraZeneca	51,732	5.43	
2,325,000	GlaxoSmithKline	38,214	4.01	
32,500	Roche	9,166	0.96	
120,000	Takeda Pharmaceutical	3,484	0.37	
	Banks	**40,359**	**4.24**	**7.97**
5,875,000	HSBC	22,263	2.34	
57,943,709	Lloyds Banking	18,096	1.90	
	Investment banking & brokerage services	**46,203**	**4.85**	**6.13**
600,000	3i	5,094	0.53	
1,639,553	Brewin Dolphin	4,214	0.44	
1,353,380	Duke Royalty [b]	338	0.04	
1,150,000	Intermediate Capital	15,030	1.58	
1,944,257	Jupiter Fund Management	4,997	0.52	
6,000,000	Standard Life Aberdeen	16,530	1.74	
	Equity investment instruments	**2,479**	**0.26**	**0.85**
2,350,000	SDCL Energy Efficiency Income Trust	2,479	0.26	
	Non-equity investment instruments	**8,760**	**0.92**	**1.11**
1,200,000	Honeycomb Investment Trust	8,760	0.92	
	Life insurance	**76,200**	**8.00**	**5.83**
5,350,000	Aviva	14,739	1.55	
2,964,566	Chesnara	8,330	0.87	
6,500,000	Legal & General	14,411	1.51	
3,750,000	Phoenix	24,368	2.56	
1,500,000	St. James's Place	14,352	1.51	
	Non-life insurance	**58,592**	**6.15**	**6.07**
789,991	Admiral	18,360	1.93	
2,330,000	Direct Line Insurance	6,426	0.68	
5,000,000	Hastings	9,605	1.01	
4,383,177	Sabre Insurance	11,659	1.22	
200,000	Sampo	5,558	0.58	
24,500	Zurich Insurance	6,984	0.73	
	Real estate investment & services	**5,833**	**0.61**	**0.42**
9,296,075	Grit Real Estate Income	5,833	0.61	
	Real estate investment trusts	**32,826**	**3.45**	**4.45**
7,448,434	NewRiver REIT	4,774	0.50	
8,372,066	Regional REIT	6,070	0.64	
1,730,000	UNITE REIT	16,392	1.72	
5,128,064	Warehouse REIT [b]	5,590	0.59	
1,709,354	Warehouse REIT Rights 02/07/2020	0	0.00	
	Automobiles & parts	**7,689**	**0.81**	**0.49**
425,306	Nokian Renkaat	7,689	0.81	
	Household goods & home construction	**20,742**	**2.18**	**0.97**
3,600,000	Countryside Properties	11,866	1.25	
384,916	Persimmon	8,876	0.93	
	Leisure goods	**7,990**	**0.84**	**0.00**
100,000	Games Workshop	7,990	0.84	
	Personal goods	**12,122**	**1.27**	**1.72**
275,000	Unilever	12,122	1.27	
	Media	**34,056**	**3.58**	**5.50** [a]
86,722	Informa	408	0.04	
10,750,000	ITV	7,996	0.84	

M&G Dividend Fund

Authorised Corporate Director's Report

Portfolio statement (continued)

as at 30 June Holding		2020 £'000	2020 %	2019 %
	EQUITIES (continued)			
	Media (continued)			
1,000,000	Moneysupermarket.com	3,220	0.34	
8,250,000	Reach	6,435	0.68	
972,891	STV	2,238	0.23	
2,175,000	WPP	13,759	1.45	
	Retailers	**11,298**	**1.19**	**0.82**
1,799,850	DFS Furniture	2,959	0.31	
400,000	Halfords	617	0.07	
1,761,606	ScS	2,493	0.26	
477,525	WH Smith	5,229	0.55	
	Travel & leisure	**44,168**	**4.64**	**7.10**
159,504	Cineworld	95	0.01	
446,000	Compass	5,011	0.53	
482,000	Go-Ahead	4,063	0.43	
4,055,000	GVC	30,478	3.20	
5,000,000	Marston's	2,705	0.28	
1,538,650	William Hill	1,816	0.19	
	Beverages	**13,810**	**1.45**	**1.57**
1,775,000	Britvic	13,810	1.45	
	Food producers	**5,000**	**0.53**	**0.96**
400,000	Hilton Food	5,000	0.53	
	Tobacco	**97,680**	**10.26**	**7.46**
1,820,000	British American Tobacco	56,993	5.99	
2,613,980	Imperial Brands	40,687	4.27	
	Construction & materials	**1,182**	**0.12**	**0.43**
1,200,000	Kier	1,182	0.12	
	General industrials	**21,652**	**2.27**	**2.06**
6,500,000	DS Smith	21,652	2.27	
	Industrial engineering	**9,305**	**0.98**	**2.74**
1,000,000	IMI	9,305	0.98	
	Industrial support services	**23,842**	**2.50**	**3.72**
5,750,000	Essentra	16,870	1.77	
750,000	IWG	2,012	0.21	
800,000	PayPoint	4,960	0.52	
	Industrial materials	**5,293**	**0.56**	**0.00**
225,000	UPM-Kymmene	5,293	0.56	
	Industrial metals & mining	**46,699**	**4.91**	**4.58**
500,000	Central Asia Metals [b]	717	0.08	
2,990,875	Prosafe	355	0.04	
1,010,000	Rio Tinto	45,627	4.79	
	Chemicals	**16,012**	**1.68**	**2.33**
565,852	Methanex	8,360	0.88	
390,000	Victrex	7,652	0.80	
	Non-renewable energy	**76,973**	**8.08**	**10.95**
15,941,281	BP	49,370	5.18	
7,578,717	Diversified Gas & Oil	7,238	0.76	
550,000	Royal Dutch Shell	6,841	0.72	
435,000	TOTAL	13,524	1.42	
	Electricity	**17,612**	**1.85**	**0.12**
1,155,689	Drax	3,054	0.32	
1,050,000	SSE	14,558	1.53	
	Gas, water & multi-utilities	**53,142**	**5.58**	**3.16**
450,000	ENGIE	4,618	0.48	
3,000,000	National Grid	29,616	3.11	
1,175,000	Pennon	13,207	1.39	
618,070	United Utilities	5,701	0.60	
	Unquoted / unlisted [c]	**0**	**0.00**	**0.00**
377,518	Izodia	0	0.00	

M&G Dividend Fund

Authorised Corporate Director's Report

Portfolio statement (continued)

as at 30 June Holding		2020 £'000	2020 %	2019 %
	CURRENCY	0	0.00	(0.03)
	Forward currency contracts	0	0.00	(0.03)
Portfolio of investments		969,888	101.87	102.52
	CASH EQUIVALENTS	0	0.00	0.69
	'AAA' rated money market funds [d]	0	0.00	0.69
Total portfolio (notes 2c & 2d on page 7)		969,888	101.87	103.21
Net other assets / (liabilities)		(17,758)	(1.87)	(3.21)
Net assets attributable to shareholders		952,130	100.00	100.00

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

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

[b] AIM quoted.

[c] Suspended.

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

Top ten portfolio transactions

for the year to 30 June 2020 Largest purchases	£'000
SSE	13,944
Legal & General	13,892
AbbVie	13,533
Vodafone	12,644
Micro Focus International	12,636
Cineworld	10,568
Aviva	10,381
GlaxoSmithKline	9,577
TOTAL	9,325
Persimmon	9,276
Other purchases	165,929
Total purchases	**281,705**

Largest sales	£'000
Compass	21,773
Intermediate Capital	19,110
AstraZeneca	14,718
Tritax EuroBox	14,504
RELX	14,383
Kone	14,337
Hiscox	13,482
Royal Dutch Shell	12,998
Informa	12,929
IWG	11,695
Other sales	113,928
Total sales	**263,857**

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

M&G Dividend Fund

Financial highlights

Fund performance

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

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

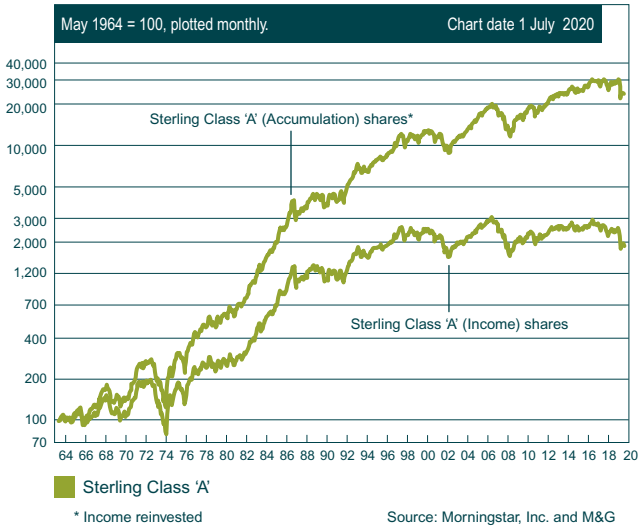
Fund level performance

Fund net asset value

as at 30 June	2020 £'000	2019 £'000	2018 £'000
Fund net asset value (NAV)	952,130	1,134,711	1,204,479

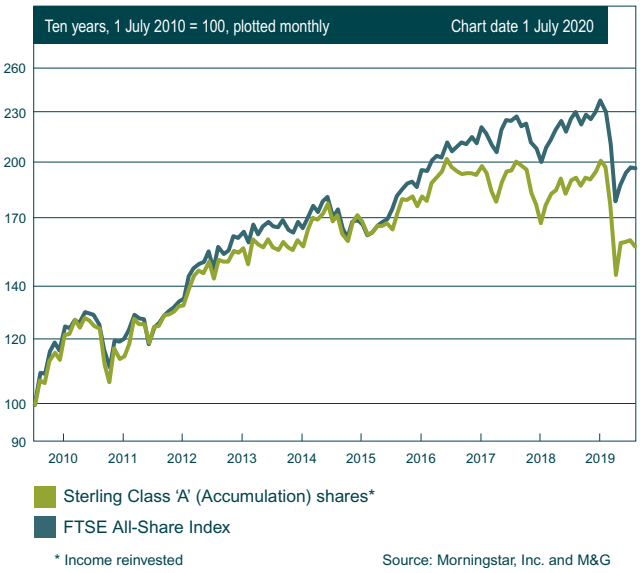
Performance since launch

To give an indication of how the fund has performed since launch, the chart below shows performance of Sterling Class 'A' (Accumulation) shares and Sterling Class 'A' (Income) shares. With Accumulation shares, income received from an investment is reinvested, while with Income shares, the income is paid out to shareholders.



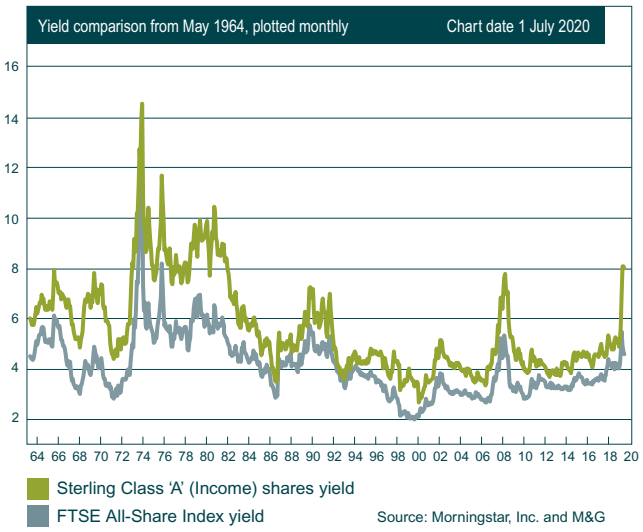
Ten-year performance

Please note that comparative data is not available from fund launch. Therefore a ten-year comparable performance chart is shown below.



Historic yield

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



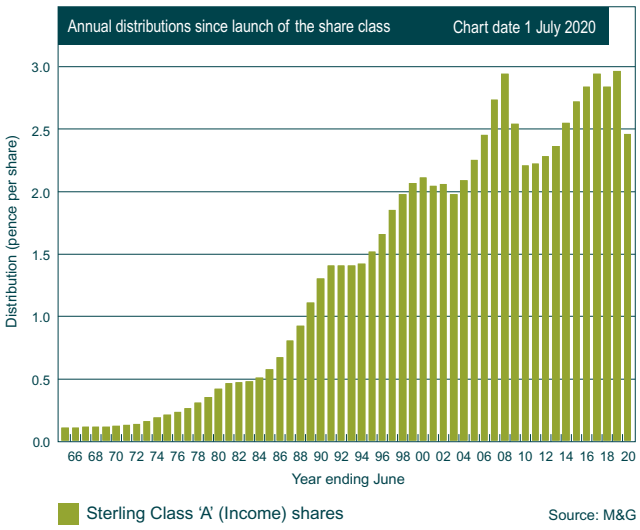
Historic yield: The historic yield reflects distributions declared over the past twelve months as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions.

M&G Dividend Fund

Financial highlights

Distribution since launch

The chart below show the annual distribution of Sterling Class 'A' (Income) shares since launch.



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 01.07.19 % [a]	Three years 03.07.17 % p.a.	Five years 01.07.15 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	-18.1	-7.3	-1.6	+10.2 [c]
Class 'C'	-17.1	-6.0	-0.2	+4.3 [d]
Class 'I'	-17.6	-6.6	-0.9	+3.4 [e]
Class 'R'	-17.8	-6.9	-1.1	+3.2 [e]
Class 'X'	-18.1	-7.3	-1.6	+5.4 [f]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 6 May 1964, the end of the initial offer period of the predecessor unit trust.

[d] 3 January 2006, the launch date of the share class.

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

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

Operating charges and portfolio transaction costs

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

Operating charges

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

- **Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge.

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

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

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

M&G Dividend Fund

Financial highlights

Operating charges and portfolio transaction costs

Operating charges (continued)

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

for the year to 30 June	2020	2019	2018	Average [a]
Direct portfolio transaction costs [b]	%	%	%	%
Broker commission	0.02	0.04	0.04	0.03
Taxes	0.10	0.18	0.12	0.13
Costs before dilution adjustments	0.12	0.22	0.16	0.16
Dilution adjustments [c]	(0.05)	(0.03)	(0.03)	(0.03)
Total direct portfolio transaction costs	0.07	0.19	0.13	0.13

as at 30 June	2020	2019	2018	Average [a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.25	0.11	0.10	0.15

[a] Average of first three columns.

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

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

M&G Dividend Fund

Financial highlights

Specific share class performance

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

Historic yields for the current year are calculated as at 10 July 2020.

Sterling Class 'A' Income share performance

The share class was launched on 6 May 1964. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	56.65	61.07	65.01
Return before operating charges and after direct portfolio transaction costs	(8.08)	(0.47)	(0.04)
Operating charges	(0.66)	(0.98)	(1.05)
Return after operating charges	(8.74)	(1.45)	(1.09)
Distributions	(2.47)	(2.97)	(2.85)
Closing NAV	45.44	56.65	61.07
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.06	0.13	0.10
Dilution adjustments [a]	(0.03)	(0.02)	(0.02)
Total direct portfolio transaction costs	0.03	0.11	0.08
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.07	0.19	0.13
Operating charges [c]	1.22	1.70	1.68
Return after operating charges	-15.43	-2.37	-1.68
Historic yield	5.60	5.21	4.60
Effect on yield of charges offset against capital	1.22	1.66	1.66
Other information			
Closing NAV (£'000)	204,137	264,442	303,852
Closing NAV percentage of total fund NAV (%)	21.44	23.30	25.23
Number of shares	449,275,012	466,775,318	497,549,090
Highest share price (UK p)	60.72	63.11	65.92
Lowest share price (UK p)	37.94	52.08	57.44

Sterling Class 'A' Accumulation share performance

The share class was launched on 6 May 1964. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	687.64	702.83	714.80
Return before operating charges and after direct portfolio transaction costs	(99.35)	(3.77)	(0.34)
Operating charges	(8.06)	(11.42)	(11.63)
Return after operating charges	(107.41)	(15.19)	(11.97)
Distributions	(22.20)	(23.50)	(20.17)
Retained distributions	22.20	23.50	20.17
Closing NAV	580.23	687.64	702.83
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.75	1.47	1.07
Dilution adjustments [a]	(0.35)	(0.23)	(0.21)
Total direct portfolio transaction costs	0.40	1.24	0.86
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.07	0.19	0.13
Operating charges [c]	1.22	1.70	1.68
Return after operating charges	-15.62	-2.16	-1.67
Historic yield	3.94	3.40	2.83
Effect on yield of charges offset against capital	0.00	0.01	0.01
Other information			
Closing NAV (£'000)	52,150	67,252	74,303
Closing NAV percentage of total fund NAV (%)	5.48	5.93	6.17
Number of shares	8,987,698	9,780,117	10,571,996
Highest share price (UK p)	739.07	726.56	724.97
Lowest share price (UK p)	466.67	600.55	639.57

Sterling Class 'C' Income share performance

Sterling Class 'C' shares are not generally available to all investors. The share class was launched on 3 January 2006. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	70.03	74.35	77.96
Return before operating charges and after direct portfolio transaction costs	(10.08)	(0.53)	(0.02)
Operating charges	(0.01)	(0.14)	(0.14)
Return after operating charges	(10.09)	(0.67)	(0.16)
Distributions	(3.07)	(3.65)	(3.45)
Closing NAV	56.87	70.03	74.35
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.08	0.16	0.12
Dilution adjustments [a]	(0.04)	(0.02)	(0.02)
Total direct portfolio transaction costs	0.04	0.14	0.10
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.07	0.19	0.13
Operating charges [c]	0.01	0.20	0.18
Return after operating charges	-14.41	-0.90	-0.21
Historic yield	5.56	5.18	4.57
Effect on yield of charges offset against capital	0.01	0.16	0.16
Other information			
Closing NAV (£'000)	551,154	658,664	665,795
Closing NAV percentage of total fund NAV (%)	57.89	58.04	55.27
Number of shares	969,200,915	940,507,184	895,430,657
Highest share price (UK p)	75.53	76.94	79.12
Lowest share price (UK p)	47.32	63.90	69.68

M&G Dividend Fund

Financial highlights

Specific share class performance

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	1,141.74	1,221.44	1,290.34
Return before operating charges and after direct portfolio transaction costs	(163.78)	(8.93)	(0.51)
Operating charges	(7.47)	(11.06)	(11.59)
Return after operating charges	(171.25)	(19.99)	(12.10)
Distributions	(49.88)	(59.71)	(56.80)
Closing NAV	920.61	1,141.74	1,221.44
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	1.22	2.55	1.93
Dilution adjustments [a]	(0.58)	(0.41)	(0.38)
Total direct portfolio transaction costs	0.64	2.14	1.55
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.07	0.19	0.13
Operating charges [c]	0.70	0.95	0.93
Return after operating charges	-15.00	-1.64	-0.94
Historic yield	5.58	5.20	4.59
Effect on yield of charges offset against capital	0.70	0.91	0.91
Other information			
Closing NAV (£'000)	86,111	72,423	83,800
Closing NAV percentage of total fund NAV (%)	9.04	6.38	6.96
Number of shares	9,353,766	6,343,173	6,860,758
Highest share price (UK p)	1,227.11	1,263.06	1,309.05
Lowest share price (UK p)	767.62	1,045.65	1,146.68

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	1,570.70	1,593.43	1,608.51
Return before operating charges and after direct portfolio transaction costs	(227.78)	(8.19)	(0.55)
Operating charges	(10.55)	(14.54)	(14.53)
Return after operating charges	(238.33)	(22.73)	(15.08)
Distributions	(58.71)	(64.98)	(57.32)
Retained distributions	58.71	64.98	57.32
Closing NAV	1,332.37	1,570.70	1,593.43
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	1.71	3.35	2.42
Dilution adjustments [a]	(0.81)	(0.53)	(0.48)
Total direct portfolio transaction costs	0.90	2.82	1.94
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.07	0.19	0.13
Operating charges [c]	0.70	0.95	0.93
Return after operating charges	-15.17	-1.43	-0.94
Historic yield	4.54	4.11	3.55
Effect on yield of charges offset against capital	0.00	0.01	0.01
Other information			
Closing NAV (£'000)	16,263	20,241	22,216
Closing NAV percentage of total fund NAV (%)	1.71	1.78	1.84
Number of shares	1,220,640	1,288,692	1,394,209
Highest share price (UK p)	1,693.26	1,648.33	1,632.10
Lowest share price (UK p)	1,070.09	1,366.64	1,447.45

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	112.20	120.34	127.45
Return before operating charges and after direct portfolio transaction costs	(16.05)	(0.90)	(0.06)
Operating charges	(1.01)	(1.37)	(1.45)
Return after operating charges	(17.06)	(2.27)	(1.51)
Distributions	(4.90)	(5.87)	(5.60)
Closing NAV	90.24	112.20	120.34
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.12	0.25	0.19
Dilution adjustments [a]	(0.06)	(0.04)	(0.04)
Total direct portfolio transaction costs	0.06	0.21	0.15
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.07	0.19	0.13
Operating charges [c]	0.95	1.20	1.18
Return after operating charges	-15.20	-1.89	-1.18
Historic yield	5.59	5.20	4.59
Effect on yield of charges offset against capital	0.95	1.16	1.16
Other information			
Closing NAV (£'000)	13,073	15,838	15,978
Closing NAV percentage of total fund NAV (%)	1.37	1.40	1.33
Number of shares	14,486,440	14,115,564	13,277,490
Highest share price (UK p)	120.44	124.41	129.28
Lowest share price (UK p)	75.30	102.89	113.04

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	154.35	156.97	158.85
Return before operating charges and after direct portfolio transaction costs	(22.35)	(0.82)	(0.07)
Operating charges	(1.40)	(1.80)	(1.81)
Return after operating charges	(23.75)	(2.62)	(1.88)
Distributions	(5.39)	(6.02)	(5.27)
Retained distributions	5.39	6.02	5.27
Closing NAV	130.60	154.35	156.97
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.17	0.33	0.24
Dilution adjustments [a]	(0.08)	(0.05)	(0.05)
Total direct portfolio transaction costs	0.09	0.28	0.19
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.07	0.19	0.13
Operating charges [c]	0.95	1.20	1.18
Return after operating charges	-15.39	-1.67	-1.18
Historic yield	4.25	3.88	3.31
Effect on yield of charges offset against capital	0.00	0.01	0.01
Other information			
Closing NAV (£'000)	14,929	16,887	15,165
Closing NAV percentage of total fund NAV (%)	1.57	1.49	1.26
Number of shares	11,430,916	10,940,930	9,661,090
Highest share price (UK p)	166.16	162.34	161.16
Lowest share price (UK p)	104.96	134.46	142.68

M&G Dividend Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	56.91	61.35	65.30
Return before operating charges and after direct portfolio transaction costs	(8.13)	(0.46)	(0.03)
Operating charges	(0.66)	(0.99)	(1.06)
Return after operating charges	(8.79)	(1.45)	(1.09)
Distributions	(2.48)	(2.99)	(2.86)
Closing NAV	45.64	56.91	61.35
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.06	0.13	0.10
Dilution adjustments [a]	(0.03)	(0.02)	(0.02)
Total direct portfolio transaction costs	0.03	0.11	0.08
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.07	0.19	0.13
Operating charges [c]	1.22	1.70	1.68
Return after operating charges	-15.45	-2.36	-1.67
Historic yield	5.60	5.21	4.60
Effect on yield of charges offset against capital	1.22	1.66	1.66
Other information			
Closing NAV (£'000)	12,504	16,516	19,977
Closing NAV percentage of total fund NAV (%)	1.31	1.46	1.66
Number of shares	27,395,252	29,018,907	32,562,207
Highest share price (UK p)	61.00	63.40	66.22
Lowest share price (UK p)	38.12	52.32	57.70

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	680.23	695.26	707.10
Return before operating charges and after direct portfolio transaction costs	(98.26)	(3.72)	(0.33)
Operating charges	(7.99)	(11.31)	(11.51)
Return after operating charges	(106.25)	(15.03)	(11.84)
Distributions	(21.96)	(23.25)	(19.95)
Retained distributions	21.96	23.25	19.95
Closing NAV	573.98	680.23	695.26
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.74	1.46	1.06
Dilution adjustments [a]	(0.35)	(0.23)	(0.21)
Total direct portfolio transaction costs	0.39	1.23	0.85
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.07	0.19	0.13
Operating charges [c]	1.22	1.70	1.68
Return after operating charges	-15.62	-2.16	-1.67
Historic yield	3.94	3.40	2.83
Effect on yield of charges offset against capital	0.00	0.01	0.01
Other information			
Closing NAV (£'000)	1,809	2,448	3,393
Closing NAV percentage of total fund NAV (%)	0.19	0.22	0.28
Number of shares	315,200	359,867	488,082
Highest share price (UK p)	731.11	718.73	717.16
Lowest share price (UK p)	461.64	594.08	632.68

[a] In respect of direct portfolio transaction costs.

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

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

M&G Dividend Fund

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Statement of total return

for the year to 30 June	Note	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Income					
Net capital gains / (losses)	3		(210,361)		(70,433)
Revenue	5	51,071		61,197	
Expenses	6	(5,123)		(8,501)	
Net revenue / (expense) before taxation		45,948		52,696	
Taxation	7	(779)		(991)	
Net revenue / (expense) after taxation			45,169		51,705
Total return before distributions			(165,192)		(18,728)
Distributions	8		(49,214)		(58,599)
Change in net assets attributable to shareholders from investment activities			(214,406)		(77,327)

Statement of change in net assets attributable to shareholders

for the year to 30 June	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Opening net assets attributable to shareholders		**1,134,711**		**1,204,479**
Amounts received on issue of shares	154,352		111,127	
Amounts paid on cancellation of shares	(127,035)		(108,208)	
		27,317		2,919
Dilution adjustments		958		596
Change in net assets attributable to shareholders from investment activities (see above)		(214,406)		(77,327)
Retained distributions on Accumulation shares		3,444		3,900
Unclaimed distributions		106		144
Closing net assets attributable to shareholders		952,130		1,134,711

M&G Dividend Fund

Financial statements and notes

Financial statements (continued)

Balance sheet

as at 30 June	Note	2020 £'000	2019 £'000
Assets			
Fixed assets			
Investments		969,888	1,163,698
Current assets			
Debtors	9	4,056	9,841
Cash and bank balances	10	117	1,169
Cash equivalents		0	7,801
Total assets		**974,061**	**1,182,509**
Liabilities			
Investment liabilities		0	(369)
Creditors			
Bank overdrafts		(7)	(248)
Distribution payable		(17,112)	(39,284)
Other creditors	11	(4,812)	(7,897)
Total liabilities		**(21,931)**	**(47,798)**
Net assets attributable to shareholders		**952,130**	**1,134,711**

M&G Dividend Fund

Financial statements and notes

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

In determining the amount available for reinvestment to Accumulation shares, all expenses with the exception of the annual charge, annual management charge, administration charge and overdraft interest are offset against capital, increasing the amount available for reinvestment whilst restraining capital performance to an equivalent extent. In determining the amount available for distribution to Income shares, all expenses with the exception of overdraft interest are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

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

3 Net capital gains / (losses)

for the year to 30 June	2020 £'000	2019 £'000
Non-derivative securities	(210,305)	(69,051)
Derivative contracts	(210)	(1,207)
Currency gains / (losses)	156	(171)
Transaction charges	(2)	(4)
Net capital gains / (losses)	**(210,361)**	**(70,433)**

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 45.

for the year to 30 June	2020 £'000	% of transaction	2019 £'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	280,148		543,301	
Commissions	106	0.04	200	0.04
Taxes	1,024	0.36	2,147	0.40
Equities after transaction costs	**281,278**		**545,648**	
Collective investment schemes				
Collective investment schemes before transaction costs	424		0	
Commissions	1	0.12	0	0.00
Taxes	2	0.50	0	0.00
Collective investment schemes after transaction costs	**427**		**0**	
Total purchases after transaction costs	**281,705**		**545,648**	
b) Sales				
Equities				
Equities before transaction costs	263,966		529,790	
Commissions	(109)	0.04	(223)	0.04
Total sales after transaction costs	**263,857**		**529,567**	

c) Direct portfolio transaction costs	2020 £'000	% of average NAV	2019 £'000	% of average NAV
Commissions paid				
Equities	215	0.02	423	0.04
Collective investment schemes	1	0.00	0	0.00
Total commissions paid	**216**	**0.02**	**423**	**0.04**
Taxes paid				
Equities	1,024	0.10	2,147	0.18
Collective investment schemes	2	0.00	0	0.00
Total taxes paid	**1,026**	**0.10**	**2,147**	**0.18**
Total direct portfolio transaction costs [a]	**1,242**	**0.12**	**2,570**	**0.22**
d) Indirect portfolio transaction costs		**%**		**%**
Portfolio dealing spread [b]		0.25		0.11

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

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

5 Revenue

for the year to 30 June	2020 £'000	2019 £'000
Bank interest	1	2
Distributions from collective investment schemes: taxable	940	0
Distributions from collective investment schemes: property income dividends	1,342	0
Dividends from equity investments: non-taxable	48,300	57,224
Dividends from equity investments: taxable	363	2,365
HM Revenue & Customs interest	0	1
Interest distributions	67	57
Rebate of ongoing charges from underlying funds	7	0
Stock dividends: non-taxable	48	1,439
Stock dividends: taxable	0	109
Underwriting commission	3	0
Total revenue	**51,071**	**61,197**

M&G Dividend Fund

Financial statements and notes

Notes to the financial statements

6 Expenses

for the year to 30 June	2020 £'000	2019 £'000
Payable to the ACD or associate		
Annual charge	4,381	0
Annual management charge [a]	572	6,579
Administration charge [a]	157	1,759
	5,110	8,338
Payable to the Depositary or associate		
Depositary's charge (including VAT) [a]	5	59
Other expenses		
Audit fee (including VAT) [a] [b]	1	9
Interest payable	9	69
Safe custody charge [a]	(2)	26
	8	104
Total expenses	**5,123**	**8,501**

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

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

7 Taxation

for the year to 30 June	2020 £'000	2019 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	779	991
Deferred tax (note 7c)	0	0
Total taxation	**779**	**991**
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	45,948	52,696
Corporation tax at 20%	9,190	10,539
Effects of:		
Dividends from equity investments: non-taxable	(9,660)	(11,445)
Stock dividends not taxable	(10)	(287)
Current year expenses not utilised	480	1,193
Withholding tax	779	991
Total tax charge (note 7a)	**779**	**991**
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	**0**	**0**

The fund has not recognised a deferred tax asset of £38,383,000 (2019: £37,903,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

	2020		2019	
for the year to 30 June	Inc [a]	Acc [b]	Inc [a]	Acc [b]
Dividend distributions	**£'000**	**£'000**	**£'000**	**£'000**
First interim	n/a	n/a	n/a	n/a
Second interim	15,014	1,165	14,942	835
Third interim	14,282	1,044	n/a	n/a
Final	17,112	1,235	39,284	3,065
Total net distributions		49,852		58,126
Income deducted on cancellation of shares		1,792		1,360
Income received on issue of shares		(2,430)		(887)
Distributions		**49,214**		**58,599**
Net revenue / (expense) per statement of total return		45,169		51,705
Expenses offset against capital		4,044		6,895
Undistributed income brought forward		1		0
Undistributed income carried forward		0		(1)
Distributions		**49,214**		**58,599**

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 30 June	2020 £'000	2019 £'000
Amounts receivable on issues of shares	27	193
Currency deals outstanding	22	0
Distributions receivable	0	7
Dividends receivable	2,363	5,641
Sales awaiting settlement	0	2,310
Tax recoverable	0	1
Withholding tax recoverable	1,644	1,689
Total debtors	**4,056**	**9,841**

10 Cash and bank balances

as at 30 June	2020 £'000	2019 £'000
Cash held as bank balances	117	1,169
Total cash and bank balances	**117**	**1,169**

11 Other creditors

as at 30 June	2020 £'000	2019 £'000
ACD's annual management charge payable	0	194
Administration charge payable	0	53
Amounts payable on cancellation of shares	1,251	831
Annual charge payable	173	0
Currency deals outstanding	22	0
Expenses payable	10	25
Purchases awaiting settlement	3,356	6,794
Total other creditors	**4,812**	**7,897**

12 Contingent assets, liabilities and outstanding commitments

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

M&G Dividend Fund

Financial statements and notes

Notes to the financial statements

13 Shares in issue

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

Share class	Opening 01.07.19	Movements Issued	Movements Cancelled	Closing 30.06.20
Sterling				
Class 'A' Income	466,775,318	12,752,158	(30,252,464)	449,275,012
Class 'A' Accumulation	9,780,117	32,930	(825,349)	8,987,698
Class 'C' Income	940,507,184	162,237,967	(133,544,236)	969,200,915
Class 'I' Income	6,343,173	3,842,266	(831,673)	9,353,766
Class 'I' Accumulation	1,288,692	104,002	(172,054)	1,220,640
Class 'R' Income	14,115,564	2,353,359	(1,982,483)	14,486,440
Class 'R' Accumulation	10,940,930	1,413,723	(923,737)	11,430,916
Class 'X' Income	29,018,907	751,300	(2,374,955)	27,395,252
Class 'X' Accumulation	359,867	10,262	(54,929)	315,200

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual charge [a] %
Sterling			
Class 'A'	n/a	n/a	1.20
Class 'C'	n/a	n/a	0.00
Class 'I'	n/a	n/a	0.70
Class 'R'	n/a	n/a	0.95
Class 'X'	n/a	n/a	1.20

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

15 Related parties

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

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

During the year, there were transactions with related parties of M&G Securities Limited with a total value of £nil (2019: £26,997,000).

At the balance sheet date, shareholders from within M&G plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 65.21% (2019: 63.60%) of the fund's shares.

16 Events after the balance sheet date

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

17 Fair value analysis

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

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

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

Level 2: Valuation technique using observable market data

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

Level 3: Valuation technique using unobservable inputs

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

as at 30 June Basis of valuation	Assets 2020 £'000	Liabilities 2020 £'000	Assets 2019 £'000	Liabilities 2019 £'000
Level 1	969,888	0	1,163,698	0
Level 2	0	0	0	(369)
Level 3	0	0	0	0
	969,888	**0**	**1,163,698**	**(369)**

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

18 Risk management policies

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

19 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by £48,494,000 (2019: £58,166,000). A five per cent decrease would have an equal and opposite effect.

M&G Dividend Fund

Financial statements and notes

Notes to the financial statements

20 Currency risk sensitivity and exposure

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

21 Interest rate risk sensitivity and exposure

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

22 Credit risk

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

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

as at 30 June 2020	Forward currency contracts £'000
Bank of America Merrill Lynch	(783)
Total	**(783)**

as at 30 June 2019	Forward currency contracts £'000
State Street Bank	(369)

23 Dividend distribution tables

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

Quarterly distribution periods

	Start	End	Xd	Payment
First interim	n/a	n/a	n/a	n/a
Second interim	01.07.19	31.12.19	02.01.20	29.02.20
Third interim	01.01.20	31.03.20	01.04.20	31.05.20
Final	01.04.20	30.06.20	01.07.20	31.08.20

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

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

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

Sterling Class 'A' Income shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	n/a	n/a	n/a	n/a
Second interim	0.2249	0.6001	0.8250	0.8005
Third interim	0.0000	0.7425	0.7425	n/a
Final	0.1555	0.7457	0.9012	2.1715

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	n/a	n/a	n/a	n/a
Second interim	0.8536	6.5464	7.4000	4.6269
Third interim	0.0000	6.7500	6.7500	n/a
Final	1.7479	6.3047	8.0526	18.8725

Sterling Class 'C' Income shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	n/a	n/a	n/a	n/a
Second interim	0.6192	0.4058	1.0250	0.9781
Third interim	0.0000	0.9250	0.9250	n/a
Final	0.4278	0.6918	1.1196	2.6729

Sterling Class 'I' Income shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	n/a	n/a	n/a	n/a
Second interim	0.0000	16.6500	16.6500	16.0389
Third interim	0.0000	15.0000	15.0000	n/a
Final	4.2826	13.9490	18.2316	43.6701

Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	n/a	n/a	n/a	n/a
Second interim	9.8985	9.6015	19.5000	15.2463
Third interim	0.0000	17.7500	17.7500	n/a
Final	5.5192	15.9417	21.4609	49.7347

Sterling Class 'R' Income shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	n/a	n/a	n/a	n/a
Second interim	0.0000	1.6400	1.6400	1.5793
Third interim	0.0000	1.4700	1.4700	n/a
Final	0.4659	1.3203	1.7862	4.2945

M&G Dividend Fund

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23 Dividend distribution tables (continued)

Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	n/a	n/a	n/a	n/a
Second interim	0.0000	1.8000	1.8000	1.3456
Third interim	0.0000	1.6300	1.6300	n/a
Final	0.2704	1.6938	1.9642	4.6705

Sterling Class 'X' Income shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	n/a	n/a	n/a	n/a
Second interim	0.2240	0.6010	0.8250	0.8042
Third interim	0.0000	0.7500	0.7500	n/a
Final	0.1107	0.7944	0.9051	2.1815

Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	n/a	n/a	n/a	n/a
Second interim	0.0000	7.3000	7.3000	4.5771
Third interim	1.5274	5.1726	6.700	n/a
Final	1.4028	6.5605	7.9633	18.6693

M&G Emerging Markets Bond Fund

Authorised Corporate Director's Report

Investment objective up to 22 March 2020

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

Investment objective from 23 March 2020

The fund aims to provide a higher total return (the combination of capital growth and income), net of the ongoing charge figure, than that of a composite index* over any five-year period.

* The composite index is made up of one third JPM EMBI Global Diversified Index, one third JPM CEMBI Broad Diversified Index and one third JPM GBI-EM Global Diversified Index.

Investment policy up to 22 March 2020

The fund invests mainly in debt instruments issued by emerging market borrowers, including government, government agency and corporate debt. There are no restrictions on the currencies to which the fund may be exposed. Derivatives may be used for investment purposes as well as for efficient portfolio management. The fund may also invest in collective investment schemes, other transferable securities (including other debt instruments), cash and near cash, deposits, warrants and money market instruments. M&G has the discretion to identify the countries that it considers to qualify as emerging markets although these will typically be those that the IMF or World Bank define as emerging or developing economies.

Investment policy from 23 March 2020

At least 80% of the fund is invested, directly or indirectly through derivatives, in emerging market debt securities. These securities can be issued or guaranteed by emerging market governments and their agencies, public authorities, quasi-sovereigns, supranational bodies and companies that are incorporated, domiciled, listed or do most of their business in emerging markets. These securities can be denominated in any currency, including emerging market currencies.

Other investments may include:

- Asset-Backed Securities; and
- other transferable securities, cash, and near cash, directly or via collective investment schemes (including funds managed by M&G). There are no credit quality restrictions applicable to the fund's investments.

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

Investment approach up to 22 March 2020

The fund's investment approach begins with a top-down assessment of macroeconomic factors such as global risk appetite and structural global growth catalysts. On a regional and country-specific level, factors such as monetary and fiscal policies, capital flows, and political and regulatory environments will be assessed. The result of this analysis will help inform the fund's country and currency allocations and its duration. Individual credit selection is determined by a thorough credit analysis and an assessment of valuations. Both macroeconomic and stock-specific analysis is undertaken in close conjunction with the deputy fund manager and the internal credit analysts. The fund is diversified by investing in a range of assets across global emerging markets and is unconstrained by a benchmark with a flexible strategy.

Investment approach from 23 March 2020

The fund is globally diversified across a range of emerging market debt securities and issuers from a variety of sectors and geographies. The fund's investment approach is flexible and begins with an assessment of macroeconomic factors such as global risk appetite and the catalysts of global economic growth.

On a regional and country-specific level, factors such as monetary and fiscal policies, capital flows, and political and regulatory environments are assessed. The result of this analysis will help inform the country, currency allocations and duration of the portfolio .

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

Benchmark up to 22 March 2020

Benchmark:

- 1/3 JPM EMBI Global Diversified Index
- 1/3 JPM CEMBI Broad Diversified Index
- 1/3 JPM GBI-EM Global Diversified Index

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

Benchmark from 23 March 2020

A composite index comprising:

- 1/3 JPM EMBI Global Diversified Index
- 1/3 JPM CEMBI Broad Diversified Index
- 1/3 JPM GBI-EM Global Diversified Index

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

The fund is actively managed.

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

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Benchmark from 23 March 2020 (continued)

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

Risk profile

The fund invests mainly in fixed income securities, or bonds, issued by governments and companies in emerging markets. It can also invest in emerging market currencies. It is, therefore, subject to the price volatility of the global bond market and the performance of individual issuers. The fund is also subject to fluctuations in currency exchange rates.

The fund's focus is on emerging markets, and hence it may be more volatile compared to a fund that invests mainly in the securities of companies in developed countries. The reasons for this greater volatility include: the financial infrastructure in emerging markets is typically less mature, the regulatory systems and disclosure standards are less developed and adverse market and political circumstances are more likely to occur in these markets.

The fund may use derivatives to achieve the manager's desired exposure to emerging market bonds and currencies. 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 not changed during this period.

Investment review

As at 1 July 2020, for the year ended 30 June 2020

Performance against objective

Between 1 July 2019 (the start of the review period) and 1 July 2020, the sterling share classes of the M&G Emerging Markets Bond Fund delivered varied performance. Generally, performance was helped by positive returns recorded across the main segments of the emerging market bonds during the first six months of the period, but the declines registered by emerging market bonds amid the coronavirus outbreak in the first half of 2020 detracted from the fund's returns. The increase in value of the US dollar against sterling helped the fund's sterling unhedged share classes to record modestly positive returns, as the fund maintained a sizeable exposure to the US dollar. However, the fund's sterling hedged share class registered a negative return in the period.

In comparison, the fund's benchmark recorded a return of 2.1% in the same period. The fund's benchmark is a composite index consisting of 1/3 JPM EMBI Global Diversified Index, 1/3 JPM CEMBI Broad Diversified Index, and 1/3 JPM GBI-EM Global Diversified Index.

Over five years, the fund has achieved its objective of providing a combination of capital growth and income, net of the ongoing charge figure, higher than that of this benchmark composite index over any five-year period. The return of the benchmark composite index was 9.2% p.a. over this period.*

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

Investment performance

While a variety of key factors influenced investors' sentiment as the review period got underway, the COVID-19 story dominated the performance of global financial markets as 2020 progressed. During the second half of 2019, important themes included slower global economic growth and ongoing international trade tensions between China and the US. Against this backdrop, attention also remained focused on some renewed economic stimulus policies from two major central banks, the US Federal Reserve (Fed) and European Central Bank (ECB).

These central bank activities contributed to supporting the performance of market bondss, including emerging market bonds, during the second half of 2019. Bonds are loans in the form of securities, usually issued by a government (sovereign bonds) or company (corporate bonds). They normally pay a fixed rate of interest (also known as a coupon) over a given time period, at the end of which the initial amount borrowed is repaid.

In the US, as widely expected, the Fed reduced interest rates three times between July and the end of October. The ECB, also as expected, confirmed renewed stimulus measures in September, which included an interest rate cut. The performance of bonds is influenced by expected or actual changes in interest rates. Bond prices move inversely to interest rates, so rising interest rates can reduce the returns of bonds, while falling rates tend to be helpful. Given the size and importance of the US market in a global context, the effects of higher or lower US interest rates can be felt internationally across developed and emerging markets.

While this backdrop helped investors' sentiment to stay broadly upbeat going into 2020, in the first quarter the coronavirus theme became prominent in global financial markets. Emerging market bonds were among those areas that declined sharply in the quarter as the global economic outlook deteriorated due to the effects of the pandemic. Importantly, governments and central banks in developed and emerging countries confirmed significant

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Investment performance (continued)

economic stimulus measures to tackle the crisis. In some cases, these moves included interest rate cuts and programmes by central banks to buy government and corporate bonds with their own money. In addition, many countries gradually began to ease the restrictive 'lockdown' measures that had been imposed to try to contain the spread of the virus.

Helped by these factors, various areas of global bonds, including in emerging markets, produced positive returns during the final three months of the review period. This partly countered their earlier declines in 2020. Despite this improvement, fears of a global recession continued to weigh on the economic outlook.

In the fund, we maintained a preference throughout the period for investing in a diversified way across emerging market regions. The fund's allocations consisted of government and corporate bonds denominated in local or 'hard' currencies, such as the US dollar or euro. Through this positioning, the fund's performance was helped by the gains delivered at times by these assets, although its returns were hampered by the market's steep declines in the early months of the coronavirus outbreak. For local currency bonds, these declines caused negative returns to be recorded for the review period.

During the period, we held a relatively low allocation to emerging market corporate bonds, which outperformed emerging market government bonds. This factor contributed to holding back the fund's relative returns to an extent. Among other considerations, we held a sizeable exposure to the US dollar, which helped the fund's unhedged sterling share classes to record modestly positive returns as the US currency increased in value against sterling. However, this beneficial effect was not felt by the fund's hedged sterling share class, which registered a small decline.

Investment activities

Our adjustments to the fund as the review period got underway included locking in some gains from holdings on a selective basis after some solid performance from emerging market bonds in the first half of 2019. This included reducing some euro-denominated government positions in Egypt, Senegal and Serbia, while we sold out of a holding of euro-denominated government bonds in Cyprus. Among US dollar-denominated government bonds, we reduced an allocation to Oman after the securities delivered gains.

Among larger markets, we increased the fund's allocation to hard currency government bonds in Argentina in the final month of 2020. In our view, the newly elected administration's plans to restructure government finances in the country should be helped by its appointment of a debt restructuring expert as its economic minister. Elsewhere in Latin America, we took some profits from a corporate position in Marfrig, the Brazilian beef producer, after the bonds performed well.

In the first three months of 2020, our key activity involved increasing the fund's cash position as we took steps to reduce risk in the portfolio amid the growing concerns around the coronavirus outbreak. We mainly achieved this higher cash allocation by selling some local currency exposures. In February, we closed a position in the Philippine peso, partly as the currency significantly outperformed its Asian counterparts, such as the Malaysian ringgit and Thai baht. In March, we lowered local currency exposures in Brazil, Poland and Colombia. The fund's remaining local currency positions stayed globally diversified, with larger allocations that included the Mexican peso, Russian ruble, Indonesian rupiah, Malaysian ringgit, and Peruvian sol.

After raising the fund's cash position amid the significant market sell-off in March, our subsequent portfolio activity involved reinvesting money where we believed long-term value could be found within the emerging debt markets. Consequently, the fund was again close to being fully invested in May. During the month, we bought newly issued government bonds that we assessed were attractively priced, such as in Serbia, Macedonia and Egypt. In Asia, we purchased bonds from Hutama Karya, the state-owned toll road operator in Indonesia. On the other hand, we reduced the fund's holding of government bonds in Albania.

In local currencies, we added to the fund's allocation on a selective basis via increased exposures to the Indonesian rupiah and Singapore dollar. During the final month of the period, we reduced the fund's allocation to the Brazilian real, as increased coronavirus concerns weighed on Brazil's outlook.

Outlook

Despite the adverse implications of the COVID-19 pandemic, we continue to believe that emerging market bonds offer a widely diversified universe of long-term investment opportunities. In our view, valuations in areas of the market looked more attractive after the significant price declines as the virus spread. While uncertainties remain, governments in developed and emerging countries have launched significant economic stimulus programmes in response to the outbreak, which have supported the performance of emerging market bonds.

In the fund, after raising its cash position during the first quarter of 2020, we subsequently added holdings again where we assessed that bonds were oversold and their issuers remained creditworthy. Following the notable rally by emerging market bonds in the second quarter of 2020, our view was that these assets offered less potential upside at the end of the period. However, in our assessment, valuations in the area remain attractive relative to developed market bonds. In our opinion, opportunities in emerging market bonds that offer adequate compensation for taking on additional degrees of risk can still be found. We believe this is supported by the higher yields in emerging markets, which continue to compare favourably against the low-yielding environment in developed market bonds. Bond yields refer to the interest received from a fixed income security and are usually expressed annually as a percentage of the investment's cost, its current market value or its face value. Bond yields move inversely to bond prices.

Overall the fund's strategy continues to reflect our belief that investing in the right mix of local and hard currency government and corporate bonds is crucial to delivering performance. In turn, our preference remains to keep a globally diversified fund of

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Outlook (continued)

emerging market government and corporate bonds. At the end of the period, the fund was invested around 41% in hard currency government bonds, 26% in local currency government bonds, 29% in emerging market hard currency corporate bonds, and around 3% in local currency corporate bonds. As always within our investment approach, we seek to hold bonds and currencies that we believe offer the best relative value, and avoid countries or industries where the outlook is unfavourable.

Claudia Calich
Fund manager

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

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

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Portfolio statement

as at 30 June Holding		2020 $'000	2020 %	2019 %
	FIXED INCOME	929,233	98.73	98.20
	Debt securities	**929,233**	**98.73**	**98.20**
	'AAA' credit rated bonds	**39,439**	**4.19**	**0.93**
HUF3,300,000,000	Hungary (Republic of) 3% 21/08/2030	11,136	1.18	
SG$25,000,000	Singapore (Govt. of) 1.25% 01/10/2021	18,106	1.93	
SG$14,000,000	Singapore (Govt. of) 2.25% 01/06/2021	10,197	1.08	
	'AA' credit rated bonds	**29,917**	**3.18**	**5.36**
CLP5,000,000,000	Chile (Republic of) 4.7% 01/09/2030	7,349	0.78	
CZK280,000,000	Czech (Republic of) 0.45% 25/10/2023	11,719	1.25	
US$8,000,000	Qatar (State of) 5.103% 23/04/2048	10,849	1.15	
	'A' credit rated bonds	**39,322**	**4.18**	**7.09**
MYR66,366,000	Malaysia (Govt. of) 3.882% 10/03/2022	15,929	1.69	
PEN35,617,000	Peru (Republic of) 8.2% 12/08/2026	13,035	1.39	
THB252,687,000	Thailand (Kingdom of) IL 1.25% 12/03/2028	7,568	0.80	
THB70,000,000	Thailand (Kingdom of) IL 3.3% 17/06/2038	2,790	0.30	
	'BBB' credit rated bonds	**169,469**	**18.00**	**15.10**
US$3,000,000	Aeropuerto Internacional de Tocumen 5.625% 18/05/2036	3,239	0.34	
US$3,221,695	Aeropuerto Internacional de Tocumen 6% 18/11/2048	3,532	0.38	
US$3,566,000	ALROSA Finance 3.1% 25/06/2027	3,554	0.38	
US$4,800,000	Bank Leumi Le-Israel Var. Rate 3.275% 29/01/2031	4,667	0.50	
COP19,571,000,000	Bogota Distrio Capital 9.75% 26/07/2028	5,773	0.61	
US$2,690,000	Burgan Bank SAK Var. Rate 5.7492% Perpetual	2,632	0.28	
US$2,667,000	China Construction Bank Var. Rate 2.45% 24/06/2030	2,658	0.28	
US$2,500,000	Ecopetrol 6.875% 29/04/2030	2,844	0.30	
US$2,925,000	Fufeng 5.875% 28/08/2021	2,984	0.32	
US$2,624,000	Gaz Capital 7.288% 16/08/2037	3,772	0.40	
IDR227,881,000,000	Indonesia (Republic of) 8.25% 15/05/2036	16,573	1.76	
IDR40,000,000,000	Indonesia (Republic of) 8.375% 15/03/2034	2,942	0.31	
IDR40,000,000,000	Indonesia (Republic of) 8.375% 15/04/2039	2,941	0.31	
£3,450,000	Mexico (United Mexican States) 5.625% 19/03/2114	4,363	0.46	
MXN106,800,000	Mexico (United Mexican States) 8% 07/11/2047	5,150	0.55	
MXN485,090,000	Mexico (United Mexican States) 8.5% 18/11/2038	24,774	2.63	
US$4,928,000	Morocco (Kingdom of) 5.5% 11/12/2042	6,006	0.64	
INR630,000,000	National Highways 7.3% 18/05/2022	8,313	0.88	
US$2,556,000	Perusahaan Perseroan Persero PT Perusahaan Listrik Negara 3.875% 17/07/2029	2,678	0.28	
€3,000,000	Petroleos Mexicanos 1.875% 21/04/2022	3,128	0.33	
US$4,700,000	Petroleos Mexicanos 6.75% 21/09/2047	3,575	0.38	
US$6,500,000	Petroleos Mexicanos 7.69% 23/01/2050	5,323	0.57	
PHP328,000,000	Philippines (Republic of) 6.25% 14/01/2036	8,139	0.87	
US$5,000,000	Romania (Republic of) 6.125% 22/01/2044	6,542	0.70	
RUB1,623,367,000	Russia (Federation of) 8.15% 03/02/2027	26,486	2.81	
UYU220,902,481	Uruguay (Republic of) 3.875% 02/07/2040	5,251	0.56	
UYU68,919,000	Uruguay (Republic of) 9.875% 20/06/2022	1,630	0.17	
	'BB' credit rated bonds	**238,853**	**25.38**	**22.54**
US$5,000,000	Bahamas (Commonwealth of) 6% 21/11/2028	4,300	0.46	
US$4,800,000	Banco Mercantil del Norte Var. Rate 7.625% Perpetual	4,608	0.49	
US$6,815,429	Bioceanico Sovereign Certificate 0% 05/06/2034	4,655	0.50	
BRL99,000,000	Brazil (Federal Republic of) 10% 01/01/2029	21,917	2.33	
US$1,150,000	Cemex 7.375% 05/06/2027	1,168	0.12	
US$2,500,000	CIFI 6% 16/07/2025	2,471	0.26	
US$2,175,000	CIFI 6.55% 28/03/2024	2,233	0.24	
KZT2,100,000,000	Development Bank of Kazakhstan 8.95% 04/05/2023	4,833	0.51	
KZT2,216,500,000	Development Bank of Kazakhstan 9.5% 14/12/2020	5,347	0.57	
US$5,016,000	Dominican Republic 7.45% 30/04/2044	5,115	0.54	
DOP413,850,000	Dominican Republic 8.9% 15/02/2023	6,541	0.70	
DOP280,000,000	Dominican Republic 9.75% 05/06/2026	4,248	0.45	
US$3,398,000	Guatemala (Republic of) 4.5% 03/05/2026	3,522	0.37	
US$8,000,000	Guatemala (Republic of) 4.9% 01/06/2030	8,554	0.91	
US$4,105,000	Honduras (Republic of) 5.625% 24/06/2030	4,170	0.44	
US$8,600,000	Honduras (Republic of) 6.25% 19/01/2027	9,154	0.97	
US$3,132,000	Inretail Pharma 5.375% 02/05/2023	3,230	0.34	
IDR54,460,000,000	Jasa Marga 7.5% 11/12/2020	3,669	0.39	
US$2,300,000	KazMunayGas National 4.75% 19/04/2027	2,491	0.27	
US$5,150,000	KUO 5.75% 07/07/2027	4,666	0.50	
€2,000,000	Macedonia (Govt. of) 2.75% 18/01/2025	2,207	0.23	

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Portfolio statement (continued)

as at 30 June Holding		2020 $'000	2020 %	2019 %
	FIXED INCOME (continued)			
	Debt securities (continued)			
	'BB' credit rated bonds (continued)			
€2,600,000	Macedonia (Govt. of) 3.675% 03/06/2026	2,961	0.32	
€3,000,000	Macedonia (Govt. of) 5.625% 26/07/2023	3,628	0.39	
US$2,882,000	MAF Global Securities Var. Rate 5.5% Perpetual	2,737	0.29	
US$2,544,000	MAF Global Securities Var. Rate 6.375% Perpetual	2,453	0.26	
US$4,480,000	MARB BondCo 6.875% 19/01/2025	4,512	0.48	
US$1,300,000	NBM US 7% 14/05/2026	1,306	0.14	
US$4,700,000	Network i2i Var. Rate 5.65% Perpetual	4,539	0.48	
US$4,500,000	Oman (Salutante of) 3.625% 15/06/2021	4,455	0.47	
US$4,566,000	Oman (Salutante of) 6.75% 17/01/2048	3,935	0.42	
US$5,511,000	Paraguay (Republic of) 6.1% 11/08/2044	6,686	0.71	
US$7,800,000	Petrobras Global Finance 6.9% 19/03/2049	8,183	0.87	
US$4,225,000	Rede D'or Finance 4.95% 17/01/2028	3,989	0.42	
US$4,447,000	Azerbaijan (Republic of) 3.5% 01/09/2032	4,324	0.46	
US$2,913,000	Azerbaijan (Republic of) 4.75% 18/03/2024	3,099	0.33	
US$5,025,000	SASOL Financing USA 6.5% 27/09/2028	4,441	0.47	
€8,000,000	Serbia (Republic of) 1.5% 26/06/2029	8,388	0.89	
€5,455,000	Serbia (Republic of) 3.125% 15/05/2027	6,399	0.68	
US$6,000,000	South Africa (Republic of) 5.375% 24/07/2044	5,160	0.55	
ZAR211,118,303	South Africa (Republic of) 8.75% 28/02/2048	9,629	1.02	
US$4,600,000	Transnet 4% 26/07/2022	4,454	0.47	
US$5,344,000	Trinidad Petroleum 9.75% 15/06/2026	5,337	0.57	
US$4,600,000	Uzbek Industrial and Construction Bank 5.75% 02/12/2024	4,642	0.49	
US$3,919,000	Uzbekistan (Republic of) 4.75% 20/02/2024	4,116	0.44	
US$6,411,000	Uzbekistan (Republic of) 5.375% 20/02/2029	6,983	0.74	
US$11,799,000	Vietnam Debt & Asset Trading 1% 10/10/2025	9,117	0.97	
US$4,200,000	Yingde Gases Investment 6.25% 19/01/2023	4,281	0.46	
	'B' credit rated bonds	**226,912**	**24.11**	**35.34**
US$3,000,000	ABJA Investment 5.45% 24/01/2028	2,771	0.29	
US$3,584,000	ADES International 8.625% 24/04/2024	3,350	0.36	
€6,025,000	Albania (Republic of) 3.5% 09/10/2025	6,831	0.73	
US$4,008,000	Alpha 9% 10/02/2025	3,588	0.38	
US$5,000,000	Bahrain (Kingdom of) 5.625% 30/09/2031	5,040	0.54	
€7,525,000	Benin (Republic of) 5.75% 26/03/2026	7,808	0.83	
US$8,086,000	Bolivia (Plurinational State of) 4.5% 20/03/2028	6,849	0.73	
US$4,061,000	Cameroon (Republic of) 9.5% 19/11/2025	4,064	0.43	
US$2,000,000	Costa Rica (Republic of) 5.52% 10/11/2021	2,010	0.21	
US$7,000,000	Costa Rica (Republic of) 9.2% 21/02/2024	7,462	0.79	
US$3,975,000	Delhi International Airport 6.45% 04/06/2029	3,831	0.41	
US$2,783,000	Egypt (Arab Republic of) 5.75% 29/05/2024	2,787	0.30	
US$12,500,000	Egypt (Arab Republic of) 8.7002% 01/03/2049	12,217	1.30	
US$2,435,000	Egypt (Arab Republic of) 8.875% 29/05/2050	2,401	0.26	
US$6,000,000	El Salvador (Republic of) 7.1246% 20/01/2050	4,942	0.52	
US$3,422,000	Ethiopia (Federal Democratic Republic of) 6.625% 11/12/2024	3,409	0.36	
US$4,325,000	GFH Sukuk 7.5% 28/01/2025	3,746	0.40	
US$11,384,000	Ghana (Republic of) 8.125% 26/03/2032	10,692	1.14	
US$2,500,000	Ghana (Republic of) 8.627% 16/06/2049	2,266	0.24	
US$2,313,000	Iraq (Republic of) 5.8% 15/01/2028	2,065	0.22	
US$4,870,000	Jamaica (Govt. of) 8% 15/03/2039	6,007	0.64	
US$6,624,000	Jordan (Kingdom of) 7.375% 10/10/2047	6,671	0.71	
US$5,106,000	JSC Georgia Capital 6.125% 09/03/2024	4,636	0.49	
US$2,200,000	Kenya (Republic of) 8% 22/05/2032	2,161	0.23	
US$4,500,000	Kenya (Republic of) 8.25% 28/02/2048	4,420	0.47	
US$4,598,000	Kernel 8.75% 31/01/2022	4,734	0.50	
US$2,100,000	Kosmos Energy 7.125% 04/04/2026	1,873	0.20	
US$2,924,000	MHP 7.75% 10/05/2024	3,050	0.32	
US$2,305,000	Mongolia (Govt. of) 5.125% 05/12/2022	2,283	0.24	
US$8,230,000	Mongolia (Govt. of) 5.625% 01/05/2023	8,190	0.87	
US$5,096,000	Nigeria (Federal Republic of) 7.875% 16/02/2032	4,780	0.51	
US$4,543,000	Nigeria (Federal Republic of) 8.747% 21/01/2031	4,560	0.48	
US$10,000,000	Pakistan (Islamic Republic of) 6.875% 05/12/2027	9,826	1.04	
US$9,451,000	Rwanda (Republic of) 6.625% 02/05/2023	9,320	0.99	
US$9,000,000	Senegal (Republic of) 6.25% 23/05/2033	9,121	0.97	
US$2,200,000	Sri Lanka (Republic of) 6.2% 11/05/2027	1,418	0.15	

M&G Emerging Markets Bond Fund

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Portfolio statement (continued)

as at 30 June Holding		2020 $'000	2020 %	2019 %
	FIXED INCOME (continued)			
	Debt securities (continued)			
	'B' credit rated bonds (continued)			
US$2,000,000	Sri Lanka (Republic of) 6.75% 18/04/2028	1,291	0.14	
US$1,880,000	Sri Lanka (Republic of) 6.85% 03/11/2025	1,261	0.13	
US$1,500,000	Sri Lanka (Republic of) 7.55% 28/03/2030	963	0.10	
US$3,000,000	Sri Lanka (Republic of) 7.85% 14/03/2029	1,955	0.21	
US$1,591,000	Sunac China 6.5% 10/01/2025	1,534	0.16	
US$3,267,000	Tajikistan (Republic of) 7.125% 14/09/2027	2,713	0.29	
US$2,125,000	Times China 6.75% 16/07/2023	2,156	0.23	
US$6,000,000	Turkey (Government of) 5.75% 11/05/2047	4,885	0.52	
US$6,000,000	Turkey (Government of) 6.625% 17/02/2045	5,460	0.58	
€12,000,000	Ukraine (Republic of) 4.375% 27/01/2030	11,476	1.22	
UAH40,000,000	Ukraine (Republic of) 14.91% 12/10/2022	1,606	0.17	
UAH12,490,000	Ukraine (Republic of) International 14.91% 12/10/2022	387	0.04	
UAH60,000,000	Ukraine (Republic of) 15.36% 29/09/2021	2,373	0.25	
UAH40,903,000	Ukraine (Republic of) 17.25% 30/09/2020	1,567	0.17	
US$636,000	VTR Comunicaciones 5.125% 15/01/2028	647	0.07	
€3,100,000	Walnut Bidco 6.75% 01/08/2024	3,249	0.35	
US$2,350,000	Wanda Properties International 7.25% 29/01/2024	2,210	0.23	
	'CCC' credit rated bonds	**21,965**	**2.33**	**0.00**
US$7,863,000	Angola (Republic of) 9.375% 08/05/2048	6,389	0.68	
US$2,423,000	CAR 8.875% 10/05/2022	1,505	0.16	
US$4,985,000	Córdoba (Province of) 7.125% 01/08/2027	2,806	0.30	
US$4,235,000	Future Retail 5.6% 22/01/2025	2,877	0.30	
US$5,000,000	Mozambique (Republic of) 5% 15/09/2031	4,236	0.45	
US$12,676,000	Venezuela (Republic of) 7% 31/03/2038	757	0.08	
US$6,171,300	Venezuela (Republic of) 9.25% 07/05/2028	367	0.04	
US$4,235,000	Zambia (Republic of) 8.5% 14/04/2024	2,242	0.24	
US$1,500,000	Zambia (Republic of) 8.97% 30/07/2027	786	0.08	
	'CC' credit rated bonds	**6,097**	**0.65**	**0.00**
€3,600,000	Argentina (Republic of) 5% 15/01/2027	1,523	0.16	
€2,800,000	Argentina (Republic of) 5.25% 15/01/2028	1,185	0.13	
€7,009,327	Argentina (Republic of) 7.82% 31/12/2033	3,389	0.36	
	'D' credit rated bonds	**13,104**	**1.39**	**0.65**
US$4,300,000	Argentina (Republic of) 5.875% 11/01/2028	1,716	0.18	
US$1,200,000	Argentina (Republic of) 6.875% 11/01/2048	464	0.05	
US$800,000	Argentina (Republic of) 7.125% 06/07/2036	313	0.03	
US$5,000,000	Argentina (Republic of) 7.125% 28/06/2117	1,936	0.21	
US$3,439,000	Buenos Aires (Province of) 7.875% 15/06/2027	1,416	0.15	
US$7,639,000	Ecuador (Republic of) 7.775% 23/01/2028	3,111	0.33	
US$4,502,000	Ecuador (Republic of) 8.75% 02/06/2023	2,049	0.22	
US$1,000,000	Ecuador (Republic of) 9.5% 27/03/2030	422	0.04	
US$950,000	Ecuador (Republic of) 9.65% 13/12/2026	403	0.04	
US$4,462,000	Latam Finance 7% 01/03/2026	1,274	0.14	
	Bonds with no credit rating	**144,155**	**15.32**	**11.19**
US$4,972,000	Armenia (Republic of) 7.15% 26/03/2025	5,565	0.59	
€5,500,000	Central Bank Tunisia 5.625% 17/02/2024	5,595	0.59	
€3,800,000	Côte d'Ivoire (Republic of) 5.25% 22/03/2030	3,951	0.42	
€6,139,000	Côte d'Ivoire (Republic of) 6.625% 22/03/2048	6,223	0.66	
US$4,300,000	Dar Al-Arkan Sukuk 6.875% 21/03/2023	3,999	0.42	
US$4,300,000	DP World 5.625% 25/09/2048	4,691	0.50	
US$3,612,000	DP World Salaam Var. Rate 6% Perpetual	3,569	0.38	
COP6,343,000,000	Empresas Publicas de Medellin ESP 8.375% 08/11/2027	1,758	0.19	
US$4,000,000	Gabon Government International Bond 6.625% 06/02/2031	3,568	0.38	
US$6,881,000	Gabonese (Republic of) 6.625% 06/02/2031	6,440	0.68	
US$4,575,000	Greenko Solar Mauritius 5.95% 29/07/2026	4,490	0.48	
US$3,319,000	Grupo Aval 4.375% 04/02/2030	3,143	0.33	
US$4,708,000	GTLK Europe Capital 5.95% 17/04/2025	4,993	0.53	
US$3,185,000	Hutama Karya 3.75% 11/05/2030	3,355	0.36	
US$1,096,000	International Container Terminal Services 4.75% 17/06/2030	1,112	0.12	
US$4,700,000	Jollibee Worldwide Pte 4.75% 24/06/2030	4,662	0.49	
US$2,929,000	Jollibee Worldwide Pte Var. Rate 3.9% Perpetual	2,769	0.29	
US$6,000,000	Lao (People's Democratic Republic of) 6.875% 30/06/2021	5,809	0.62	
US$3,667,000	Lenovo 5.875% 24/04/2025	3,823	0.40	

M&G Emerging Markets Bond Fund

Authorised Corporate Director's Report

Portfolio statement (continued)

as at 30 June Holding		2020 $'000	2020 %	2019 %
	FIXED INCOME (continued)			
	Debt securities (continued)			
	Bonds with no credit rating (continued)			
US$5,421,000	Millicom International Cellular 5.125% 15/01/2028	5,431	0.58	
US$3,414,000	NAK Naftogaz Ukraine via Kondor Finance 7.375% 19/07/2022	3,382	0.36	
US$3,268,000	NAK Naftogaz Ukraine via Kondor Finance 7.625% 08/11/2026	3,178	0.34	
US$5,000,000	Namibia (Republic of) 5.25% 29/10/2025	5,063	0.54	
US$5,050,000	NBK Tier 1 Financing 2 Var. Rate 4.5% Perpetual	4,780	0.51	
US$6,500,000	Panama (Republic of) 3.75% 17/04/2026	6,803	0.72	
US$11,676,200	Petroleos de Venezuela 5.375% 12/04/2027	272	0.03	
US$3,000,000	Petroleos de Venezuela 6% 16/05/2024	79	0.01	
US$2,944,927	Petroleos de Venezuela 9.75% 17/05/2035	77	0.01	
US$3,500,000	Puma International Financing 5% 24/01/2026	2,949	0.31	
US$3,700,000	QNB Finansbank 4.875% 19/05/2022	3,659	0.39	
US$3,000,000	Maldives (Republic of) 7% 07/06/2022	2,253	0.24	
US$4,750,000	Royal Capital 5.875% Perpetual	4,683	0.50	
US$863,580	Seychelles (Republic of) 8% 01/01/2026	734	0.08	
US$2,193,000	Southern Gas Corridor CJSC 6.875% 24/03/2026	2,515	0.27	
US$3,700,000	Sovcombank Via SovCom Capital Var. Rate 8% 07/04/2030	3,736	0.40	
US$3,986,000	Tabreed Sukuk Spc 5.5% 31/10/2025	4,431	0.47	
US$4,100,000	Telefonica Celular del Paraguay 5.875% 15/04/2027	4,260	0.45	
US$4,828,000	TMB Bank Var. Rate 4.9% Perpetual	4,487	0.48	
UAH49,500,000	Ukreximbank Via Biz Finance 16.5% 02/03/2021	1,868	0.20	
	CURRENCY	689	0.07	(0.15)
	Forward currency contracts	**689**	**0.07**	**(0.15)**
CZK442,500,000	Bought for $17,788,213 (expires 01.07.20)	711	0.07	
CZK(442,500,000)	Sold for $18,693,667 (expires 01.07.20)	194	0.02	
€79,239,897	Bought for $89,365,620 (expires 01.07.20)	(545)	(0.06)	
€(72,574,660)	Sold for $81,926,776 (expires 29.07.20)	531	0.06	
€(79,239,897)	Sold for $88,125,384 (expires 01.07.20)	(695)	(0.08)	
PLN56,000,000	Bought for $13,809,123 (expires 01.07.20)	259	0.03	
PLN(56,000,000)	Sold for $14,239,422 (expires 01.07.20)	172	0.02	
£5,050,000	Bought for $6,225,792 (expires 01.07.20)	(29)	0.00	
£(5,050,000)	Sold for $6,258,525 (expires 01.07.20)	62	0.01	
£(5,050,000)	Sold for $6,226,776 (expires 29.07.20)	29	0.00	
Portfolio of investments		929,922	98.80	98.05
	CASH EQUIVALENTS	7,368	0.78	0.08
	'AAA' rated money market funds [a]	**7,368**	**0.78**	**0.08**
7,368,000	Northern Trust Global Fund - US Dollar	7,368	0.78	
	SHARE CLASS HEDGING	(4,110)	(0.44)	0.01
	Forward currency contracts for share class hedging	**(4,110)**	**(0.44)**	**0.01**
£186,987,031	Bought for $233,592,550 (expires 29.07.20)	(4,113)	(0.44)	
£(130,058)	Sold for $162,361 (expires 29.07.20)	3	0.00	
Total portfolio (notes 2c & 2d on page 7)		933,180	99.14	98.14
Net other assets / (liabilities)		**8,056**	**0.86**	**1.86**
Net assets attributable to shareholders		941,236	100.00	100.00

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

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

M&G Emerging Markets Bond Fund

Financial highlights

Fund performance

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

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

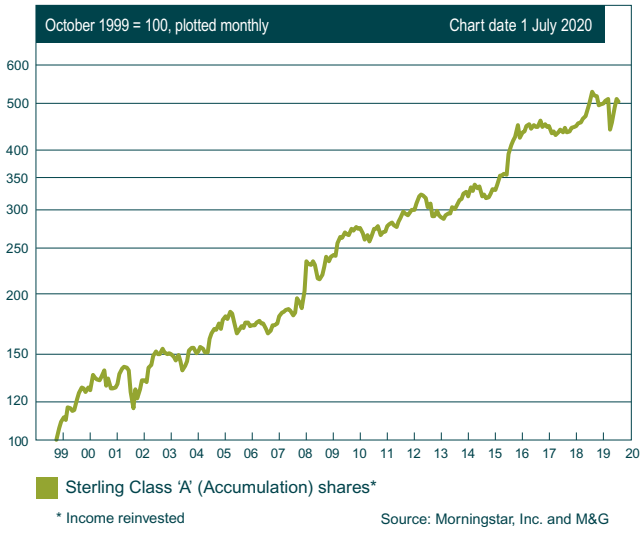
Fund level performance

Fund net asset value

as at 30 June	2020 $'000	2019 $'000	2018 $'000
Fund net asset value (NAV)	941,236	754,279	1,183,643

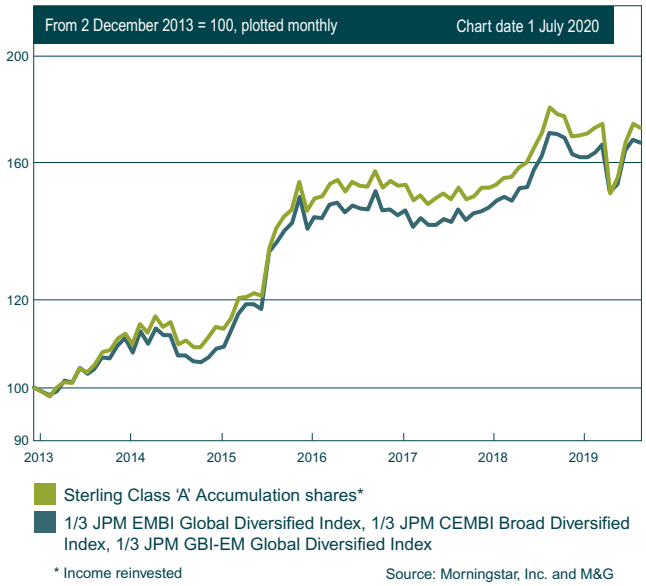
Performance since launch

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



Fund performance against the comparator benchmark

We are unable to show the fund's performance against the comparator benchmark from inception, as the fund was previously managed against a different comparator benchmark. Therefore, the graph below shows the performance of the fund from the period where the fund was managed against 1/3 JPM EMBI Global Diversified Index, 1/3 JPM CEMBI Broad Diversified Index and 1/3 JPM GBI-EM Global Diversified Index.



Please note prior to 2 December 2013, the fund was not managed with reference to 1/3 JPM EMBI Global Diversified Index, 1/3 JPM CEMBI Broad Diversified Index and 1/3 JPM GBI-EM Global Diversified Index.

M&G Emerging Markets Bond Fund

Financial highlights

Performance since launch (continued)

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

Long-term performance by share class

	One year 01.07.19 % [a]	Three years 03.07.17 % p.a.	Five years 01.07.15 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	+0.2	+4.1	+9.4	+8.4 [c]
Class 'I'	+0.7	+4.7	+10.0	+8.0 [d]
Class 'I-H'	-3.3	+1.3	n/a	+3.7 [e]
Class 'PP'	+0.9	n/a	n/a	+6.9 [f]
Class 'R'	+0.4	+4.4	+9.7	+7.1 [g]
Class 'X'	+0.2	+4.1	+9.4	+8.1 [h]

[a] Absolute basis.

[b] Price to price with income reinvested.

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

[d] 19 April 2012, the launch date of the share class.

[e] 24 July 2015, the launch date of the share class.

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

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

[h] 15 October 1999, the end of the initial offer period of the predecessor unit trust.

M&G Emerging Markets Bond Fund

Financial highlights

Operating charges and portfolio transaction costs

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

Operating charges

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

- **Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge.

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

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

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

for the year to 30 June	2020	2019	2018	Average [a]
Direct portfolio transaction costs [b]	**%**	**%**	**%**	**%**
Taxes	0.02	0.04	0.00	0.02
Costs before dilution adjustments	0.02	0.04	0.00	0.02
Dilution adjustments [c]	0.00	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.04	0.00	0.02

as at 30 June	2020	2019	2018	Average [a]
Indirect portfolio transaction costs	**%**	**%**	**%**	**%**
Average portfolio dealing spread	1.12	0.78	0.80	0.90

[a] Average of first three columns.

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

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

M&G Emerging Markets Bond Fund

Financial highlights

Specific share class performance

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

Sterling Class 'A' Income share performance

The share class was launched on 1 October 2002. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	97.18	90.22	98.68
Return before operating charges and after direct portfolio transaction costs	2.74	14.48	(1.27)
Operating charges	(1.22)	(1.34)	(1.39)
Return after operating charges	1.52	13.14	(2.66)
Distributions	(5.94)	(6.18)	(5.80)
Closing NAV	92.76	97.18	90.22
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.02	0.03	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.03	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.02	0.04	0.00
Operating charges [c]	1.27	1.44	1.43
Return after operating charges	+1.56	+14.56	-2.70
Distribution yield	6.33	6.40	6.59
Effect on yield of charges offset against capital	1.27	1.40	1.40
Other information			
Closing NAV ($'000)	4,061	3,450	2,900
Closing NAV percentage of total fund NAV (%)	0.43	0.46	0.25
Number of shares	3,567,643	2,798,473	2,446,112
Highest share price (UK p)	103.45	101.12	102.42
Lowest share price (UK p)	82.45	89.00	91.42

Sterling Class 'A' Accumulation share performance

The share class was launched on 1 October 2002. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	248.00	215.73	221.99
Return before operating charges and after direct portfolio transaction costs	7.08	35.52	(3.10)
Operating charges	(3.17)	(3.25)	(3.16)
Return after operating charges	3.91	32.27	(6.26)
Distributions	(12.26)	(11.81)	(10.12)
Retained distributions	12.26	11.81	10.12
Closing NAV	251.91	248.00	215.73
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.04	0.08	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.04	0.08	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.02	0.04	0.00
Operating charges [c]	1.27	1.44	1.43
Return after operating charges	+1.58	+14.96	-2.82
Distribution yield	5.08	5.03	5.18
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	4,396	4,113	3,257
Closing NAV percentage of total fund NAV (%)	0.47	0.55	0.28
Number of shares	1,422,257	1,307,099	1,149,090
Highest share price (UK p)	263.92	249.89	230.38
Lowest share price (UK p)	216.95	212.83	211.61

Sterling Class 'I' Income share performance

The share class was launched on 19 April 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	132.79	122.46	133.08
Return before operating charges and after direct portfolio transaction costs	3.76	19.75	(1.74)
Operating charges	(1.00)	(1.00)	(1.03)
Return after operating charges	2.76	18.75	(2.77)
Distributions	(8.14)	(8.42)	(7.85)
Closing NAV	127.41	132.79	122.46
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.02	0.05	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.05	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.02	0.04	0.00
Operating charges [c]	0.76	0.79	0.79
Return after operating charges	+2.08	+15.31	-2.08
Distribution yield	6.33	6.40	6.59
Effect on yield of charges offset against capital	0.76	0.75	0.75
Other information			
Closing NAV ($'000)	193,369	153,289	120,174
Closing NAV percentage of total fund NAV (%)	20.55	20.32	10.15
Number of shares	123,681,173	90,983,400	74,689,403
Highest share price (UK p)	141.44	138.17	138.27
Lowest share price (UK p)	113.10	120.99	123.92

M&G Emerging Markets Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 19 April 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	184.19	159.19	162.75
Return before operating charges and after direct portfolio transaction costs	5.27	26.32	(2.29)
Operating charges	(1.40)	(1.32)	(1.27)
Return after operating charges	3.87	25.00	(3.56)
Distributions	(10.08)	(9.85)	(8.51)
Retained distributions	10.08	9.85	8.51
Closing NAV	188.06	184.19	159.19
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.03	0.06	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.03	0.06	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.02	0.04	0.00
Operating charges [c]	0.76	0.79	0.79
Return after operating charges	+2.10	+15.70	-2.19
Distribution yield	5.58	5.66	5.84
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	493,657	379,720	188,425
Closing NAV percentage of total fund NAV (%)	52.45	50.34	15.92
Number of shares	213,931,029	162,485,767	90,080,597
Highest share price (UK p)	196.13	185.60	169.09
Lowest share price (UK p)	161.76	157.28	155.95

Sterling Class 'I-H' Income share performance

The share class was launched on 24 July 2015. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	97.83	95.40	104.06
Return before operating charges and after direct portfolio transaction costs	(2.32)	9.46	(1.59)
Operating charges	(0.75)	(0.78)	(0.85)
Return after operating charges	(3.07)	8.68	(2.44)
Distributions	(5.99)	(6.25)	(6.22)
Closing NAV	88.77	97.83	95.40
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.02	0.04	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.04	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.02	0.04	0.00
Operating charges [c]	0.79	0.80	0.81
Return after operating charges	-3.14	+9.10	-2.34
Distribution yield	6.39	6.39	6.67
Effect on yield of charges offset against capital	0.79	0.77	0.77
Other information			
Closing NAV ($'000)	73,735	76,269	42,591
Closing NAV percentage of total fund NAV (%)	7.84	10.11	3.60
Number of shares	67,696,293	61,448,223	33,978,254
Highest share price (UK p)	101.82	101.76	108.87
Lowest share price (UK p)	78.37	92.39	98.22

Sterling Class 'I-H' Accumulation share performance

The share class was launched on 24 July 2015. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	122.55	111.91	114.88
Return before operating charges and after direct portfolio transaction costs	(3.23)	11.57	(2.01)
Operating charges	(0.95)	(0.93)	(0.96)
Return after operating charges	(4.18)	10.64	(2.97)
Distributions	(6.67)	(6.58)	(6.06)
Retained distributions	6.67	6.58	6.06
Closing NAV	118.37	122.55	111.91
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.02	0.04	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.04	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.02	0.04	0.00
Operating charges [c]	0.79	0.80	0.81
Return after operating charges	-3.41	+9.51	-2.59
Distribution yield	5.60	5.64	5.89
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	151,717	117,459	60,640
Closing NAV percentage of total fund NAV (%)	16.12	15.57	5.12
Number of shares	104,457,257	75,547,240	41,238,190
Highest share price (UK p)	129.86	123.47	122.22
Lowest share price (UK p)	101.20	110.15	111.53

Sterling Class 'PP' Income share performance

The share class was launched on 5 August 2019. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	100.00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	(2.48)	n/a	n/a
Operating charges	(0.51)	n/a	n/a
Return after operating charges	(2.99)	n/a	n/a
Distributions	(5.77)	n/a	n/a
Closing NAV	91.24	n/a	n/a
Direct portfolio transaction costs	**UK p**	UK p	UK p
Costs before dilution adjustments	0.02	n/a	n/a
Dilution adjustments [a]	0.00	n/a	n/a
Total direct portfolio transaction costs	0.02	n/a	n/a
Performance and charges	**%**	%	%
Direct portfolio transaction costs [b]	0.02	n/a	n/a
Operating charges	0.60	n/a	n/a
Return after operating charges	-2.99	n/a	n/a
Distribution yield	6.33	n/a	n/a
Effect on yield of charges offset against capital	0.60	n/a	n/a
Other information			
Closing NAV ($'000)	38	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0.00	n/a	n/a
Number of shares	34,188	n/a	n/a
Highest share price (UK p)	101.03	n/a	n/a
Lowest share price (UK p)	80.95	n/a	n/a

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Specific share class performance

Sterling Class 'PP' Accumulation share performance

The share class was launched on 8 April 2019. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	105.96	100.00	n/a
Return before operating charges and after direct portfolio transaction costs	3.03	6.11	n/a
Operating charges	(0.65)	(0.15)	n/a
Return after operating charges	2.38	5.96	n/a
Distributions	(5.96)	(3.00)	n/a
Retained distributions	5.96	3.00	n/a
Closing NAV	108.34	105.96	n/a
Direct portfolio transaction costs	**UK p**	**UK p**	UK p
Costs before dilution adjustments	0.02	0.04	n/a
Dilution adjustments [a]	0.00	0.00	n/a
Total direct portfolio transaction costs	0.02	0.00	n/a
Performance and charges	**%**	**%**	%
Direct portfolio transaction costs [b]	0.02	0.04	n/a
Operating charges [c]	0.60	0.63	n/a
Return after operating charges	+2.25	+5.96	n/a
Distribution yield	5.73	5.81	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV ($'000)	864	684	n/a
Closing NAV percentage of total fund NAV (%)	0.09	0.09	n/a
Number of shares	649,685	508,496	n/a
Highest share price (UK p)	112.85	106.77	n/a
Lowest share price (UK p)	93.16	99.69	n/a

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	123.07	113.94	124.34
Return before operating charges and after direct portfolio transaction costs	3.46	18.35	(1.64)
Operating charges	(1.24)	(1.40)	(1.44)
Return after operating charges	2.22	16.95	(3.08)
Distributions	(7.53)	(7.82)	(7.32)
Closing NAV	117.76	123.07	113.94
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.02	0.04	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.04	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.02	0.04	0.00
Operating charges [c]	1.02	1.19	1.19
Return after operating charges	+1.80	+14.88	-2.48
Distribution yield	6.33	6.40	6.59
Effect on yield of charges offset against capital	1.02	1.15	1.15
Other information			
Closing NAV ($'000)	1,808	1,503	845
Closing NAV percentage of total fund NAV (%)	0.19	0.20	0.07
Number of shares	1,251,208	962,442	564,280
Highest share price (UK p)	131.03	128.06	129.10
Lowest share price (UK p)	104.60	112.48	115.41

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	168.53	146.24	150.09
Return before operating charges and after direct portfolio transaction costs	4.81	24.11	(2.07)
Operating charges	(1.73)	(1.82)	(1.78)
Return after operating charges	3.08	22.29	(3.85)
Distributions	(8.76)	(8.41)	(7.24)
Retained distributions	8.76	8.41	7.24
Closing NAV	171.61	168.53	146.24
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.03	0.06	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.03	0.06	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.02	0.04	0.00
Operating charges [c]	1.02	1.19	1.19
Return after operating charges	+1.83	+15.24	-2.57
Distribution yield	5.33	5.27	5.43
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	3,336	2,903	2,154
Closing NAV percentage of total fund NAV (%)	0.35	0.38	0.18
Number of shares	1,584,143	1,357,662	1,120,772
Highest share price (UK p)	179.39	169.81	155.83
Lowest share price (UK p)	147.70	144.35	143.37

Sterling Class 'X' Income share performance

The share class was launched on 15 October 1999. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	95.76	88.88	97.23
Return before operating charges and after direct portfolio transaction costs	2.70	14.29	(1.26)
Operating charges	(1.21)	(1.32)	(1.37)
Return after operating charges	1.49	12.97	(2.63)
Distributions	(5.85)	(6.09)	(5.72)
Closing NAV	91.40	95.76	88.88
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.02	0.03	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.03	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.02	0.04	0.00
Operating charges [c]	1.27	1.44	1.43
Return after operating charges	+1.56	+14.59	-2.70
Distribution yield	6.33	6.40	6.59
Effect on yield of charges offset against capital	1.27	1.40	1.40
Other information			
Closing NAV ($'000)	7,200	7,902	7,459
Closing NAV percentage of total fund NAV (%)	0.76	1.05	0.63
Number of shares	6,420,188	6,504,500	6,387,180
Highest share price (UK p)	101.93	99.63	100.92
Lowest share price (UK p)	81.23	87.69	90.07

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Financial highlights

Specific share class performance

Sterling Class 'X' Accumulation share performance

The share class was launched on 15 October 1999. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	248.55	216.22	222.49
Return before operating charges and after direct portfolio transaction costs	7.11	35.58	(3.10)
Operating charges	(3.18)	(3.25)	(3.17)
Return after operating charges	3.93	32.33	(6.27)
Distributions	(12.29)	(11.84)	(10.14)
Retained distributions	12.29	11.84	10.14
Closing NAV	252.48	248.55	216.22
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.04	0.08	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.04	0.08	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.02	0.04	0.00
Operating charges [c]	1.27	1.44	1.44
Return after operating charges	+1.58	+14.95	-2.82
Distribution yield	5.08	5.03	5.18
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	7,055	6,987	6,309
Closing NAV percentage of total fund NAV (%)	0.75	0.93	0.53
Number of shares	2,277,165	2,215,532	2,220,614
Highest share price (UK p)	264.51	250.45	230.90
Lowest share price (UK p)	217.43	213.31	212.08

[a] In respect of direct portfolio transaction costs.

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

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

M&G Emerging Markets Bond Fund

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Statement of total return

for the year to 30 June	Note	2020 $'000	2020 $'000	2019 $'000	2019 $'000
Income					
Net capital gains / (losses)	3		(88,630)		(8,722)
Revenue	5	57,253		55,889	
Expenses	6	(7,103)		(7,676)	
Net revenue / (expense) before taxation		50,150		48,213	
Taxation	7	(251)		(268)	
Net revenue / (expense) after taxation			49,899		47,945
Total return before distributions			**(38,731)**		**39,223**
Distributions	8		(52,217)		(49,942)
Change in net assets attributable to shareholders from investment activities			**(90,948)**		**(10,719)**

Statement of change in net assets attributable to shareholders

for the year to 30 June	2020 $'000	2020 $'000	2019 $'000	2019 $'000
Opening net assets attributable to shareholders		**754,279**		**1,183,643**
Amounts received on issue of shares	407,403		435,464	
Amounts paid on cancellation of shares	(166,625)		(230,981)	
Transfer to M&G (Lux) Emerging Markets Bond Fund	0		(661,672)	
		240,778		(457,189)
Dilution adjustments		2,106		1,703
Change in net assets attributable to shareholders from investment activities (see above)		(90,948)		(10,719)
Retained distributions on Accumulation shares		35,021		36,841
Closing net assets attributable to shareholders		**941,236**		**754,279**

M&G Emerging Markets Bond Fund

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Financial statements (continued)

Balance sheet

as at 30 June	Note	2020 $'000	2019 $'000
Assets			
Fixed assets			
Investments		931,194	740,779
Current assets			
Debtors	9	20,123	24,673
Cash and bank balances	10	9,174	8,286
Cash equivalents		7,368	597
Total assets		**967,859**	**774,335**
Liabilities			
Investment liabilities		(5,382)	(1,135)
Creditors			
Bank overdrafts		0	(76)
Distribution payable		(9,001)	(7,884)
Other creditors	11	(12,240)	(10,961)
Total liabilities		**(26,623)**	**(20,056)**
Net assets attributable to shareholders		**941,236**	**754,279**

M&G Emerging Markets Bond Fund

Financial statements and notes

Notes to the financial statements

1 Accounting policies

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

The fund's functional and presentational currency is US dollars as this better reflects the currency of its primary economic environment.

2 Distribution policy

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

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

3 Net capital gains / (losses)

for the year to 30 June	2020 $'000	2019 $'000
Non-derivative securities	(82,303)	9,435
Derivative contracts	(9,790)	(24,118)
Currency gains / (losses)	3,465	5,989
Transaction charges	(2)	(28)
Net capital gains / (losses)	**(88,630)**	**(8,722)**

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 66.

for the year to 30 June	2020 $'000	% of transaction	2019 $'000	% of transaction
a) Purchases				
Debt securities	**1,029,070**		**649,265**	
b) Sales				
Debt securities				
Debt securities before transaction costs	759,559		420,909	
Taxes	(163)	0.02	(465)	0.11
Debt securities	**759,396**		**420,444**	
Other transaction types				
Corporate actions	0		9,107	
Total sales after transaction costs	**759,396**		**429,551**	

c) Direct portfolio transaction costs	2020 $'000	% of average NAV	2019 $'000	% of average NAV
Taxes paid				
Debt securities	163	0.02	465	0.04
Total direct portfolio transaction costs [a]	**163**	**0.02**	**465**	**0.04**
d) Indirect portfolio transaction costs		**%**		**%**
Portfolio dealing spread [b]		1.12		0.78

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

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

5 Revenue

for the year to 30 June	2020 $'000	2019 $'000
Bank interest	43	39
Derivative revenue	198	(418)
Interest distributions	215	248
Interest on debt securities	56,785	56,020
Rebate of ongoing charges from underlying funds	12	0
Total revenue	**57,253**	**55,889**

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Notes to the financial statements

6 Expenses

for the year to 30 June	2020 $'000	2019 $'000
Payable to the ACD or associate		
Annual charge	6,495	0
Annual management charge [a]	435	6,042
Administration charge [a]	105	1,285
Share class hedging charge [a]	3	57
	7,038	7,384
Payable to the Depositary or associate		
Depositary's charge (including VAT) [a]	5	52
Other expenses		
Audit fee (including VAT) [a] [b]	1	15
Interest payable	22	13
Legal fees	0	1
Safe custody charge [a]	37	205
Tax fees (including VAT)	0	6
	60	240
Total expenses	**7,103**	**7,676**

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

[b] Audit fees for the financial year ending 2020 were £14,000 (including VAT).

7 Taxation

for the year to 30 June	2020 $'000	2019 $'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	251	268
Deferred tax (note 7c)	0	0
Total taxation	**251**	**268**
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	50,150	48,213
Corporation tax at 20%	10,030	9,643
Effects of:		
Interest distributions	(10,030)	(9,643)
Withholding tax	251	268
Total tax charge (note 7a)	**251**	**268**
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	**0**	**0**

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

8 Distributions

for the year to 30 June	2020 Inc [a] $'000	2020 Acc [b] $'000	2019 Inc [a] $'000	2019 Acc [b] $'000
Interest distributions				
Interim	10,864	17,044	8,525	22,614
Final	9,001	17,977	7,884	14,227
Total net distributions		54,886		53,250
Income deducted on cancellation of shares		2,508		3,551
Income received on issue of shares		(5,177)		(6,859)
Distributions		**52,217**		**49,942**
Net revenue / (expense) per statement of total return		49,899		47,945
Expenses offset against capital		2,318		1,997
Distributions		**52,217**		**49,942**

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 30 June	2020 $'000	2019 $'000
Amounts receivable on issues of shares	1,294	4,841
Currency deals outstanding	1,452	4,360
Debt security interest receivable	16,561	13,309
Distributions receivable	2	7
Sales awaiting settlement	761	2,122
Withholding tax recoverable	53	34
Total debtors	**20,123**	**24,673**

10 Cash and bank balances

as at 30 June	2020 $'000	2019 $'000
Amounts held at futures clearing houses and collateral manager	472	1,409
Cash held as bank balances	8,702	6,877
Total cash and bank balances	**9,174**	**8,286**

11 Other creditors

as at 30 June	2020 $'000	2019 $'000
ACD's annual management charge payable	0	141
Administration charge payable	0	34
Amounts payable on cancellation of shares	331	28
Annual charge payable	303	0
Currency deals outstanding	1,451	4,359
Expenses payable	16	83
Purchases awaiting settlement	10,139	6,315
Share class hedging charge payable	0	1
Total other creditors	**12,240**	**10,961**

12 Contingent assets, liabilities and outstanding commitments

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

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Notes to the financial statements

13 Shares in issue

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

Share class	Opening 01.07.19	Movements Issued	Movements Cancelled	Closing 30.06.20
Sterling				
Class 'A' Income	2,798,473	1,216,474	(447,304)	3,567,643
Class 'A' Accumulation	1,307,099	320,843	(205,685)	1,422,257
Class 'I' Income	90,983,400	54,968,806	(22,271,033)	123,681,173
Class 'I' Accumulation	162,485,767	88,758,551	(37,313,289)	213,931,029
Class 'I-H' Income	61,448,223	24,814,835	(18,566,765)	67,696,293
Class 'I-H' Accumulation	75,547,240	42,885,956	(13,975,939)	104,457,257
Class 'PP' Income	0	34,188	0	34,188
Class 'PP' Accumulation	508,496	290,721	(149,532)	649,685
Class 'R' Income	962,442	563,029	(274,263)	1,251,208
Class 'R' Accumulation	1,357,662	641,143	(414,662)	1,584,143
Class 'X' Income	6,504,500	816,189	(900,501)	6,420,188
Class 'X' Accumulation	2,215,532	508,299	(446,666)	2,277,165

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual charge [a] %
Sterling			
Class 'A'	n/a	n/a	1.25
Class 'I'	n/a	n/a	0.75
Class 'I-H'	n/a	n/a	0.78
Class 'PP'	n/a	n/a	0.60
Class 'R'	n/a	n/a	1.00
Class 'X'	n/a	n/a	1.25

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

15 Related parties

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

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

At the balance sheet date, shareholders from within M&G plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 4.47% (2019: 6.25%) of the fund's shares.

16 Events after the balance sheet date

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

17 Fair value analysis

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

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

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

Level 2: Valuation technique using observable market data

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

Level 3: Valuation technique using unobservable inputs

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

as at 30 June	Assets 2020	Liabilities 2020	Assets 2019	Liabilities 2019
Basis of valuation	$'000	$'000	$'000	$'000
Level 1	0	0	23,155	0
Level 2	930,807	(5,382)	717,624	(1,135)
Level 3	387	0	0	0
	931,194	**(5,382)**	**740,779**	**(1,135)**

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

18 Risk management policies

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

19 Market risk sensitivity and exposure

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

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19 Market risk sensitivity and exposure (continued)

The VaR limit set during the financial year to 30 June 2020 was 20% (2019: 20%).

The lowest, highest and average VaR, as well as utilisation of VaR with reference to the limit above, are calculated during the financial years ended 30 June 2020 and 30 June 2019.

for the year to 30 June	2020 % of VaR	2020 Utilisation of VaR [a] 20%	2019 % of VaR	2019 Utilisation of VaR [a] 20%
Lowest	2.87	14.35	1.69	8.45
Highest	15.89	79.45	4.21	21.05
Average	6.55	32.75	2.55	12.74

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

20 Credit risk

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

as at 30 June	2020 $'000	2019 $'000
Investment grade securities	278,147	214,780
Below investment grade securities	506,931	441,504
Unrated securities	144,155	84,421
Other investments	(3,421)	(1,061)
Total	**925,812**	**739,644**

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

as at 30 June 2020	Forward currency contracts $'000
BNP Paribas	366
Citigroup	284
JPMorgan	(435)
State Street Bank	(3,636)
Total	**(3,421)**

as at 30 June 2019	Forward currency contracts $'000
Bank of America Merrill Lynch	(10)
Citigroup	(25)
JPMorgan	(1,100)
State Street Bank	74
Total	**(1,061)**

21 Leverage risk

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

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

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 30 June 2020 and 30 June 2019 are disclosed in the table below.

for the year to 30 June	2020 [a] $'000	2020 [a] % [b]	2019 [a] $'000	2019 [a] % [b]
Lowest	356,481	39.90	47,641	9.30
Highest	1,509,769	182.50	1,067,768	159.00
Average	616,488	68.40	161,608	20.80

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

[b] Expressed as a percentage over fund valuation.

22 Exchange rate risk for hedged share classes

This fund contains hedged share classes. These share classes operate currency hedges designed to reduce the impact of exchange rates in certain circumstances. As a result, profit and loss on the currency hedges may impact the liquidity of the overall fund. On a day to day basis this is monitored using reporting from the outsourced provider of the hedged share class service. On an ongoing basis the size of the hedged share classes is monitored to ensure that unforeseen exchange rate volatility can be adequately managed without significantly impacting all shareholders. The exposure to forward currency contracts for share class hedging at the year-end accounting date is disclosed in the portfolio statement on page 63.

23 Interest distribution tables

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

Semi-annual distribution periods

	Start	End	Xd	Payment
Interim	01.07.19	31.12.19	02.01.20	29.02.20
Final	01.01.20	30.06.20	01.07.20	31.08.20

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

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

Group 2 shares are those purchased during a distribution period and therefore their distribution rate is made up of income and equalisation. Equalisation is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital.

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23 Interest distribution tables (continued)

Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the income and equalisation components.

Sterling Class 'A' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	1.3149	1.6546	2.9695	3.0078
Final	1.8816	1.0905	2.9721	3.1749

Sterling Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	1.9459	4.0996	6.0455	5.6466
Final	4.2235	1.9954	6.2189	6.1662

Sterling Class 'I' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	1.4081	2.6555	4.0636	4.0897
Final	2.2195	1.8575	4.0770	4.3309

Sterling Class 'I' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	2.4584	2.5054	4.9638	4.7028
Final	3.3960	1.7159	5.1119	5.1478

Sterling Class 'I-H' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	1.4012	1.7115	3.1127	3.0914
Final	1.5151	1.3665	2.8816	3.1612

Sterling Class 'I-H' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	1.6255	1.7954	3.4209	3.1997
Final	1.6921	1.5571	3.2492	3.3841

Sterling Class 'PP' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	2.8551	0.0000	2.8551	n/a
Final	2.9124	0.0000	2.9124	n/a

Sterling Class 'PP' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	2.0569	0.8759	2.9328	n/a
Final	1.4011	1.6247	3.0258	2.9963

Sterling Class 'R' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	1.7575	2.0053	3.7628	3.8019
Final	2.2677	1.5027	3.7704	4.0177

Sterling Class 'R' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	2.2199	2.0937	4.3136	4.0169
Final	1.9190	2.5315	4.4505	4.3903

Sterling Class 'X' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	1.3383	1.5877	2.9260	2.9635
Final	1.9882	0.9402	2.9284	3.1282

Sterling Class 'X' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	3.4844	2.5746	6.0590	5.6592
Final	2.4990	3.7335	6.2325	6.1800

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Investment objective up to 22 March 2020

The fund aims to provide income and capital growth.

Investment objective from 23 March 2020

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

Investment policy up to 22 March 2020

At least 70% of the fund is invested in investment grade corporate bonds denominated in any European currency. The fund may also invest in high yield corporate bonds, government and public securities denominated in any European currency. The fund's exposure to bonds, government and other public securities may be gained through the use of derivatives. Derivatives may also be used for efficient portfolio management. The fund may also invest in collective investment schemes, other transferable securities, cash, near cash, other money market instruments, warrants and other derivative instruments which may be denominated in any major global currency. More than 70% of the fund will be in euro or hedged back to euro.

Investment policy from 23 March 2020

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 can be denominated in any European currency.

Other investments may include:

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

At least 70% of the fund is in Euro or hedged back to Euro.

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

Investment approach up to 22 March 2020

The fund manager believes that bond returns are driven by a combination of macroeconomic, asset, sector, geography and stock-level factors. A dynamic investment approach is followed, allowing the fund manager to change the blend of duration and credit exposure based on the outlook. A high level of diversification, across individual issuers, sectors and geographies is an essential part of the investment process.

Investment approach from 23 March 2020

The fund is predominantly diversified across a range of Euro denominated investment grade debt securities from a variety of sectors and geographies. The fund's investment approach is based on the principle that returns from corporate bond markets are driven by a combination of macroeconomic, asset class, sector, geographic and stock-level factors. As different factors dominate returns at different stages of the economic cycle, the fund manager applies a flexible investment approach, changing the blend of duration and credit exposure in the portfolio to weight them appropriately.

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

Benchmark up to 22 March 2020

Benchmark: ICE BofAML Euro Corporate Index.

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

Benchmark from 23 March 2020

Benchmark: ICE BofAML Euro Corporate Index

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

The fund is actively managed.

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

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

Risk profile

A minimum of 70% of the fund is invested in investment grade corporate bonds denominated in any European currency. It is primarily subject to the price volatility of the European bond

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Risk profile (continued)

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.

Up to 30% of the fund may be invested in high yield corporate bonds, government and public securities denominated in any European currency. Some of these securities may be 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 not changed during this period.

Investment review

As at 1 July 2020, for the year ended 30 June 2020

Performance against objective

Between 1 July 2019 (the start of the review period) and 1 July 2020, the M&G European Corporate Bond Fund delivered a negative total return (the combination of income and growth of capital) across its sterling share classes. Fund performance was behind the return from the fund's benchmark, ICE BofAML Euro Corporate Index, which was 0.1%* in sterling terms in the same period. For the five-year period, all of the fund's share classes recorded positive total returns, but the fund has not met its objective as performance was were either in line with or slightly behind the fund's benchmark, which returned 7.4% p.a. in sterling euro terms.

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

Investment performance

The start of the period under review saw a series of interest rate decisions from central banks in response to mounting uncertainties about the path of global economic growth. Both the Federal Reserve (Fed) and the European Central Bank (ECB) cut interest rates, while the Bank of England held rates (at 0.75%) although it did include 'lower for longer' language, due to the rising risk of a 'no deal' Brexit. Volatility continued too, driven by the prospect of the latter and, more significantly, concerns about the US economy. The US manufacturing sector showed signs of increasing weakness despite continued accommodative policy from the Fed. Oil prices spiked on rising tensions in the Middle East, which added to investor unease at the beginning of the period.

The final few months of 2019 were generally positive for investors more inclined to take positions in developing market equities (which are shares of ownership in a company, offering the potential to participate in profits but also the risk of losing the entire investment in case of bankruptcy) and bonds, and also in lower rated bonds issued by US companies. (A bond is a loan in the form of a security, usually issued by a government or company. It normally pays a fixed rate of interest, also known as a coupon, over a given time period at the end of which the initial amount borrowed is repaid.) During the last quarter of 2019, investor appetite received a boost from strong signs of a resolution to US-China trade wars, Brexit on the cusp of clearing the final hurdle following a resounding victory for the pro-Brexit Conservative Party in December's UK general election, and the Fed easing interest rates while announcing it would resume securities purchases to grow its balance sheet. The ECB resuming its own purchases of bonds from the markets (in November) was an additional source of support for European corporate bonds.

Throughout the final quarter of last year, as risk-taking appetite returned, government bond yields trended higher, while corporate bond prices, especially those of US companies' bonds, rose. The yield refers to the interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. Bond yields move inversely to bond prices. It was a more mixed period for European corporate bonds, although emerging market bonds fared better, particularly in a strong October and December.

December was partly dominated by the UK general election, and most opinion polls indicated a comfortable win for the ruling Conservative Party and its pro-Brexit stance.

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Investment performance (continued)

A promising start to 2020, with risky assets tracking strong growth and jobs data, had fallen away by the middle of January as investors retreated on the news of the coronavirus outbreak in China. By the end of January, traditional 'risk-off' favourites like government bonds, gold and the US dollar – the dollar index being one of the few assets in the currency space to deliver positive returns in the month – were seeing heavy inflows.

Expectations of a reduction in international travel and activity as a result of the virus outbreak resulted in oil prices suffering after they surged at the end of 2019 following increased tensions in the Middle East.

February began on a mildly positive note, as credit spreads – the difference between corporate bond yields and government bond yields – tightened. As the risk premium – the additional return investors require to hold assets considered to be riskier than traditionally safe ones like government bonds – attached to holding corporate bonds over government bonds was reduced, the market for bond issuance remained fairly active. But as the number of coronavirus cases increased across Europe, 'risk-off' sentiment returned to markets with a vengeance. With a significant widening in credit spreads, the last week of February was the worst for many markets since the global financial crisis.

Certain safe-haven assets rallied, such as the Japanese yen, US Treasuries, UK gilts and German bunds. Italian government bonds lost money, with Italy at the centre of the European outbreak.

March and April saw further confirmation that the coronavirus pandemic would lead to a severe stalling in economic activity worldwide, as governments imposed lockdowns to try to slow down the outbreak. Central banks cut interest rates and purchased debt issued by companies in order to support the market. Many governments resorted to paying the wages of employees no longer able to work because of the lockdown, and to extending loans to businesses to bridge cashflow.

There was a sharp recovery in risky assets in the months that followed and to the end of the period under review. Investors generally took their cue from the fiscal and monetary stimulus of governments and central banks in trying to kickstart economic activity, and the full range of assets rose as a result.

Overall, it was a broadly positive period for corporate bonds – but especially those issued by US companies. Euro and sterling-denominated investment grade bonds were weaker, despite the resumption of bond-buying by the ECB (during the fourth quarter) seen by many investors as a potential boost for European investment grade corporate bonds. Overall, the actions of central banks in buying corporate bonds during the global pandemic were a source of positive return for the fund. Performance was driven by its sizeable exposure to investment grade corporate bonds – and in sectors like telecoms (AT&T), technology (Microsoft), and financials (Credit Agricole, Unicredit).

However, the fund's relative lack of sensitivity to changes in interest rates (known as 'duration') constrained performance, mostly in early third quarter 2019 and February and March 2020, when risky assets fell out of favour with investors. Holdings of oil companies' bonds, such as Total, also cost us money, as the price of oil fell sharply during early 2020.

Investment activities

One of the key drivers of a bond fund's performance is the ability to adjust the portfolio's sensitivity to changes in interest rates, known as 'duration' and measured in years. Being shorter duration means that a fund is relatively less sensitive to changes in interest rates than longer duration funds. During the course of the reporting period, we slightly adjusted the fund's duration, while keeping it short overall.

We have been active throughout the review period and participating in trades across a range of sectors and regions. Overall, we continue to like financials, particularly banks, and retained a significant exposure to this sector throughout the review period. However, insurance companies became less attractive and holdings were trimmed. Bonds issued by utilities and healthcare companies have been fairly attractive in recent periods.

We continue to favour the valuation signal mainly offered by BBB rated bonds issued by companies like Deutsche Bank and Alstria, a German property company. For us, these bonds provide the best return opportunities in this current environment. Overall, we have a cautious view of high yield bonds and believe they offer poor value, while also being prone to negative effects from a further slowdown in the global economy.

Towards the end of the period under review, we saw some attractive relative value opportunities as bond valuations adjusted to central banks being an important and active participant. For example, we switched from Diageo into Anheuser Busch, and Citi into Wells Fargo. We also reduced exposure to bonds issued by Coca-Cola, Carrefour, and Walmart as valuations became more expensive in our view.

Outlook

As the second half of the year rolls into view, we believe the outlook for credit remains strong. However, we do think the supply of European investment grade bonds could shrink somewhat, as the ECB absorbs more non-financial bonds via its bond-buying programme and more 'fallen angels' are removed from the investment grade universe.

Overall, we remain defensively positioned by maintaining a relatively high 'risk free' level of government bonds and cash within the portfolio, to ensure we are prepared for any liquidity events (such as a second peak of the coronavirus, which we think has not yet been priced in by the market).

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Outlook (continued)

Finally, we acknowledge that the risk premiums attached to new issues has narrowed since March/April 2020 – and the peak of the recent crisis. That said, we believe that participating in the primary market still represents one of the better ways to deploy capital given the technical tailwind of bond-buying by a number of central banks, and a less liquid secondary market.

Stefan Isaacs
Fund manager

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

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

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Portfolio statement

as at 30 June Holding		2020 €'000	2020 %	2019 %
	FIXED INCOME	87,662	98.17	97.63
	Debt securities	**87,660**	**98.17**	**97.79**
	'AAA' credit rated bonds	**6,361**	**7.13**	**12.03**
€280,511	Germany (Federal Republic of) 0% 08/04/2022	284	0.32	
€1,225,294	Germany (Federal Republic of) 0.25% 15/02/2027	1,302	1.46	
€225,099	Germany (Federal Republic of) 0.5% 15/02/2026	240	0.27	
€320,000	Germany (Federal Republic of) 1% 15/08/2024	343	0.38	
€167,641	Germany (Federal Republic of) 1.5% 04/09/2022	176	0.20	
€214,591	Germany (Federal Republic of) 2.25% 04/09/2021	222	0.25	
€179,211	Germany (Federal Republic of) 5.5% 04/01/2031	295	0.33	
€235,000	Johnson & Johnson 0.65% 20/05/2024	242	0.27	
US$336,000	Microsoft 3.5% 12/02/2035	363	0.41	
€611,000	Nationwide Building Society 0.05% 03/06/2024	617	0.69	
€1,469,330	Netherlands (Kingdom of) 0.75% 15/07/2027	1,600	1.79	
€375,000	Temasek Financial I 0.5% 20/11/2031	369	0.41	
€299,000	Wellcome Trust 1.125% 21/01/2027	308	0.35	
	'AA' credit rated bonds	**5,842**	**6.54**	**12.15**
€118,000	Apple 2% 17/09/2027	134	0.15	
€788,000	Berkshire Hathaway 1.125% 16/03/2027	829	0.93	
€100,000	Euroclear Investments 1.5% 11/04/2030	109	0.12	
€873,455	France (Govt. of) 0.25% 25/11/2026	912	1.02	
€322,323	France (Govt. of) 1.75% 25/05/2023	344	0.39	
€416,000	Metropolitan Life Global Funding I 0.375% 09/04/2024	418	0.47	
US$150,000	Metropolitan Life Global Funding I 2.95% 09/04/2030	146	0.16	
€214,000	New York Life Global Funding 0.25% 23/01/2027	212	0.24	
€239,000	Novartis Finance 1.625% 09/11/2026	263	0.29	
€149,000	Ontario Teachers' Finance Trust 0.5% 06/05/2025	152	0.17	
€218,000	Procter & Gamble 2% 16/08/2022	228	0.26	
€697,000	Shell International Finance 1% 06/04/2022	709	0.79	
€421,000	Svenska Handelsbanken 2.625% 23/08/2022	444	0.50	
€671,000	Walmart 4.875% 21/09/2029	942	1.05	
	'A' credit rated bonds	**25,072**	**28.08**	**29.79**
€282,000	3M 0.95% 15/05/2023	290	0.32	
€100,000	Aeroports de Paris 2.125% 02/10/2026	107	0.12	
€260,000	Airbus 2.375% 09/06/2040	269	0.30	
€100,000	Allianz Finance II Var. Rate 5.75% 08/07/2041	105	0.12	
€400,000	Allianz Var. Rate 3.375% Perpetual	423	0.47	
€100,000	American Honda Finance 1.95% 18/10/2024	105	0.12	
€732,000	Aon 2.875% 14/05/2026	813	0.91	
€200,000	Banco Santander Var. Rate 6.75% Perpetual	205	0.23	
€356,000	Bank of America 1.375% 10/09/2021	361	0.40	
€250,000	Bank of America 2.375% 19/06/2024	269	0.30	
€215,000	BMW Finance 0.125% 13/07/2022	214	0.24	
€439,000	BMW Finance 1.125% 22/05/2026	456	0.51	
€178,000	BNP Paribas 1.5% 17/11/2025	185	0.21	
€785,000	BNP Paribas FRN 0.398% 07/06/2024	780	0.87	
€146,000	BP Capital Markets 1.117% 25/01/2024	150	0.17	
€100,000	BP Capital Markets 1.876% 07/04/2024	105	0.12	
€588,000	BP Capital Markets 2.177% 28/09/2021	602	0.67	
€611,000	BP Capital Markets 2.517% 17/02/2021	620	0.69	
€300,000	BPCE 0.25% 15/01/2026	298	0.33	
€200,000	BPCE 1.375% 23/03/2026	206	0.23	
€213,000	CEZ 4.875% 16/04/2025	254	0.28	
€284,000	Chubb 0.875% 15/12/2029	282	0.32	
€122,000	Chubb 1.55% 15/03/2028	128	0.14	
€461,000	CK Hutchison Group Telecom Finance 1.5% 17/10/2031	457	0.51	
€283,000	Cooperatieve Rabobank 4% 11/01/2022	301	0.34	
€100,000	Crédit Agricole 1.375% 03/05/2027	108	0.12	
€400,000	Crédit Agricole 1.875% 20/12/2026	429	0.48	
US$513,000	Crédit Agricole 4.125% 10/01/2027	517	0.58	
€329,000	DAA Finance 1.554% 07/06/2028	329	0.37	
€296,000	Diageo Finance 1.875% 27/03/2027	324	0.36	
€150,000	ELM Var. Rate 2.6% Perpetual	156	0.17	
€180,000	ELM Var. Rate 4.5% Perpetual	205	0.23	
€5,555	EMAC De (2006-1) FRN 1.798% 25/08/2048	5	0.01	
€154,000	Honeywell International 1.3% 22/02/2023	158	0.18	

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Portfolio statement (continued)

as at 30 June Holding		2020 €'000	2020 %	2019 %
	FIXED INCOME (continued)			
	Debt securities (continued)			
	'A' credit rated bonds (continued)			
€537,000	HSBC 0.875% 06/09/2024	547	0.61	
€421,000	HSBC 1.5% 15/03/2022	430	0.48	
€636,000	HSBC FRN 0.071% 05/10/2023	628	0.70	
€368,000	Hutchison Whampoa Finance 1.375% 31/10/2021	372	0.42	
€100,000	ING 2.125% 10/01/2026	109	0.12	
€700,000	JAB 1% 20/12/2027	679	0.76	
€100,000	JAB 2.5% 17/04/2027	106	0.12	
€600,000	JPMorgan Chase 0.625% 25/01/2024	605	0.68	
€335,000	JPMorgan Chase 1.375% 16/09/2021	340	0.38	
€304,000	JPMorgan Chase Var. Rate 1.001% 25/07/2031	303	0.34	
€210,000	JPMorgan Chase Var. Rate 1.638% 18/05/2028	221	0.25	
€300,000	KBC 0.75% 01/03/2022	302	0.34	
£444,000	Lloyds Bank 4.875% 30/03/2027	617	0.69	
€102,000	Lloyds Bank Corporate Markets 0.25% 04/10/2022	101	0.11	
€400,000	LVMH Moet Hennessy Louis Vuitton 0.125% 11/02/2028	393	0.44	
€274,000	Medtronic Global 1.75% 02/07/2049	268	0.30	
€153,000	NatWest Markets 1% 28/05/2024	152	0.17	
€430,000	PepsiCo 0.25% 06/05/2024	433	0.49	
€113,000	Prologis 3.375% 20/02/2024	125	0.14	
€125,000	Prologis International Funding II 1.625% 17/06/2032	131	0.15	
€191,000	Prologis International Funding II 1.876% 17/04/2025	203	0.23	
€300,000	Santander Consumer Bank 0.25% 15/10/2024	294	0.33	
€400,000	Santander Consumer Finance 0.375% 27/06/2024	395	0.44	
€500,000	SAP 0.75% 10/12/2024	515	0.58	
€376,000	Scentre Management 1.5% 16/07/2020	376	0.42	
€300,000	SEB 1.5% 31/05/2024	303	0.34	
€851,602	Silverback Finance 3.1261% 25/02/2037	908	1.02	
€164,000	Statkraft 2.5% 28/11/2022	173	0.19	
€232,000	Sumitomo Mitsui Banking 2.75% 24/07/2023	250	0.28	
€200,000	Swiss Re Finance Luxembourg Var. Rate 2.534% 30/04/2050	209	0.23	
€700,000	Total Capital International 1.375% 19/03/2025	738	0.83	
€601,000	Total Var. Rate 3.369% Perpetual	639	0.72	
€409,000	Toyota Finance Australia 0.25% 09/04/2024	408	0.46	
€679,000	UBS Var. Rate 1.25% 17/04/2025	695	0.78	
€500,000	Unibail-Rodamco-Westfield 0.875% 29/03/2032	442	0.50	
€209,000	Vier Gas Transport 3.125% 10/07/2023	229	0.26	
€197,000	Wells Fargo 1.625% 02/06/2025	205	0.23	
€100,000	Wells Fargo 2.25% 02/05/2023	105	0.12	
€421,000	Wells Fargo 2.625% 16/08/2022	440	0.49	
€450,000	Wells Fargo Var. Rate 1.741% 04/05/2030	467	0.52	
	'BBB' credit rated bonds	**40,371**	**45.21**	**32.77**
€200,000	AbbVie 2.625% 15/11/2028	227	0.25	
€200,000	ABN AMRO Bank 0.6% 15/01/2027	197	0.22	
€300,000	Achmea 1.5% 26/05/2027	307	0.34	
€500,000	AG Insurance Var. Rate 3.5% 30/06/2047	531	0.59	
€141,000	Albemarle New 1.125% 25/11/2025	138	0.15	
€200,000	Alstria office REIT 1.5% 23/06/2026	201	0.23	
€400,000	Alstria office REIT 1.5% 15/11/2027	394	0.44	
€326,000	Altria 1.7% 15/06/2025	335	0.38	
€611,000	América Móvil 0.75% 26/06/2027	598	0.67	
€176,000	American International 1.875% 21/06/2027	185	0.21	
€400,000	American International Var. Rate 1.372% 15/03/2037	349	0.39	
€207,000	Anheuser-Busch InBev 2% 17/03/2028	223	0.25	
€356,000	Arion Bank 1% 20/03/2023	350	0.39	
€300,000	Aroundtown 1.875% 19/01/2026	311	0.35	
€139,000	AT&T 1.6% 19/05/2028	142	0.16	
€604,000	AT&T 1.8% 05/09/2026	631	0.71	
€182,000	Aviva Var. Rate 6.125% 05/07/2043	205	0.23	
€300,000	AXA Var. Rate 5.125% 04/07/2043	334	0.37	
€324,000	Babcock International 1.375% 13/09/2027	309	0.35	
€800,000	Banco Bilbao Vizcaya Argentaria 0.5% 14/01/2027	764	0.86	
€100,000	Banco de Sabadell Var. Rate 1.75% 29/06/2023	101	0.11	
€100,000	Banco Santander 2.125% 08/02/2028	101	0.11	

M&G European Corporate Bond Fund

Authorised Corporate Director's Report

Portfolio statement (continued)

as at 30 June Holding		2020 €'000	2020 %	2019 %
	FIXED INCOME (continued)			
	Debt securities (continued)			
	'BBB' credit rated bonds (continued)			
€600,000	Banco Santander 2.5% 18/03/2025	625	0.70	
€300,000	Banque Federative du Credit Mutuel 3% 11/09/2025	327	0.37	
€236,000	Barclays Bank 6.625% 30/03/2022	257	0.29	
€267,000	BAT International Finance 3.125% 06/03/2029	297	0.33	
£275,000	BAT International Finance 7.25% 12/03/2024	365	0.41	
€300,000	Bertelsmann Var. Rate 3.5% 23/04/2075	298	0.33	
€315,000	BNP Paribas Var. Rate 2.875% 20/03/2026	318	0.36	
€183,000	Boston Scientific 0.625% 01/12/2027	181	0.20	
€200,000	BPCE Var. Rate 2.75% 30/11/2027	208	0.23	
€200,000	CaixaBank 1.375% 19/06/2026	199	0.22	
€100,000	Carrefour 2.625% 15/12/2027	112	0.13	
€525,000	Channel Link Enterprises Finance Var. Rate 1.761% 30/06/2050	520	0.58	
€281,000	Citigroup 1.5% 26/10/2028	298	0.33	
€140,000	Citigroup Var. Rate 0.5% 08/10/2027	136	0.15	
€600,000	Coentreprise de Transport d'Électricité 1.5% 29/07/2028	643	0.72	
£277,000	Credit Suisse Funding 3% 27/05/2022	313	0.35	
€427,000	Daimler 2% 22/08/2026	444	0.50	
€85,000	Daimler 2.625% 07/04/2025	90	0.10	
€315,000	Daimler International Finance 1% 11/11/2025	312	0.35	
€220,000	Deutsche Bank 1.125% 30/08/2023	225	0.25	
€60,000	Deutsche Bank Var. Rate 1.375% 10/06/2026	61	0.07	
€471,000	Deutsche Telekom International Finance 0.375% 30/10/2021	473	0.53	
€185,000	DH Europe Finance II 1.8% 18/09/2049	178	0.20	
€102,000	Digital Dutch Finco 1.5% 15/03/2030	104	0.12	
€450,000	Électricité de France 4% 12/11/2025	539	0.60	
€196,000	ELM Var. Rate 3.375% 29/09/2047	208	0.23	
€728,000	Engie 5.95% 16/03/2111	1,511	1.69	
€400,000	Eurogrid 1.113% 15/05/2032	421	0.47	
€151,000	Fastighets AB Balder 1.875% 23/01/2026	150	0.17	
€425,000	FCE Bank 1.134% 10/02/2022	408	0.46	
€525,000	FedEx 1.625% 11/01/2027	535	0.60	
€197,000	Fidelity National Information Services 0.125% 03/12/2022	196	0.22	
€193,000	Fidelity National Information Services 1.5% 21/05/2027	199	0.22	
US$550,000	GE Capital International Funding 4.418% 15/11/2035	497	0.56	
€733,000	General Electric Capital 0.875% 17/05/2025	706	0.79	
€309,000	General Motors Financial 0.955% 07/09/2023	295	0.33	
€125,000	General Motors Financial 2.2% 01/04/2024	122	0.14	
€234,000	Global Switch 2.25% 31/05/2027	246	0.28	
€93,000	Goldman Sachs 1.375% 26/07/2022	95	0.11	
€305,000	Goldman Sachs 1.625% 27/07/2026	318	0.36	
€549,000	Goldman Sachs FRN 0.222% 26/09/2023	540	0.60	
€200,000	Grand City Properties 1.7% 09/04/2024	208	0.23	
€448,000	Heathrow Funding 1.5% 11/02/2030	449	0.50	
€373,000	Heathrow Funding 1.875% 14/03/2034	377	0.42	
€147,000	Helvetia Europe Var. Rate 2.75% 30/09/2041	147	0.16	
€175,000	Holcim Finance 1.75% 29/08/2029	185	0.21	
€127,000	Imperial Brands Finance 1.375% 27/01/2025	128	0.14	
€200,000	Infineon Technologies 1.625% 24/06/2029	199	0.22	
€421,000	ING Bank Var. Rate 3.625% 25/02/2026	427	0.48	
€508,000	Intesa Sanpaolo 1.125% 04/03/2022	510	0.57	
€516,000	Johnson Controls International 1.375% 25/02/2025	528	0.59	
€152,000	Liberty Mutual 2.75% 04/05/2026	167	0.19	
€197,000	Lloyds Banking FRN 0.391% 21/06/2024	195	0.22	
€144,000	Lloyds Banking Var. Rate 0.5% 12/11/2025	140	0.16	
€270,000	Logicor Financing 1.625% 15/07/2027	272	0.30	
€224,000	LYB International Finance II 0.875% 17/09/2026	215	0.24	
€100,000	McDonald's 0.9% 15/06/2026	101	0.11	
€300,000	McDonald's 2% 01/06/2023	315	0.35	
€118,000	Merlin Properties 1.875% 02/11/2026	116	0.13	
US$406,594	Mitchells & Butlers Finance FRN 0.7634% 15/12/2030	319	0.36	
£251,435	Mitchells & Butlers Finance FRN 0.7933% 15/12/2033	209	0.23	
€100,000	Mohawk Capital Finance 1.75% 12/06/2027	103	0.12	
€162,000	Molnlycke 0.875% 05/09/2029	153	0.17	

M&G European Corporate Bond Fund

Authorised Corporate Director's Report

Portfolio statement (continued)

as at 30 June Holding		2020 €'000	2020 %	2019 %
	FIXED INCOME (continued)			
	Debt securities (continued)			
	'BBB' credit rated bonds (continued)			
€241,000	Mondelēz International Netherlands 0.875% 01/10/2031	241	0.27	
€325,000	Morgan Stanley 1% 02/12/2022	329	0.37	
€356,000	Morgan Stanley 1.375% 27/10/2026	371	0.42	
€451,000	Morgan Stanley 1.75% 30/01/2025	474	0.53	
€629,000	Nielsen Norman Var. Rate 4.5% Perpetual	684	0.77	
US$250,000	Omnicom 4.2% 01/06/2030	257	0.29	
€100,000	Orange 1.125% 15/07/2024	103	0.12	
€454,000	Orange Var. Rate 5% Perpetual	525	0.59	
€270,000	Orange Var. Rate 5.25% Perpetual	301	0.34	
€790,000	Origin Energy Finance 2.5% 23/10/2020	794	0.89	
€332,000	PVH 3.625% 15/07/2024	338	0.38	
€153,000	RCI Banque 2% 11/07/2024	154	0.17	
€281,000	Royal Bank of Scotland Var. Rate 2% 04/03/2025	289	0.32	
€200,000	Signify 2.375% 11/05/2027	205	0.23	
€200,000	Société Générale 1.25% 12/06/2030	199	0.22	
€600,000	Société Générale 1.75% 22/03/2029	626	0.70	
€200,000	Swiss Re Finance Var. Rate 2.714% 04/06/2052	207	0.23	
€294,000	Takeda Pharmaceutical 1.375% 09/07/2032	294	0.33	
€156,000	Tele2 1.125% 15/05/2024	161	0.18	
€619,000	Tele2 2.125% 15/05/2028	673	0.75	
€275,000	Tesco Corporate Treasury Services 0.875% 29/05/2026	272	0.30	
€500,000	Thales 0.75% 07/06/2023	506	0.57	
€191,000	Thermo Fisher Scientific 1.875% 01/10/2049	183	0.21	
US$139,000	Time Warner Cable 7.3% 01/07/2038	170	0.19	
€909,000	UBS Var. Rate 4.75% 12/02/2026	924	1.04	
€200,000	UniCredit Var. Rate 7.5% Perpetual	208	0.23	
€300,000	Uniqa Insurance Var. Rate 6.875% 31/07/2043	334	0.37	
€267,000	Upjohn Finance 1.362% 23/06/2027	269	0.30	
€645,000	Verizon Communications 3.25% 17/02/2026	739	0.83	
€791,000	Vodafone 2.2% 25/08/2026	869	0.97	
US$159,000	Vodafone 3.75% 16/01/2024	155	0.17	
€229,000	Volkswagen Financial Services 0.75% 14/10/2021	229	0.26	
€70,000	Volkswagen International Finance 1.625% 16/01/2030	69	0.08	
€174,000	Volkswagen Leasing 1.5% 19/06/2026	175	0.20	
€441,000	Volkswagen Leasing 2.625% 15/01/2024	462	0.52	
€145,000	Wolters Kluwer 0.75% 03/07/2030	143	0.16	
€171,000	WPC Eurobond 1.35% 15/04/2028	168	0.19	
€629,000	WPC Eurobond 2.25% 19/07/2024	656	0.73	
€242,000	WPP Finance 2.375% 19/05/2027	249	0.28	
	'BB' credit rated bonds	**3,332**	**3.73**	**4.99**
€200,000	Banco de Sabadell Var. Rate 5.375% 12/12/2028	201	0.23	
£37,000	Bank of Scotland Var. Rate 7.281% Perpetual	46	0.05	
€154,000	Barclays Var. Rate 2% 07/02/2028	151	0.17	
€200,000	CaixaBank Var. Rate 5.25% Perpetual	177	0.20	
€125,000	Ford Motor Credit 3.021% 06/03/2024	120	0.13	
€254,000	Intesa Sanpaolo Var. Rate 7.75% Perpetual	277	0.31	
€127,000	Kraft Heinz Foods 2% 30/06/2023	129	0.14	
€172,000	Kraft Heinz Foods 2.25% 25/05/2028	169	0.19	
€318,000	Lloyds Banking Var. Rate 4.947% Perpetual	308	0.34	
€53,000	National Westminster Bank Var. Rate 1.721% Perpetual	47	0.05	
€245,000	Solvay Finance Var. Rate 5.425% Perpetual	266	0.30	
€300,000	Telefónica Europe Var. Rate 3% Perpetual	292	0.33	
€202,000	UBS Var. Rate 5.75% Perpetual	207	0.23	
€127,000	Unicredit 6.95% 31/10/2022	139	0.16	
€250,000	UniCredit Var. Rate 2.731% 15/01/2032	226	0.25	
€300,000	Vodafone Var. Rate 3.1% 03/01/2079	300	0.34	
€300,000	ZF Europe Finance 2% 23/02/2026	277	0.31	
	Bonds with no credit rating	**6,682**	**7.48**	**6.06**
€472,000	Assicurazioni Generali Var. Rate 5.5% 27/10/2047	536	0.60	
€636,000	Barings 2017-1 FRN 0.9% 15/10/2030	629	0.71	
€200,000	Bureau Veritas 1.125% 18/01/2027	193	0.22	
€200,000	Bureau Veritas 1.25% 07/09/2023	198	0.22	
€500,000	Deutsche Bahn Finance 0.375% 23/06/2029	500	0.56	

M&G European Corporate Bond Fund

Authorised Corporate Director's Report

Portfolio statement (continued)

as at 30 June Holding		2020 €'000	2020 %	2019 %
	FIXED INCOME (continued)			
	Debt securities (continued)			
	Bonds with no credit rating (continued)			
€86,000	EWE 5.25% 16/07/2021	90	0.10	
€500,000	Groupe Bruxelles Lambert 1.375% 23/05/2024	502	0.56	
£200,000	Heathrow Finance 3.875% 01/03/2027	205	0.23	
€300,000	Iliad 1.875% 25/04/2025	296	0.33	
€300,000	Iliad 2.375% 17/06/2026	300	0.34	
€400,000	Lagardère 1.625% 21/06/2024	368	0.41	
€350,000	Lehman Brothers Holdings Var. Rate 2040 (0%) [a]	0	0.00	
€459,000	NET4GAS 2.5% 28/07/2021	467	0.52	
€609,000	O2 Telefonica Germany 2.375% 10/02/2021	616	0.69	
€200,000	Quadient 2.25% 03/02/2025	190	0.21	
€200,000	Santander Consumer Bank 0.125% 11/09/2024	194	0.22	
€311,000	SELP Finance 1.25% 25/10/2023	313	0.35	
€109,000	SELP Finance 1.5% 20/11/2025	109	0.12	
€175,000	Stora Enso 2.5% 07/06/2027	181	0.20	
€100,000	Suez Var. Rate 2.875% Perpetual	101	0.11	
€200,000	Vilmorin & Cie 2.375% 26/05/2021	200	0.23	
€500,000	Volkswagen International Finance Var. Rate 3.5% Perpetual	494	0.55	
	Debt derivatives	**2**	**0.00**	**(0.16)**
	Interest rate futures	**2**	**0.00**	**(0.16)**
(23)	10 Year US Treasury Note Sep 2020	(12)	(0.01)	
27	Euro-Bobl September 2020	26	0.03	
3	Euro-Bund September 2020	9	0.01	
(2)	Euro-Buxl September 2020	(15)	(0.02)	
(5)	UK Long Gilt Bond Sep 2020	(6)	(0.01)	
	CURRENCY	54	0.06	0.08
	Forward currency contracts	**54**	**0.06**	**0.08**
£1,968,153	Bought for €2,158,138 (expires 01.07.20)	(3)	0.00	
£(1,968,153)	Sold for €2,192,496 (expires 01.07.20)	38	0.04	
£(1,625,117)	Sold for €1,777,273 (expires 29.07.20)	(1)	0.00	
US$2,833,078	Bought for €2,513,169 (expires 01.07.20)	14	0.02	
US$(2,833,078)	Sold for €2,547,503 (expires 01.07.20)	20	0.02	
US$(2,802,696)	Sold for €2,484,889 (expires 29.07.20)	(14)	(0.02)	
Portfolio of investments		87,716	98.23	97.71
	CASH EQUIVALENTS	1,436	1.61	1.19
	'AAA' rated money market funds [b]	**1,436**	**1.61**	**1.19**
1,474,299	Northern Trust Global Fund - Euro	1,436	1.61	
	SHARE CLASS HEDGING	0	0.00	(0.05)
	Forward currency contracts for share class hedging	**0**	**0.00**	**(0.05)**
CHF203,396,870	Bought for €194,036,864 (expires 15.07.15)	0	0.00	
CHF(2,450,429)	Bought for €2,337,399 (expires 15.07.15)	0	0.00	
£28,327	Bought for €31,335 (expires 29.07.20)	0	0.00	
£(257)	Sold for €284 (expires 29.07.20)	0	0.00	
US$(238,177)	Bought for €212,663 (expires 15.07.15)	0	0.00	
US$8,632,922	Bought for €7,641,336 (expires 15.07.15)	0	0.00	
Total portfolio (notes 2c & 2d on page 7)		89,152	99.84	98.85
Net other assets / (liabilities)		142	0.16	1.15
Net assets attributable to shareholders		89,294	100.00	100.00

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

[a] Defaulted bond.

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

M&G European Corporate Bond Fund

Financial highlights

Fund performance

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

The following charts and tables reflect the key financial information of a representative share class, Sterling Class 'A' (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 30 June	2020 €'000	2019 €'000	2018 €'000
Fund net asset value (NAV)	89,294	184,337	1,697,355

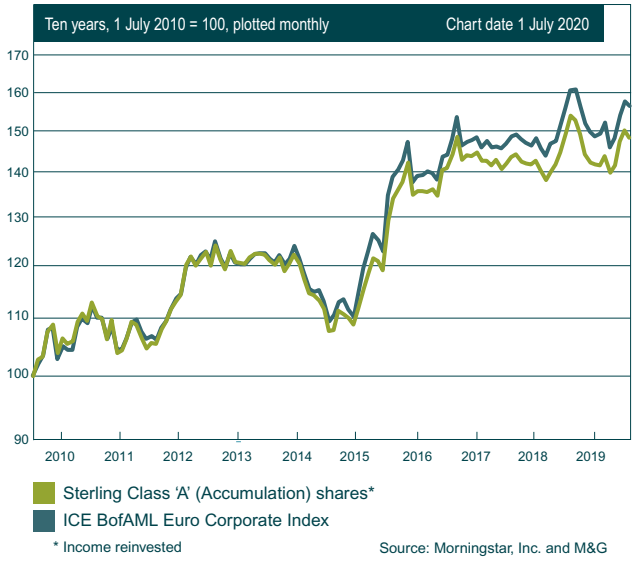
Performance since launch

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



Ten-year fund performance against the comparator benchmark

We are unable to show the fund's performance against the comparator benchmark from inception, as the fund was previously managed against a different comparator benchmark. Therefore a ten-year comparable performance chart is shown below.



Please note prior to 30 March 2007, the fund was not managed with reference to the ICE BofAML Euro Corporate Index.

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 01.07.19 % [a]	Three years 03.07.17 % p.a.	Five years 01.07.15 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	-0.9	+1.7	+6.7	+5.0 [c]
Class 'I'	-0.4	+2.2	+7.2	+4.8 [d]
Class 'I-H'	-0.4	n/a	n/a	+2.2 [e]
Class 'R'	-0.6	+2.0	+6.9	+4.6 [d]
Class 'X'	-0.9	+1.7	+6.6	+4.8 [c]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 13 January 2003, the launch date of the fund.

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

[e] 23 February 2018, the launch date of the share class.

M&G European Corporate Bond Fund

Financial highlights

Operating charges and portfolio transaction costs

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

Operating charges

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

- **Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge.

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

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

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

as at 30 June	2020	2019	2018	Average [a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.61	0.48	0.45	0.51

[a] Average of first three columns.

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Specific share class performance

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

Sterling Class 'A' Income share performance

The share class was launched on 13 January 2003. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	79.45	77.44	78.14
Return before operating charges and after direct portfolio transaction costs	1.65	4.48	1.90
Operating charges	(0.90)	(0.90)	(0.92)
Return after operating charges	0.75	3.58	0.98
Distributions	(1.39)	(1.57)	(1.68)
Closing NAV	78.81	79.45	77.44
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	1.15	1.17	1.16
Return after operating charges	+0.94	+4.62	+1.25
Distribution yield	1.75	1.51	2.07
Effect on yield of charges offset against capital	1.15	1.15	1.15
Other information			
Closing NAV (€'000)	588	607	662
Closing NAV percentage of total fund NAV (%)	0.66	0.33	0.04
Number of shares	681,756	685,338	757,368
Highest share price (UK p)	83.49	80.21	83.89
Lowest share price (UK p)	72.41	74.48	76.59

Sterling Class 'A' Accumulation share performance

The share class was launched on 13 January 2003. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	116.84	111.60	110.24
Return before operating charges and after direct portfolio transaction costs	2.49	6.55	2.67
Operating charges	(1.33)	(1.31)	(1.31)
Return after operating charges	1.16	5.24	1.36
Distributions	(0.72)	(0.98)	(1.09)
Retained distributions	0.72	0.98	1.09
Closing NAV	118.00	116.84	111.60
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	1.15	1.17	1.16
Return after operating charges	+0.99	+4.70	+1.23
Distribution yield	0.60	0.37	0.92
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	33,131	40,203	51,650
Closing NAV percentage of total fund NAV (%)	37.10	21.81	3.04
Number of shares	25,647,149	30,869,258	41,001,496
Highest share price (UK p)	122.77	117.39	118.35
Lowest share price (UK p)	107.94	108.43	109.79

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	1,261.98	1,223.86	1,228.81
Return before operating charges and after direct portfolio transaction costs	26.34	71.07	29.74
Operating charges	(8.09)	(8.15)	(8.26)
Return after operating charges	18.25	62.92	21.48
Distributions	(22.07)	(24.80)	(26.43)
Closing NAV	1,258.16	1,261.98	1,223.86
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.01	0.00	0.02
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.00	0.02
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	0.65	0.67	0.66
Return after operating charges	+1.45	+5.14	+1.75
Distribution yield	1.75	1.51	2.07
Effect on yield of charges offset against capital	0.65	0.65	0.65
Other information			
Closing NAV (€'000)	3,407	2,719	3,411
Closing NAV percentage of total fund NAV (%)	3.82	1.48	0.20
Number of shares	247,339	193,314	246,954
Highest share price (UK p)	1,326.92	1,274.11	1,320.32
Lowest share price (UK p)	1,154.64	1,181.08	1,209.20

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Financial highlights

Specific share class performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	1,450.15	1,378.24	1,354.69
Return before operating charges and after direct portfolio transaction costs	31.20	81.17	32.70
Operating charges	(9.35)	(9.26)	(9.15)
Return after operating charges	21.85	71.91	23.55
Distributions	(16.16)	(19.12)	(20.39)
Retained distributions	16.16	19.12	20.39
Closing NAV	1,472.00	1,450.15	1,378.24
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.02	0.01	0.02
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.01	0.02
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	0.65	0.67	0.66
Return after operating charges	+1.51	+5.22	+1.74
Distribution yield	1.10	0.87	1.42
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	29,283	30,308	26,325
Closing NAV percentage of total fund NAV (%)	32.79	16.44	1.55
Number of shares	1,817,209	1,875,040	1,692,136
Highest share price (UK p)	1,524.74	1,456.99	1,455.52
Lowest share price (UK p)	1,344.77	1,343.59	1,354.42

Sterling Class 'I-H' Income share performance

The share class was launched on 23 February 2018. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	101.74	98.67	100.00
Return before operating charges and after direct portfolio transaction costs	1.08	5.77	(0.05)
Operating charges	(0.69)	(0.68)	(0.24)
Return after operating charges	0.39	5.09	(0.29)
Distributions	(1.88)	(2.02)	(1.04)
Closing NAV	100.25	101.74	98.67
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	0.68	0.69	0.68
Return after operating charges	+0.38	+5.16	-0.29
Distribution yield	1.77	1.52	1.42
Effect on yield of charges offset against capital	0.68	0.67	0.67
Other information			
Closing NAV (€'000)	31	68,919	59,907
Closing NAV percentage of total fund NAV (%)	0.04	37.39	3.53
Number of shares	27,912	60,777,130	53,785,024
Highest share price (UK p)	104.46	102.71	100.37
Lowest share price (UK p)	94.41	97.54	98.99

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	125.27	121.79	122.58
Return before operating charges and after direct portfolio transaction costs	2.60	7.05	2.97
Operating charges	(1.11)	(1.11)	(1.13)
Return after operating charges	1.49	5.94	1.84
Distributions	(2.19)	(2.46)	(2.63)
Closing NAV	124.57	125.27	121.79
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	0.90	0.92	0.91
Return after operating charges	+1.19	+4.88	+1.50
Distribution yield	1.75	1.51	2.07
Effect on yield of charges offset against capital	0.90	0.90	0.90
Other information			
Closing NAV (€'000)	144	156	134
Closing NAV percentage of total fund NAV (%)	0.16	0.08	0.01
Number of shares	105,726	111,436	97,201
Highest share price (UK p)	131.66	126.47	131.66
Lowest share price (UK p)	114.39	117.33	120.39

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	142.98	136.22	134.23
Return before operating charges and after direct portfolio transaction costs	3.06	8.01	3.23
Operating charges	(1.28)	(1.25)	(1.24)
Return after operating charges	1.78	6.76	1.99
Distributions	(1.24)	(1.55)	(1.68)
Retained distributions	1.24	1.55	1.68
Closing NAV	144.76	142.98	136.22
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	0.90	0.92	0.91
Return after operating charges	+1.24	+4.96	+1.48
Distribution yield	0.85	0.63	1.17
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	359	430	486
Closing NAV percentage of total fund NAV (%)	0.40	0.23	0.03
Number of shares	226,623	269,643	316,345
Highest share price (UK p)	150.28	143.65	144.16
Lowest share price (UK p)	132.33	132.58	133.94

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Specific share class performance

Sterling Class 'X' Income share performance

The share class was launched on 13 January 2003. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	79.24	77.23	77.94
Return before operating charges and after direct portfolio transaction costs	1.64	4.47	1.88
Operating charges	(0.89)	(0.90)	(0.92)
Return after operating charges	0.75	3.57	0.96
Distributions	(1.38)	(1.56)	(1.67)
Closing NAV	78.61	79.24	77.23
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	1.15	1.17	1.16
Return after operating charges	+0.95	+4.62	+1.23
Distribution yield	1.75	1.51	2.07
Effect on yield of charges offset against capital	1.15	1.15	1.15
Other information			
Closing NAV (€'000)	705	772	755
Closing NAV percentage of total fund NAV (%)	0.79	0.42	0.04
Number of shares	818,921	873,923	865,777
Highest share price (UK p)	83.27	80.01	83.67
Lowest share price (UK p)	72.23	74.28	76.39

Sterling Class 'X' Accumulation share performance

The share class was launched on 13 January 2003. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	114.26	109.14	107.80
Return before operating charges and after direct portfolio transaction costs	2.43	6.40	2.62
Operating charges	(1.30)	(1.28)	(1.28)
Return after operating charges	1.13	5.12	1.34
Distributions	(0.70)	(0.96)	(1.07)
Retained distributions	0.70	0.96	1.07
Closing NAV	115.39	114.26	109.14
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges [c]	1.15	1.17	1.16
Return after operating charges	+0.99	+4.69	+1.24
Distribution yield	0.60	0.40	0.92
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	21,646	40,223	33,765
Closing NAV percentage of total fund NAV (%)	24.24	21.82	1.99
Number of shares	17,135,491	31,583,381	27,409,825
Highest share price (UK p)	120.06	114.80	115.74
Lowest share price (UK p)	105.55	106.04	107.36

[a] In respect of direct portfolio transaction costs.

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

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

M&G European Corporate Bond Fund

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Financial statements

Statement of total return

for the year to 30 June	Note	2020 €'000	2020 €'000	2019 €'000	2019 €'000
Income					
Net capital gains / (losses)	3		750		1,472
Revenue	5	2,179		15,078	
Expenses	6	(1,147)		(7,000)	
Net revenue / (expense) before taxation		1,032		8,078	
Taxation	7	1		15	
Net revenue / (expense) after taxation			1,033		8,093
Total return before distributions			**1,783**		**9,565**
Distributions	8		(1,188)		(8,864)
Change in net assets attributable to shareholders from investment activities			**595**		**701**

Statement of change in net assets attributable to shareholders

for the year to 30 June	2020 €'000	2020 €'000	2019 €'000	2019 €'000
Opening net assets attributable to shareholders		**184,337**		**1,697,355**
Amounts received on issue of shares	17,602		53,866	
Amounts paid on cancellation of shares	(114,289)		(291,083)	
Transferred to M&G (Lux) Euro Corporate Bond Fund	0		(1,283,631)	
		(96,687)		(1,520,848)
Dilution adjustments		286		565
Change in net assets attributable to shareholders from investment activities (see above)		595		701
Retained distributions on Accumulation shares		763		6,564
Closing net assets attributable to shareholders		**89,294**		**184,337**

M&G European Corporate Bond Fund

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Financial statements (continued)

Balance sheet

as at 30 June	Note	2020 €'000	2019 €'000
Assets			
Fixed assets			
Investments		87,767	180,420
Current assets			
Debtors	9	1,350	1,719
Cash and bank balances	10	170	1,789
Cash equivalents		1,436	2,196
Total assets		**90,723**	**186,124**
Liabilities			
Investment liabilities		(51)	(397)
Creditors			
Bank overdrafts		(271)	(712)
Distribution payable		(22)	(360)
Other creditors	11	(1,085)	(318)
Total liabilities		**(1,429)**	**(1,787)**
Net assets attributable to shareholders		**89,294**	**184,337**

M&G European Corporate Bond Fund

Financial statements and notes

Notes to the financial statements

1 Accounting policies

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

The fund's functional and presentational currency is the euro as this better reflects the currency of its primary economic environment.

2 Distribution policy

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

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

3 Net capital gains / (losses)

for the year to 30 June	2020 €'000	2019 €'000
Non-derivative securities	(721)	4,471
Derivative contracts	1,577	(801)
Currency gains / (losses)	(105)	(2,189)
Transaction charges	(2)	(9)
Rebate of ongoing charges from underlying funds taken to capital	1	0
Net capital gains / (losses)	**750**	**1,472**

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 88.

for the year to 30 June	2020 €'000	2019 €'000
a) Purchases		
Debt securities [a]	**44,486**	**98,467**
b) Sales		
Debt securities [a]	**133,926**	**1,593,929**
Other transaction types		
Corporate actions	2,217	6,527
Total sales after transaction costs	**136,143**	**1,600,456**

c) Direct portfolio transaction costs	2020 €'000	% of average NAV	2019 €'000	% of average NAV
Commissions paid				
Derivatives	1	0.00	3	0.00
Taxes paid				
Derivatives	0	0.00	3	0.00
Total direct portfolio transaction costs	**1**	**0.00**	**6**	**0.00**
d) Indirect portfolio transaction costs		**%**		**%**
Portfolio dealing spread [b]		0.61		0.48

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

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

5 Revenue

for the year to 30 June	2020 €'000	2019 €'000
Bank interest	1	20
Derivative revenue	(38)	151
Interest on debt securities	2,217	14,907
Share class hedging revenue	(1)	0
Total revenue	**2,179**	**15,078**

6 Expenses

for the year to 30 June	2020 €'000	2019 €'000
Payable to the ACD or associate		
Annual charge	1,039	0
Annual management charge [a]	118	5,734
Administration charge [a]	24	1,076
Share class hedging charge [a]	1	12
	1,182	6,822
Payable to the Depositary or associate		
Depositary's charge (including VAT) [a]	1	38
Other expenses		
Audit fee (including VAT) [a] [b]	1	12
Interest payable	(38)	96
Safe custody charge [a]	1	32
	(36)	140
Total expenses	**1,147**	**7,000**

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

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

7 Taxation

for the year to 30 June	2020 €'000	2019 €'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	(1)	(15)
Deferred tax (note 7c)	0	0
Total taxation	**(1)**	**(15)**
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	1,032	8,078
Corporation tax at 20%	206	1,616
Effects of:		
Interest distributions	(206)	(1,616)
Withholding tax	(1)	(15)
Total tax charge (note 7a)	**(1)**	**(15)**
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	**0**	**0**

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

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Notes to the financial statements

8 Distributions

	2020		2019	
for the year to 30 June	Inc [a]	Acc [b]	Inc [a]	Acc [b]
Interest distributions	€'000	€'000	€'000	€'000
First interim	207	240	767	4,012
Second interim	21	182	531	1,928
Third interim	20	165	363	369
Final	22	176	360	255
Total net distributions		1,033		8,585
Income deducted on cancellation of shares		176		385
Income received on issue of shares		(21)		(106)
Distributions		**1,188**		**8,864**
Net revenue / (expense) per statement of total return		1,033		8,093
Expenses offset against capital		155		771
Distributions		**1,188**		**8,864**

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 30 June	2020 €'000	2019 €'000
Amounts receivable on issues of shares	57	0
Debt security interest receivable	749	1,719
Sales awaiting settlement	544	0
Total debtors	**1,350**	**1,719**

10 Cash and bank balances

as at 30 June	2020 €'000	2019 €'000
Amounts held at futures clearing houses and collateral manager	86	1,545
Cash held as bank balances	84	244
Total cash and bank balances	**170**	**1,789**

11 Other creditors

as at 30 June	2020 €'000	2019 €'000
ACD's annual management charge payable	0	40
Administration charge payable	0	9
Amounts payable on cancellation of shares	594	0
Annual charge payable	36	0
Derivative expense payable	4	6
Expenses payable	13	23
Purchases awaiting settlement	438	240
Total other creditors	**1,085**	**318**

12 Contingent assets, liabilities and outstanding commitments

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

13 Shares in issue

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

Share class	Opening 01.07.19	Movements Issued	Movements Cancelled	Closing 30.06.20
Sterling				
Class 'A' Income	685,338	190,231	(193,813)	681,756
Class 'A' Accumulation	30,869,258	7,689,014	(12,911,123)	25,647,149
Class 'I' Income	193,314	186,261	(132,236)	247,339
Class 'I' Accumulation	1,875,040	244,990	(302,821)	1,817,209
Class 'I-H' Income	60,777,130	0	(60,749,218)	27,912
Class 'R' Income	111,436	24,465	(30,175)	105,726
Class 'R' Accumulation	269,643	90,943	(133,963)	226,623
Class 'X' Income	873,923	23,114	(78,116)	818,921
Class 'X' Accumulation	31,583,381	571,413	(15,019,303)	17,135,491

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual charge [a] %
Sterling			
Class 'A'	n/a	n/a	1.15
Class 'I'	n/a	n/a	0.65
Class 'I-H'	n/a	n/a	0.68
Class 'R'	n/a	n/a	0.90
Class 'X'	n/a	n/a	1.15

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

15 Related parties

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

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

At the balance sheet date, shareholders from within M&G plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 76.66% (2019: 42.10%) of the fund's shares.

16 Events after the balance sheet date

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

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17 Fair value analysis

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

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

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

Level 2: Valuation technique using observable market data

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

Level 3: Valuation technique using unobservable inputs

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

as at 30 June	Assets 2020	Liabilities 2020	Assets 2019	Liabilities 2019
Basis of valuation	€'000	€'000	€'000	€'000
Level 1	4,118	(33)	11,226	(308)
Level 2	83,649	(18)	169,194	(89)
Level 3	0	0	0	0
	87,767	**(51)**	**180,420**	**(397)**

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

18 Risk management policies

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

19 Market risk sensitivity and exposure

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

The VaR limit set during the financial year to 30 June 2020 was 13% (2019: 13%).

The lowest, highest and average VaR, as well as utilisation of VaR with reference to the limit above, are calculated during the financial years ended 30 June 2020 and 30 June 2019.

for the year to 30 June	2020 % of VaR	2020 Utilisation of VaR [a] 13%	2019 % of VaR	2019 Utilisation of VaR [a] 13%
Lowest	0.88	6.77	0.71	5.47
Highest	7.16	55.08	1.77	13.62
Average	4.19	32.27	0.96	7.40

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

20 Credit risk

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

as at 30 June	2020 €'000	2019 €'000
Investment grade securities	77,646	159,876
Below investment grade securities	3,332	9,198
Unrated securities	6,682	11,159
Other investments	56	(210)
Total	**87,716**	**180,023**

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

as at 30 June 2020	Forward currency contracts €'000	Futures €'000
Bank of America Merrill Lynch	0	2
HSBC	2	0
National Australia Bank	20	0
Standard Chartered Bank	(5)	0
UBS	37	0
Total	**54**	**2**

as at 30 June 2019	Forward currency contracts €'000	Futures €'000
Bank of America Merrill Lynch	0	(280)
HSBC	95	0
JPMorgan	63	0
Royal Bank of Canada	(1)	0
State Street Bank	(86)	0
UBS	(1)	0
Total	**70**	**(280)**

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21 Leverage risk

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

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

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 30 June 2020 and 30 June 2019 are disclosed in the table below.

for the year to 30 June	2020 [a] €'000	2020 [a] % [b]	2019 [a] €'000	2019 [a] % [b]
Lowest	0	13.00	36,901	18.20
Highest	88	197.70	798,999	165.90
Average	0	46.50	277,668	41.60

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

[b] Expressed as a percentage over fund valuation.

22 Exchange rate risk for hedged share classes

This fund contains hedged share classes. These share classes operate currency hedges designed to reduce the impact of exchange rates in certain circumstances. As a result, profit and loss on the currency hedges may impact the liquidity of the overall fund. On a day to day basis this is monitored using reporting from the outsourced provider of the hedged share class service. On an ongoing basis the size of the hedged share classes is monitored to ensure that unforeseen exchange rate volatility can be adequately managed without significantly impacting all shareholders. The exposure to forward currency contracts for share class hedging at the year-end accounting date is disclosed in the portfolio statement on page 86.

23 Interest distribution tables

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

Quarterly distribution periods

	Start	End	Xd	Payment
First interim	01.07.19	30.09.19	01.10.19	30.11.19
Second interim	01.10.19	31.12.19	02.01.20	29.02.20
Third interim	01.01.20	31.03.20	01.04.20	31.05.20
Final	01.04.20	30.06.20	01.07.20	31.08.20

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

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

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

Sterling Class 'A' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	0.1106	0.2629	0.3735	0.3979
Second interim	0.1139	0.2040	0.3179	0.3872
Third interim	0.2002	0.1355	0.3357	0.3921
Final	0.3072	0.0518	0.3590	0.3881

Sterling Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	0.1207	0.0916	0.2123	0.2587
Second interim	0.0930	0.0536	0.1466	0.2277
Third interim	0.0530	0.1141	0.1671	0.2703
Final	0.1248	0.0691	0.1939	0.2280

Sterling Class 'I' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	2.6506	3.2860	5.9366	6.2926
Second interim	1.2557	3.8036	5.0593	6.1293
Third interim	3.0189	2.3286	5.3475	6.2172
Final	1.7767	3.9523	5.7290	6.1597

Sterling Class 'I' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	1.5907	2.8639	4.4546	4.8880
Second interim	2.0241	1.5454	3.5695	4.6075
Third interim	1.9855	1.8853	3.8708	4.9671
Final	2.2640	2.0034	4.2674	4.6596

Sterling Class 'I-H' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	0.3767	0.1247	0.5014	0.5103
Second interim	0.4304	0.0000	0.4304	0.4926
Third interim	0.4685	0.0000	0.4685	0.5140
Final	0.2842	0.1933	0.4775	0.5010

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23 Interest distribution tables (continued)

Sterling Class 'R' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	0.1225	0.4664	0.5889	0.6256
Second interim	0.1785	0.3232	0.5017	0.6094
Third interim	0.0785	0.4515	0.5300	0.6179
Final	0.2716	0.2957	0.5673	0.6115

Sterling Class 'R' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	0.1334	0.2159	0.3493	0.3996
Second interim	0.0670	0.1986	0.2656	0.3664
Third interim	0.1215	0.1714	0.2929	0.4105
Final	0.1669	0.1619	0.3288	0.3692

Sterling Class 'X' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	0.2061	0.1665	0.3726	0.3968
Second interim	0.0968	0.2203	0.3171	0.3862
Third interim	0.1162	0.2186	0.3348	0.3912
Final	0.1401	0.2180	0.3581	0.3869

Sterling Class 'X' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
First interim	0.1315	0.0760	0.2075	0.2531
Second interim	0.0331	0.1103	0.1434	0.2226
Third interim	0.1088	0.0546	0.1634	0.2644
Final	0.1671	0.0226	0.1897	0.2229

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Investment objective up to 22 March 2020

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

Investment objective from 23 March 2020

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

Investment policy up to 22 March 2020

The portfolio will mainly consist of investment grade government debt securities, including government guaranteed debt securities, and will be invested on a global basis. The fund's exposure to investment grade government debt may be gained through the use of derivatives. The fund may also invest in other government and public securities, collective investment schemes, other transferable securities, other debt instruments, cash and near cash, deposits, warrants, money market instruments and other derivative instruments. The fund may use derivatives for efficient portfolio management purposes.

Investment policy from 23 March 2020

At least 70% of the fund is invested, directly or indirectly through derivatives, in investment grade debt securities. These securities can be issued or guaranteed by governments and their agencies, public authorities, quasi-sovereigns, and supranational bodies from anywhere in the world, including Emerging Markets. These securities can be denominated in any currency.

Other investments may include:

- below investment grade debt securities, issued or guaranteed by governments and their agencies, public authorities, quasi-sovereigns and supranational bodies;
- 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 up to 22 March 2020

The M&G Global Government Bond Fund invests mainly in investment grade government bonds on a global basis. Its investment approach is driven primarily by the fund manager's views on macroeconomic factors such as economic growth, interest rates and inflation. This assessment determines the individual government bonds from different countries in which the manager believes the fund should invest in order to achieve its objective. It also influences the portfolio's mix of interest rate risk and currency exposure. These factors, along with the manager's selection of government bond holdings, drive the fund's long-term performance. With the active management of the fund's currency exposures being one of these drivers, its returns will include a higher degree of currency risk than domestic fixed income funds.

Investment approach from 23 March 2020

The fund is globally diversified across a range of government debt securities and issuers from a variety of sectors and geographies. The fund's investment approach is flexible and begins with an assessment of macroeconomic factors such as expectations on interest rates, inflation and economic growth.

On a regional and country-specific level, factors such as monetary and fiscal policies, capital flows, and political and regulatory environments are assessed. The result of this analysis helps to inform the country, currency allocations and duration of the portfolio . Individual credit selection is carried out with the assistance of an in-house team of credit analysts to complement the fund manager's views.

Benchmark up to 22 March 2020

Benchmark: IA Global Bonds sector.

The fund is actively managed. The benchmark is a comparator against which the fund's performance can be measured. The sector has been chosen as the fund's comparator benchmark as the fund is a constituent of the sector. The comparator benchmark does not constrain the fund's portfolio construction.

Benchmark from 23 March 2020

Benchmark: IA Global Bonds sector.

The benchmark is a target against 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 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 and hedged share classes, the benchmark is shown in the share class currency.

Risk profile

The fund invests mainly in investment grade government bonds, including government-guaranteed debt securities, in both developed and emerging markets on a global basis. It is, therefore, subject to the price volatility of the global bond market and the performance of individual issuers. It is also subject to fluctuations in currency exchange rates.

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Risk profile (continued)

The fund's exposure to investment grade government debt 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.

Up to 30% of the fund's assets may be invested in non-investment grade government debt securities, which are higher risk assets that could potentially experience a degree of illiquidity in times of market distress.

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 not changed during this period.

Investment review

As at 1 July 2020, for the year ended 30 June 2020

Performance against objective

Between 1 July 2019 (the start of the review period) and 1 July 2020, the M&G Global Government Bond Fund delivered positive performance across its share classes, with the exception of its Swiss franc share classes. Generally, performance was helped by positive returns recorded by government bonds in various developed and emerging markets. However, for the fund's Swiss franc share classes, declines among relevant foreign currencies against the Swiss franc detracted from these gains. Consequently, these share classes registered negative returns.

In comparison, the fund's benchmark, which is the average of the IA Global Bonds sector, recorded positive returns denominated in sterling, the euro, and US dollar, but a negative return in Swiss francs. For all of the fund's share classes, returns were either higher than, or equal to, the benchmark's returns.

For the five-year period, the fund met its objective, which is to provide a combination of capital growth and income, net of the ongoing charge figure, higher than that of the average return of the IA Global Bonds sector over any five-year period. All of the fund's share classes delivered returns that were higher than the returns of the benchmark. The benchmark's returns, expressed in relevant currencies, were: 5.8% p.a. in Sterling; 0.8% p.a. in euro; 1.1% p.a. in US dollar; 1.1% p.a. in Swiss franc.*

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

Investment performance

While a variety of key factors influenced investors' sentiment as the review period got underway, the COVID-19 story dominated the performance of global financial markets as 2020 progressed. During the second half of 2019, important themes included slower global economic growth and ongoing international trade tensions between China and the US. Against this backdrop, however, attention also remained focused on some renewed economic stimulus policies from two major central banks, the US Federal Reserve (Fed) and European Central Bank (ECB).

These central bank activities contributed to supporting the performance of bond markets, including government bonds, during the second half of 2019. Bonds are loans in the form of securities, usually issued by a government (sovereign bonds) or company (corporate bonds). They normally pay a fixed rate of interest (also known as a coupon) over a given time period, at the end of which the initial amount borrowed is repaid.

In the US, as widely expected, the Fed reduced interest rates three times between July and the end of October, each time by 0.25 percentage points. The ECB, also as expected, confirmed renewed stimulus measures in September, which included an interest rate cut. The performance of bonds is influenced by expected or actual changes in interest rates. Bond prices move inversely to interest rates, so rising interest rates can reduce the returns of bonds, while falling rates tend to be helpful. Given the size and importance of the US market in a global context, the effects of higher or lower US interest rates can be felt internationally.

Sentiment towards perceived 'safe haven' assets such as government bonds can also strengthen during times of uncertainty in financial markets. As the coronavirus began to spread outside China, many stockmarkets and areas of the bond markets recorded sharp declines in value during the first quarter of 2020. Governments responded with a variety of moves to try to contain the outbreak, which typically involved 'lockdowns' and other restrictive measures on consumer and business activities.

In turn, deteriorating economic data included rising unemployment levels and large falls in retail spending. However, many governments began to ease their lockdown restrictions later in the review period. Also relevantly, governments and central banks around the world announced significant monetary and fiscal policies aimed at providing economic support. In some cases, these moves included interest rate cuts and new plans by central banks to buy government and corporate bonds with their own money.

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Investment performance (continued)

In the UK, the Bank of England was among central banks to reduce interest rates, bringing its base rate down to 0.1% from 0.75% in two moves during March. The US Federal Reserve, a key central bank from a global perspective, also confirmed interest rate reductions.

Amid the turbulence in financial markets during February and March 2020, the performance of mainstream government bonds held up relatively well. This was helped by their perceived safe-haven status in times of market stress and uncertainty, as well as the moves by central banks to reduce interest rates. In emerging markets, however, government bond prices at times declined markedly, given factors such as the adverse effects of the pandemic on their economies. Against this backdrop, the fund's allocation to government bonds in emerging markets detracted from its performance in the second half of the review period. However, these assets began to rally in the final months of the period and, in our long-term assessment, appealing value can still be found in emerging market bonds on a selective basis. Consequently, we remained comfortable to hold an allocation to emerging market bonds in the fund.

For the fund's overall positioning, we maintained a globally diversified portfolio of government bonds in developed and emerging markets. The fund's performance was helped by its allocations to government bonds that recorded gains, including the important US government bond market. The fund's exposure to the latter market was maintained as one of its largest country allocations, which contributed to its delivery of positive returns across its different share classes, except for its Swiss franc share classes. For these share classes, declines among relevant foreign currencies against the Swiss franc detracted from performance. As a result, the fund's Swiss franc share classes registered slightly negative returns.

Investment activities

Throughout the period, the US government bond market remained as one of the fund's largest allocations within mainstream markets. We favoured this stance based on key factors such as the backdrop of declining US interest rates and the perceived safe-haven status of US government bonds amid the uncertain environment caused by the coronavirus theme.

Our other preferred allocations included Japanese government bonds, partly as we felt the Japanese yen was an attractively valued currency that could support the performance of these assets. In contrast, we kept a modest exposure to the large German government bond market, given our assessment that very low (or negative) yields in the country lacked value. Bond yields refer to the interest received from a fixed income security and are usually expressed annually as a percentage of the investment's cost, its current market value or its face value. Bond yields move inversely to bond prices. Elsewhere in Europe, our activity during the review period included adding some exposure to Norway, a financially strong country where we hold a constructive view as bond investors.

In addition to our chosen allocations in developed government bond markets, the fund's flexible investment approach allows us to hold government positions across emerging countries. We continued to favour exposure to the latter area despite concerns about US/China trade tensions, the coronavirus theme, and slowing global economic growth.

As well as maintaining holdings in larger emerging markets such as Mexico and Brazil, we added some exposure to smaller countries. This activity included buying bonds after the significant market sell-off in emerging markets in the first quarter of 2020. In our opinion, the significantly lower prices of these assets left their long-term valuations looking more attractive in many cases. Among the fund's purchases were government bonds in Indonesia, Poland, Hungary, Serbia, and Paraguay.

Outlook

While much uncertainty remains regarding the full implications of the COVID-19 pandemic, we remain committed to our disciplined investment approach to determine the fund's positioning. This is mainly based on our assessment of macroeconomic factors such as economic growth, interest rates and inflation. From this analysis, we decide the fund's overall positioning and individual government bond holdings. In turn, the active management of the fund's allocations to individual countries, as well as its currency positioning, remain key drivers of its long-term performance.

At the end of the review period, US government bonds remained our largest position, while we also favoured diversification via other large industrialised countries such as Japan. The fund's smaller allocations to developed government bond markets at the end of the period included Germany, Canada, Australia, and the UK.

Elsewhere, we maintained select exposures to government bonds in emerging markets. While staying very mindful of the adverse effects of the coronavirus, we still consider that long-term valuations in the area remain attractive relative to developed market bonds. In our opinion, opportunities can still be found in emerging market bonds that offer adequate compensation for taking on additional degrees of risk. We believe this is supported by the higher yields in emerging markets, which continue to compare favourably against the low-yielding environment in developed market bonds.

Overall, we continue to position the fund with holdings that we consider offer the most attractive value in the global government bond markets amid the prevailing economic conditions, while avoiding those countries where we believe the outlook is less favourable.

Claudia Calich
Fund manager

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

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

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Portfolio statement

as at 30 June Holding		2020 $'000	2020 %	2019 %
	FIXED INCOME	287,514	98.58	97.26
	Debt securities	**287,514**	**98.58**	**97.26**
	'AAA' credit rated bonds	**34,112**	**11.70**	**9.22**
INR100,000,000	Asian Development Bank 5.9% 20/12/2022	1,344	0.46	
AU$4,000,000	Australia (Commonwealth of) 2.75% 21/11/2028	3,180	1.09	
CA$4,000,000	Canada (Govt. of) 2.25% 01/03/2024	3,130	1.07	
IDR20,000,000,000	European Bank for Reconstruction & Development 6.25% 22/12/2021	1,376	0.47	
€8,000,000	Germany (Federal Republic of) 0.25% 15/08/2028	9,608	3.30	
HUF985,780,000	Hungary (Republic of) 3% 21/08/2030	3,327	1.14	
INR100,090,000	International Finance 5.85% 25/11/2022	1,345	0.46	
INR90,000,000	International Finance 6.3% 25/11/2024	1,225	0.42	
UAH50,000,000	International Finance 15.5% 29/01/2021	1,935	0.67	
NOK30,500,000	Norway (Kingdom of) 2% 24/05/2023	3,297	1.13	
SG$6,000,000	Singapore (Govt. of) 1.25% 01/10/2021	4,345	1.49	
	'AA' credit rated bonds	**73,339**	**25.14**	**28.38**
US$1,362,000	Abu Dhabi (Emirate of) 3.125% 16/04/2030	1,496	0.51	
CLP2,700,000,000	Chile (Republic of) 4.7% 01/09/2030	3,968	1.36	
CZK100,000,000	Czech (Republic of) 0.45% 25/10/2023	4,185	1.44	
ILS5,000,000	Israel (State of) 1% 30/04/2021	1,456	0.50	
ILS7,500,000	Israel (State of) 1.25% 30/11/2022	2,225	0.76	
US$1,350,000	Israel (State of) 4.5% 30/01/2043	1,738	0.60	
US$978,000	Qatar (State of) 3.75% 16/04/2030	1,113	0.38	
US$1,556,000	Qatar (State of) 5.103% 23/04/2048	2,110	0.72	
US$1,000,000	Qatar (State of) 6.4% 20/01/2040	1,516	0.52	
£4,500,000	UK Treasury 3.75% 07/09/2021	5,768	1.98	
US$11,500,000	US Treasury IL 0.625% 15/01/2024	13,314	4.56	
US$11,600,000	US Treasury 3.125% 15/11/2028	14,039	4.81	
US$14,500,000	US Treasury 3.125% 15/05/2048	20,411	7.00	
	'A' credit rated bonds	**50,005**	**17.14**	**17.52**
US$1,945,000	Bermuda (Govt. of) 4.75% 15/02/2029	2,185	0.75	
€1,251,000	Iceland (Republic of) 0.625% 03/06/2026	1,430	0.49	
¥1,518,450,000	Japan (Govt. of) 2.1% 20/12/2029	16,874	5.79	
¥1,401,600,000	Japan (Govt. of) IL 0.1% 10/03/2029	13,041	4.47	
€2,000,000	Lithuania (Republic of) 0.75% 06/05/2030	2,382	0.82	
MYR10,000,000	Malaysia (Govt. of) 3.882% 10/03/2022	2,400	0.82	
PEN4,000,000	Peru (Republic of) 5.94% 12/02/2029	1,307	0.45	
PEN4,300,000	Peru (Republic of) 6.15% 12/08/2032	1,392	0.48	
PEN4,800,000	Peru (Republic of) 8.2% 12/08/2026	1,757	0.60	
PLN14,700,000	Poland (Republic of) 3.25% 25/07/2025	4,152	1.42	
€2,000,000	Slovakia (Republic of) 0.25% 14/05/2025	2,288	0.78	
THB20,000,000	Thailand (Kingdom of) IL 3.3% 17/06/2038	797	0.27	
	'BBB' credit rated bonds	**62,295**	**21.36**	**19.80**
COP4,993,000,000	Bogota Distrio Capital 9.75% 26/07/2028	1,473	0.50	
€2,000,000	Bulgaria (Republic of) 3.125% 26/03/2035	2,774	0.95	
US$2,000,000	Colombia (Republic of) 7.375% 18/09/2037	2,705	0.93	
€2,750,000	Croatia (Republic of) 1.5% 17/06/2031	3,069	1.05	
€1,500,000	Hungary (Republic of) 1.625% 28/04/2032	1,685	0.58	
IDR60,617,000,000	Indonesia (Republic of) 8.25% 15/05/2036	4,408	1.51	
IDR10,000,000,000	Indonesia (Republic of) 8.375% 15/03/2034	735	0.25	
£3,000,000	Italy (Republic of) 6% 04/08/2028	4,585	1.57	
€1,500,000	Kazakhstan (Republic of) 2.375% 09/11/2028	1,750	0.60	
US$2,000,000	Kazakhstan (Republic of) 4.875% 14/10/2044	2,532	0.87	
US$603,000	Mexico (United Mexican States) 4.75% 27/04/2032	661	0.23	
£1,292,000	Mexico (United Mexican States) 5.625% 19/03/2114	1,634	0.56	
MXN25,000,000	Mexico (United Mexican States) 8% 07/11/2047	1,205	0.41	
MXN60,000,000	Mexico (United Mexican States) 8.5% 18/11/2038	3,064	1.05	
US$2,632,000	Morocco (Kingdom of) 5.5% 11/12/2042	3,208	1.10	
€2,000,000	Peru (Republic of) 3.75% 01/03/2030	2,730	0.94	
US$412,500	Petroleos Mexicano 2.46% 15/12/2025	428	0.15	
€3,500,000	Philippines (Republic of) 0.7% 03/02/2029	3,706	1.27	
PHP50,000,000	Philippines (Republic of) 6.25% 14/01/2036	1,241	0.43	
US$1,200,000	Portugal (Republic of) 5.125% 15/10/2024	1,396	0.48	
US$3,000,000	Power Sector Assets & Liabilities Management 7.39% 02/12/2024	3,674	1.26	
€923,000	Romania (Republic of) 3.624% 26/05/2030	1,115	0.38	
US$1,000,000	Romania (Republic of) 6.125% 22/01/2044	1,308	0.45	

M&G Global Government Bond Fund

Authorised Corporate Director's Report

Portfolio statement (continued)

as at 30 June Holding		2020 $'000	2020 %	2019 %
	FIXED INCOME (continued)			
	Debt securities (continued)			
	'BBB' credit rated bonds (continued)			
RUB245,000,000	Russia (Federation of) 8.15% 03/02/2027	3,997	1.37	
US$1,000,000	Russia (Federation of) 12.75% 24/06/2028	1,719	0.59	
THB85,000,000	Thailand (Kingdom of) IL 1.25% 12/03/2028	2,546	0.87	
UYU36,065,711	Uruguay (Republic of) 3.875% 02/07/2040	857	0.29	
UYU88,378,000	Uruguay (Republic of) 9.875% 20/06/2022	2,090	0.72	
	'BB' credit rated bonds	**38,204**	**13.10**	**10.13**
US$937,000	Bahamas (Commonwealth of) 6% 21/11/2028	806	0.28	
€5,000,000	Brazil (Federal Republic of) 2.875% 01/04/2021	5,652	1.94	
BRL12,000,000	Brazil (Federal Republic of) 10% 01/01/2029	2,657	0.91	
DOP63,350,000	Dominican Republic 8.9% 15/02/2023	1,001	0.34	
DOP64,000,000	Dominican Republic 9.75% 05/06/2026	971	0.33	
US$2,500,000	Guatemala (Republic of) 4.9% 01/06/2030	2,673	0.92	
US$1,027,000	Honduras (Republic of) 5.625% 24/06/2030	1,043	0.36	
US$2,400,000	Honduras (Republic of) 6.25% 19/01/2027	2,555	0.88	
€975,000	Macedonia (Govt. of) 3.675% 03/06/2026	1,110	0.38	
€2,350,000	Macedonia (Govt. of) 5.625% 26/07/2023	2,842	0.97	
US$333,000	Paraguay (Republic of) 4.95% 28/04/2031	369	0.13	
US$1,000,000	Paraguay (Republic of) 6.1% 11/08/2044	1,213	0.41	
€2,500,000	Serbia (Republic of) 1.5% 26/06/2029	2,621	0.90	
€1,364,000	Serbia (Republic of) 3.125% 15/05/2027	1,600	0.55	
US$1,000,000	Serbia (Republic of) 7.25% 28/09/2021	1,064	0.36	
ZAR33,000,000	South Africa (Republic of) 8.75% 28/02/2048	1,505	0.52	
US$617,000	Uzbekistan (Republic of) 4.75% 20/02/2024	648	0.22	
US$953,000	Uzbekistan (Republic of) 5.375% 20/02/2029	1,038	0.36	
US$3,550,000	Vietnam Debt & Asset Trading 1% 10/10/2025	2,743	0.94	
US$4,137,750	Vietnam (Socialist Republic of) 5.5% 12/03/2028	4,093	1.40	
	'B' credit rated bonds	**12,102**	**4.15**	**9.72**
€1,502,000	Albania (Republic of) 3.5% 09/10/2025	1,703	0.58	
US$201,000	Cameroon (Republic of) 9.5% 19/11/2025	201	0.07	
US$500,000	Costa Rica (Republic of) 5.52% 10/11/2021	502	0.17	
US$500,000	Costa Rica (Republic of) 5.52% 23/08/2023	470	0.16	
€1,150,000	Egypt (Arab Republic of) 5.625% 16/04/2030	1,160	0.40	
US$696,000	Egypt (Arab Republic of) 5.75% 29/05/2024	697	0.24	
US$609,000	Egypt (Arab Republic of) 8.875% 29/05/2050	600	0.20	
US$600,000	Ghana (Republic of) 8.627% 16/06/2049	544	0.19	
US$2,100,000	Rwanda (Republic of) 6.625% 02/05/2023	2,071	0.71	
€1,700,000	Senegal (Republic of) 4.75% 13/03/2028	1,839	0.63	
€2,000,000	Ukraine (Republic of) 4.375% 27/01/2030	1,913	0.66	
UAH10,000,000	Ukraine (Republic of) 14.91% 12/10/2022	402	0.14	
	'CC' credit rated bonds	**599**	**0.21**	**0.00**
€1,238,493	Argentina (Republic of) 7.82% 31/12/2033	599	0.21	
	'D' credit rated bonds	**774**	**0.27**	**0.00**
US$2,000,000	Argentina (Republic of) 7.125% 28/06/2117	774	0.27	
	Bonds with no credit rating	**16,084**	**5.51**	**2.49**
US$1,730,000	Armenia (Republic of) 7.15% 26/03/2025	1,936	0.66	
€1,700,000	Côte d'Ivoire (Republic of) 6.625% 22/03/2048	1,723	0.59	
US$4,210,000	Hutama Karya 3.75% 11/05/2030	4,434	1.52	
€3,000,000	MFB Magyar Fejlesztesi Bank Zrt 1.375% 24/06/2025	3,375	1.16	
US$3,500,000	Panama (Republic of) 3.75% 17/04/2026	3,663	1.26	
US$533,000	Perusahaan Penerbit SBSN Indonesia III 2.8% 23/06/2030	533	0.18	
US$224,580	Seychelles (Republic of) 8% 01/01/2026	191	0.06	
US$200,000	Southern Gas Corridor CJSC 6.875% 24/03/2026	229	0.08	
	CURRENCY	72	0.02	0.00
	Forward currency contracts	**72**	**0.02**	**0.00**
CZK116,500,000	Bought for $4,815,407 (expires 01.07.20)	55	0.02	
CZK(116,500,000)	Sold for $4,921,610 (expires 01.07.20)	51	0.02	
£2,800,000	Bought for $3,452,470 (expires 29.07.20)	(16)	(0.01)	
£2,800,000	Bought for $3,470,073 (expires 01.07.20)	(34)	(0.01)	
£(2,800,000)	Sold for $3,451,924 (expires 01.07.20)	16	0.00	
Portfolio of investments		287,586	98.60	97.26

M&G Global Government Bond Fund

Authorised Corporate Director's Report

Portfolio statement (continued)

as at 30 June Holding		2020 $'000	2020 %	2019 %
	CASH EQUIVALENTS	1,129	0.39	0.87
	'AAA' rated money market funds [a]	1,129	0.39	0.87
1,129,000	Northern Trust Global Fund - US Dollar	1,129	0.39	
Total portfolio (notes 2c & 2d on page 7)		288,715	98.99	98.13
Net other assets / (liabilities)		2,954	1.01	1.87
Net assets attributable to shareholders		291,669	100.00	100.00

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

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

M&G Global Government Bond Fund

Financial highlights

Fund performance

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

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

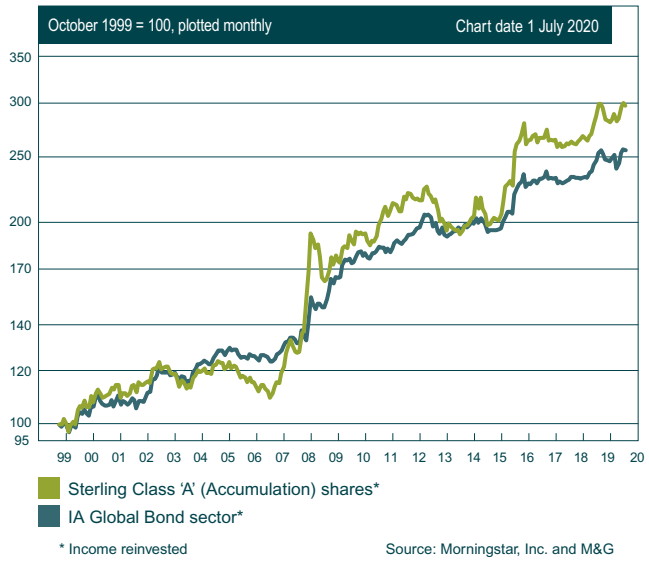
Fund level performance

Fund net asset value

as at 30 June	2020 $'000	2019 $'000	2018 $'000
Fund net asset value (NAV)	291,669	175,095	87,020

Performance since launch

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



To give an indication of the performance of the fund, the below 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 01.07.19 % [a]	Three years 03.07.17 % p.a.	Five years 01.07.15 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+2.7	+2.8	+3.6	+5.2 [c]
Class 'C'	+3.2	+3.4	+4.1	+5.8 [c]
Sterling [d]				
Class 'A'	+3.4	+3.8	+8.5	+5.4 [e]
Class 'I'	+3.9	+4.3	+9.0	+4.2 [f]
Class 'R'	+3.6	+4.0	+8.8	+4.0 [f]
Swiss franc [b]				
Class 'A'	-2.1	+1.8	+3.9	+2.9 [c]
Class 'C'	-1.6	+2.4	+4.5	+3.5 [c]
US dollar [b]				
Class 'A'	+1.5	+2.3	+3.7	+2.2 [c]
Class 'C'	+2.0	+2.8	+4.3	+2.7 [c]

[a] Absolute basis.

[b] Price to price with gross income reinvested.

[c] 22 August 2014, the launch date of the share class.

[d] Price to price with income reinvested.

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

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

M&G Global Government Bond Fund

Financial highlights

Operating charges and portfolio transaction costs

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

Operating charges

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

- **Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge.

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

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

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

for the year to 30 June	2020	2019	2018	Average [a]
Direct portfolio transaction costs [b]	%	%	%	%
Taxes	0.01	0.06	0.00	0.02
Costs before dilution adjustments	0.01	0.06	0.00	0.02
Dilution adjustments [c]	0.00	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.06	0.00	0.02

as at 30 June	2020	2019	2018	Average [a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.54	0.36	0.35	0.42

[a] Average of first three columns.

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

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

M&G Global Government Bond Fund

Financial highlights

Specific share class performance

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

Euro Class 'A' Income share performance

The share class was launched on 22 August 2014. for the year to 30 June	2020	2019	2018
Change in NAV per share	**Euro ¢**	**Euro ¢**	**Euro ¢**
Opening NAV	1,147.79	1,095.80	1,169.78
Return before operating charges and after direct portfolio transaction costs	45.10	104.12	(19.41)
Operating charges	(12.44)	(12.14)	(13.78)
Return after operating charges	32.66	91.98	(33.19)
Distributions	(37.19)	(39.99)	(40.79)
Closing NAV	1,143.26	1,147.79	1,095.80
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.14	0.63	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.14	0.63	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.06	0.00
Operating charges [c]	1.05	1.09	1.21
Return after operating charges	+2.85	+8.39	-2.84
Distribution yield	2.99	3.63	3.86
Effect on yield of charges offset against capital	1.05	1.00	1.15
Other information			
Closing NAV ($'000)	4,769	5,816	5,985
Closing NAV percentage of total fund NAV (%)	1.64	3.32	6.88
Number of shares	372,124	445,190	469,187
Highest share price (Euro ¢)	1,222.82	1,175.75	1,175.37
Lowest share price (Euro ¢)	1,104.93	1,081.26	1,110.72

Euro Class 'A' Accumulation share performance

The share class was launched on 22 August 2014. for the year to 30 June	2020	2019	2018
Change in NAV per share	**Euro ¢**	**Euro ¢**	**Euro ¢**
Opening NAV	1,299.35	1,197.45	1,233.05
Return before operating charges and after direct portfolio transaction costs	51.07	115.29	(21.01)
Operating charges	(14.19)	(13.39)	(14.59)
Return after operating charges	36.88	101.90	(35.60)
Distributions	(28.50)	(31.31)	(29.31)
Retained distributions	28.50	31.31	29.31
Closing NAV	1,336.23	1,299.35	1,197.45
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.16	0.70	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.16	0.70	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.06	0.00
Operating charges [c]	1.05	1.09	1.21
Return after operating charges	+2.84	+8.51	-2.89
Distribution yield	1.94	2.65	2.70
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	4,913	6,865	9,645
Closing NAV percentage of total fund NAV (%)	1.69	3.92	11.08
Number of shares	328,034	464,153	691,939
Highest share price (Euro ¢)	1,407.50	1,307.48	1,238.75
Lowest share price (Euro ¢)	1,271.79	1,181.54	1,190.42

Euro Class 'C' Income share performance

The share class was launched on 22 August 2014. for the year to 30 June	2020	2019	2018
Change in NAV per share	**Euro ¢**	**Euro ¢**	**Euro ¢**
Opening NAV	1,164.52	1,106.25	1,175.01
Return before operating charges and after direct portfolio transaction costs	47.07	106.20	(18.67)
Operating charges	(6.60)	(6.50)	(8.13)
Return after operating charges	40.47	99.70	(26.80)
Distributions	(39.06)	(41.43)	(41.96)
Closing NAV	1,165.93	1,164.52	1,106.25
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.14	0.64	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.14	0.64	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.06	0.00
Operating charges [c]	0.55	0.57	0.71
Return after operating charges	+3.48	+9.01	-2.28
Distribution yield	2.99	3.63	3.85
Effect on yield of charges offset against capital	0.55	0.50	0.65
Other information			
Closing NAV ($'000)	6	7	6
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.01
Number of shares	500	500	500
Highest share price (Euro ¢)	1,245.00	1,192.91	1,180.72
Lowest share price (Euro ¢)	1,125.55	1,093.14	1,119.41

M&G Global Government Bond Fund

Financial highlights

Specific share class performance

Euro Class 'C' Accumulation share performance

The share class was launched on 22 August 2014. for the year to 30 June	2020	2019	2018
Change in NAV per share	**Euro ¢**	**Euro ¢**	**Euro ¢**
Opening NAV	1,334.49	1,222.89	1,252.06
Return before operating charges and after direct portfolio transaction costs	52.67	118.43	(20.55)
Operating charges	(7.64)	(6.83)	(8.62)
Return after operating charges	45.03	111.60	(29.17)
Distributions	(36.35)	(39.23)	(36.78)
Retained distributions	36.35	39.23	36.78
Closing NAV	1,379.52	1,334.49	1,222.89
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.16	0.71	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.16	0.71	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.06	0.00
Operating charges [c]	0.55	0.54	0.70
Return after operating charges	+3.37	+9.13	-2.33
Distribution yield	2.44	3.14	3.20
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	7,677	44	7
Closing NAV percentage of total fund NAV (%)	2.63	0.03	0.01
Number of shares	496,445	2,910	500
Highest share price (Euro ¢)	1,450.49	1,342.68	1,258.23
Lowest share price (Euro ¢)	1,311.17	1,208.59	1,213.39

Sterling Class 'A' Income share performance

The share class was launched on 4 October 1999. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	98.19	92.57	98.02
Return before operating charges and after direct portfolio transaction costs	5.57	10.06	(0.83)
Operating charges	(1.04)	(1.02)	(1.17)
Return after operating charges	4.53	9.04	(2.00)
Distributions	(3.12)	(3.42)	(3.45)
Closing NAV	99.60	98.19	92.57
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.01	0.05	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.05	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.06	0.00
Operating charges [c]	1.05	1.09	1.21
Return after operating charges	+4.61	+9.77	-2.04
Distribution yield	2.99	3.63	3.86
Effect on yield of charges offset against capital	1.05	1.00	1.15
Other information			
Closing NAV ($'000)	2,498	2,389	2,669
Closing NAV percentage of total fund NAV (%)	0.86	1.37	3.07
Number of shares	2,043,957	1,917,770	2,193,963
Highest share price (UK p)	104.09	100.31	101.37
Lowest share price (UK p)	94.33	91.25	92.03

Sterling Class 'A' Accumulation share performance

The share class was launched on 4 October 1999. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	142.95	130.10	132.84
Return before operating charges and after direct portfolio transaction costs	8.26	14.30	(1.15)
Operating charges	(1.52)	(1.45)	(1.59)
Return after operating charges	6.74	12.85	(2.74)
Distributions	(3.07)	(3.44)	(3.19)
Retained distributions	3.07	3.44	3.19
Closing NAV	149.69	142.95	130.10
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.02	0.08	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.08	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.06	0.00
Operating charges [c]	1.05	1.09	1.21
Return after operating charges	+4.71	+9.88	-2.06
Distribution yield	1.94	2.65	2.70
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	11,211	11,409	7,931
Closing NAV percentage of total fund NAV (%)	3.84	6.52	9.11
Number of shares	6,103,840	6,290,218	4,639,906
Highest share price (UK p)	151.53	143.46	137.39
Lowest share price (UK p)	137.33	128.23	126.85

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	1,152.02	1,080.60	1,138.41
Return before operating charges and after direct portfolio transaction costs	65.50	117.89	(9.74)
Operating charges	(6.40)	(6.44)	(7.92)
Return after operating charges	59.10	111.45	(17.66)
Distributions	(36.70)	(40.03)	(40.15)
Closing NAV	1,174.42	1,152.02	1,080.60
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.13	0.62	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.13	0.62	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.06	0.00
Operating charges [c]	0.55	0.58	0.71
Return after operating charges	+5.13	+10.31	-1.55
Distribution yield	2.99	3.63	3.85
Effect on yield of charges offset against capital	0.55	0.50	0.65
Other information			
Closing NAV ($'000)	26,925	28,067	21,313
Closing NAV percentage of total fund NAV (%)	9.23	16.03	24.49
Number of shares	1,868,408	1,920,251	1,501,062
Highest share price (UK p)	1,222.28	1,176.87	1,178.24
Lowest share price (UK p)	1,109.29	1,066.72	1,073.24

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Financial highlights

Specific share class performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	1,324.38	1,199.22	1,218.46
Return before operating charges and after direct portfolio transaction costs	76.83	132.22	(10.64)
Operating charges	(7.45)	(7.06)	(8.60)
Return after operating charges	69.38	125.16	(19.24)
Distributions	(35.22)	(38.08)	(35.40)
Retained distributions	35.22	38.08	35.40
Closing NAV	1,393.76	1,324.38	1,199.22
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.16	0.70	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.16	0.70	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.06	0.00
Operating charges [c]	0.55	0.57	0.71
Return after operating charges	+5.24	+10.44	-1.58
Distribution yield	2.44	3.14	3.20
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	227,942	116,146	36,857
Closing NAV percentage of total fund NAV (%)	78.15	66.34	42.35
Number of shares	13,328,306	6,912,196	2,339,042
Highest share price (UK p)	1,405.09	1,329.09	1,261.12
Lowest share price (UK p)	1,275.20	1,183.83	1,168.21

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	114.33	107.52	113.55
Return before operating charges and after direct portfolio transaction costs	6.49	11.70	(0.97)
Operating charges	(0.92)	(0.91)	(1.06)
Return after operating charges	5.57	10.79	(2.03)
Distributions	(3.64)	(3.98)	(4.00)
Closing NAV	116.26	114.33	107.52
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.01	0.06	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.06	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.06	0.00
Operating charges [c]	0.80	0.83	0.96
Return after operating charges	+4.87	+10.04	-1.79
Distribution yield	2.99	3.63	3.86
Effect on yield of charges offset against capital	0.80	0.75	0.90
Other information			
Closing NAV ($'000)	507	406	345
Closing NAV percentage of total fund NAV (%)	0.17	0.23	0.39
Number of shares	355,093	279,986	244,420
Highest share price (UK p)	121.25	116.80	117.48
Lowest share price (UK p)	109.96	106.06	106.84

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	130.76	118.72	120.91
Return before operating charges and after direct portfolio transaction costs	7.57	13.04	(1.03)
Operating charges	(1.07)	(1.00)	(1.16)
Return after operating charges	6.50	12.04	(2.19)
Distributions	(3.14)	(3.46)	(3.20)
Retained distributions	3.14	3.46	3.20
Closing NAV	137.26	130.76	118.72
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.02	0.07	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.07	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.06	0.00
Operating charges [c]	0.80	0.82	0.96
Return after operating charges	+4.97	+10.14	-1.81
Distribution yield	2.19	2.89	2.95
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	1,366	1,826	499
Closing NAV percentage of total fund NAV (%)	0.47	1.04	0.57
Number of shares	810,886	1,100,961	319,986
Highest share price (UK p)	138.67	131.22	125.09
Lowest share price (UK p)	125.76	117.09	115.69

Swiss franc Class 'A' Accumulation share performance

The share class was launched on 22 August 2014. for the year to 30 June	2020	2019	2018
Change in NAV per share	**Swiss ¢**	**Swiss ¢**	**Swiss ¢**
Opening NAV	1,195.37	1,148.24	1,116.80
Return before operating charges and after direct portfolio transaction costs	(2.30)	59.60	45.50
Operating charges	(12.69)	(12.47)	(14.06)
Return after operating charges	(14.99)	47.13	31.44
Distributions	(25.43)	(29.01)	(28.98)
Retained distributions	25.43	29.01	28.98
Closing NAV	1,180.38	1,195.37	1,148.24
Direct portfolio transaction costs	**Swiss ¢**	**Swiss ¢**	**Swiss ¢**
Costs before dilution adjustments	0.14	0.66	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.14	0.66	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.06	0.00
Operating charges [c]	1.05	1.08	1.20
Return after operating charges	-1.25	+4.10	+2.82
Distribution yield	1.94	2.65	2.75
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	1,728	403	217
Closing NAV percentage of total fund NAV (%)	0.59	0.23	0.25
Number of shares	139,145	32,832	18,800
Highest share price (Swiss ¢)	1,239.40	1,213.55	1,195.76
Lowest share price (Swiss ¢)	1,111.12	1,102.66	1,115.74

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Financial highlights

Specific share class performance

Swiss franc Class 'C' Accumulation share performance

The share class was launched on 22 August 2014. for the year to 30 June	2020	2019	2018
Change in NAV per share	**Swiss ¢**	**Swiss ¢**	**Swiss ¢**
Opening NAV	1,226.63	1,170.87	1,132.69
Return before operating charges and after direct portfolio transaction costs	(1.73)	62.37	46.10
Operating charges	(6.90)	(6.61)	(7.92)
Return after operating charges	(8.63)	55.76	38.18
Distributions	(32.91)	(36.99)	(35.90)
Retained distributions	32.91	36.99	35.90
Closing NAV	1,218.00	1,226.63	1,170.87
Direct portfolio transaction costs	**Swiss ¢**	**Swiss ¢**	**Swiss ¢**
Costs before dilution adjustments	0.14	0.67	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.14	0.67	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.06	0.00
Operating charges [c]	0.55	0.56	0.67
Return after operating charges	-0.70	+4.76	+3.37
Distribution yield	2.44	3.14	3.27
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	48	6	6
Closing NAV percentage of total fund NAV (%)	0.02	0.00	0.01
Number of shares	3,779	500	500
Highest share price (Swiss ¢)	1,276.60	1,244.45	1,215.94
Lowest share price (Swiss ¢)	1,144.94	1,126.33	1,131.71

US dollar Class 'A' Income share performance

The share class was launched on 22 August 2014. for the year to 30 June	2020	2019	2018
Change in NAV per share	**US ¢**	**US ¢**	**US ¢**
Opening NAV	984.53	961.21	1,005.29
Return before operating charges and after direct portfolio transaction costs	23.04	68.15	4.57
Operating charges	(10.37)	(10.44)	(12.36)
Return after operating charges	12.67	57.71	(7.79)
Distributions	(31.43)	(34.39)	(36.29)
Closing NAV	965.77	984.53	961.21
Direct portfolio transaction costs	**US ¢**	**US ¢**	**US ¢**
Costs before dilution adjustments	0.11	0.54	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.11	0.54	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.06	0.00
Operating charges [c]	1.05	1.09	1.21
Return after operating charges	+1.29	+6.00	-0.77
Distribution yield	2.99	3.63	3.86
Effect on yield of charges offset against capital	1.05	1.00	1.15
Other information			
Closing NAV ($'000)	198	243	207
Closing NAV percentage of total fund NAV (%)	0.07	0.14	0.24
Number of shares	20,523	24,631	21,536
Highest share price (US ¢)	1,025.42	1,005.78	1,051.51
Lowest share price (US ¢)	895.10	945.00	981.87

US dollar Class 'A' Accumulation share performance

The share class was launched on 22 August 2014. for the year to 30 June	2020	2019	2018
Change in NAV per share	**US ¢**	**US ¢**	**US ¢**
Opening NAV	1,115.02	1,050.84	1,059.91
Return before operating charges and after direct portfolio transaction costs	25.98	75.70	4.10
Operating charges	(11.82)	(11.52)	(13.17)
Return after operating charges	14.16	64.18	(9.07)
Distributions	(24.10)	(26.95)	(26.08)
Retained distributions	24.10	26.95	26.80
Closing NAV	1,129.18	1,115.02	1,050.84
Direct portfolio transaction costs	**US ¢**	**US ¢**	**US ¢**
Costs before dilution adjustments	0.13	0.60	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.13	0.60	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.06	0.00
Operating charges [c]	1.05	1.09	1.21
Return after operating charges	+1.27	+6.11	-0.86
Distribution yield	1.94	2.65	2.70
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	1,754	1,438	1,304
Closing NAV percentage of total fund NAV (%)	0.60	0.82	1.50
Number of shares	155,359	128,952	124,082
Highest share price (US ¢)	1,180.84	1,118.99	1,127.49
Lowest share price (US ¢)	1,030.77	1,033.13	1,052.81

US dollar Class 'C' Income share performance

The share class was launched on 22 August 2014. for the year to 30 June	2020	2019	2018
Change in NAV per share	**US ¢**	**US ¢**	**US ¢**
Opening NAV	998.75	970.38	1,009.77
Return before operating charges and after direct portfolio transaction costs	23.73	69.75	5.32
Operating charges	(5.68)	(5.71)	(6.82)
Return after operating charges	18.05	64.04	(1.50)
Distributions	(32.24)	(35.67)	(37.89)
Closing NAV	984.56	998.75	970.38
Direct portfolio transaction costs	**US ¢**	**US ¢**	**US ¢**
Costs before dilution adjustments	0.12	0.55	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.12	0.55	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.06	0.00
Operating charges [c]	0.57	0.59	0.66
Return after operating charges	+1.81	+6.60	-0.15
Distribution yield	2.99	3.63	3.89
Effect on yield of charges offset against capital	0.56	0.50	0.65
Other information			
Closing NAV ($'000)	5	5	5
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.01
Number of shares	500	500	500
Highest share price (US ¢)	1,043.82	1,020.48	1,059.42
Lowest share price (US ¢)	911.29	956.04	991.95

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Financial highlights

Specific share class performance

US dollar Class 'C' Accumulation share performance

The share class was launched on 22 August 2014. for the year to 30 June	2020	2019	2018
Change in NAV per share	**US ¢**	**US ¢**	**US ¢**
Opening NAV	1,145.32	1,073.94	1,077.79
Return before operating charges and after direct portfolio transaction costs	26.81	77.84	4.11
Operating charges	(6.37)	(6.46)	(7.96)
Return after operating charges	20.44	71.38	(3.85)
Distributions	(30.66)	(33.12)	(32.14)
Retained distributions	30.66	33.12	32.14
Closing NAV	1,165.76	1,145.32	1,073.94
Direct portfolio transaction costs	**US ¢**	**US ¢**	**US ¢**
Costs before dilution adjustments	0.13	0.61	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.13	0.61	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.01	0.06	0.00
Operating charges [c]	0.56	0.59	0.71
Return after operating charges	+1.78	+6.65	-0.36
Distribution yield	2.44	3.14	3.20
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	122	25	24
Closing NAV percentage of total fund NAV (%)	0.04	0.01	0.03
Number of shares	10,438	2,216	2,216
Highest share price (US ¢)	1,217.22	1,149.40	1,149.77
Lowest share price (US ¢)	1,062.67	1,057.65	1,072.19

[a] In respect of direct portfolio transaction costs.

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

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

M&G Global Government Bond Fund

Financial statements and notes

Financial statements

Statement of total return

for the year to 30 June	Note	2020 $'000	2020 $'000	2019 $'000	2019 $'000
Income					
Net capital gains / (losses)	3		(2,761)		5,876
Revenue	5	7,588		4,344	
Expenses	6	(1,478)		(839)	
Net revenue / (expense) before taxation		6,110		3,505	
Taxation	7	(38)		(29)	
Net revenue / (expense) after taxation			6,072		3,476
Total return before distributions			**3,311**		**9,352**
Distributions	8		(6,300)		(3,704)
Change in net assets attributable to shareholders from investment activities			**(2,989)**		**5,648**

Statement of change in net assets attributable to shareholders

for the year to 30 June	2020 $'000	2020 $'000	2019 $'000	2019 $'000
Opening net assets attributable to shareholders		**175,095**		**87,020**
Amounts received on issue of shares	157,186		117,278	
Amounts paid on cancellation of shares	(43,968)		(38,115)	
		113,218		79,163
Dilution adjustments		384		165
Change in net assets attributable to shareholders from investment activities (see above)		(2,989)		5,648
Retained distributions on Accumulation shares		5,961		3,099
Closing net assets attributable to shareholders		**291,669**		**175,095**

M&G Global Government Bond Fund

Financial statements and notes

Financial statements (continued)

Balance sheet

as at 30 June	Note	2020 $'000	2019 $'000
Assets			
Fixed assets			
Investments		287,636	170,294
Current assets			
Debtors	9	3,355	4,301
Cash and bank balances	10	1,231	1,569
Cash equivalents		1,129	1,531
Total assets		**293,351**	**177,695**
Liabilities			
Investment liabilities		(50)	0
Creditors			
Distribution payable		(534)	(663)
Other creditors	11	(1,098)	(1,937)
Total liabilities		**(1,682)**	**(2,600)**
Net assets attributable to shareholders		**291,669**	**175,095**

M&G Global Government Bond Fund

Financial statements and notes

Notes to the financial statements

1 Accounting policies

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

The fund's functional and presentational currency is US dollars as this better reflects the currency of its primary economic environment.

2 Distribution policy

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

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

3 Net capital gains / (losses)

for the year to 30 June	2020 $'000	2019 $'000
Non-derivative securities	(2,964)	5,951
Derivative contracts	286	(143)
Currency gains / (losses)	(82)	73
Transaction charges	(1)	(5)
Net capital gains / (losses)	**(2,761)**	**5,876**

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 106.

for the year to 30 June	2020 $'000	% of transaction	2019 $'000	% of transaction
a) Purchases				
Debt securities	**278,268**		**162,184**	
b) Sales				
Debt securities				
Debt securities before transaction costs	157,660		80,044	
Taxes	(27)	0.02	(67)	0.08
Debt securities after transaction costs	**157,633**		**79,977**	
Other transaction types				
Corporate actions	0		1,030	
Total sales after transaction costs	**157,633**		**81,007**	

c) Direct portfolio transaction costs	2020 $'000	% of average NAV	2019 $'000	% of average NAV
Taxes paid				
Debt securities	27	0.01	67	0.06
Total direct portfolio transaction costs [a]	**27**	**0.01**	**67**	**0.06**
d) Indirect portfolio transaction costs		**%**		**%**
Portfolio dealing spread [b]		0.54		0.36

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

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

5 Revenue

for the year to 30 June	2020 $'000	2019 $'000
Bank interest	3	2
Interest distributions	29	31
Interest on debt securities	7,554	4,311
Rebate of ongoing charges from underlying funds	2	0
Total revenue	**7,588**	**4,344**

M&G Global Government Bond Fund

Financial statements and notes

Notes to the financial statements

6 Expenses

for the year to 30 June	2020 $'000	2019 $'000
Payable to the ACD or associate		
Annual charge	1,360	0
Annual management charge [a]	72	607
Administration charge [a]	25	177
	1,457	784
Payable to the Depositary or associate		
Depositary's charge (including VAT) [a]	1	11
Other expenses		
Audit fee (including VAT) [a] [b]	1	14
Interest payable	12	3
Safe custody charge [a]	7	21
Tax fees (including VAT)	0	6
	20	44
Total expenses	**1,478**	**839**

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

[b] Audit fees for the financial year ending 2020 were £13,000 (including VAT).

7 Taxation

for the year to 30 June	2020 $'000	2019 $'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	38	30
Capital gains tax (India)	0	(1)
Deferred tax (note 7c)	0	0
Total taxation	**38**	**29**
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	6,110	3,505
Corporation tax at 20%	1,222	701
Effects of:		
Interest distributions	(1,222)	(701)
Withholding tax	38	30
Capital gains tax (India)	0	(1)
Total tax charge (note 7a)	**38**	**29**
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	**0**	**0**

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

8 Distributions

	2020		2019	
for the year to 30 June	Inc [a]	Acc [b]	Inc [a]	Acc [b]
Interest distributions	$'000	$'000	$'000	$'000
Interim	491	2,858	647	1,053
Final	534	3,103	663	2,046
Total net distributions		6,986		4,409
Income deducted on cancellation of shares		390		295
Income received on issue of shares		(1,076)		(1,000)
Distributions		**6,300**		**3,704**
Net revenue / (expense) per statement of total return		6,072		3,476
Expenses offset against capital		228		229
Capital gains tax offset against capital		0		(1)
Distributions		**6,300**		**3,704**

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 30 June	2020 $'000	2019 $'000
Amounts receivable on issues of shares	256	1,402
Currency deals outstanding	0	892
Debt security interest receivable	3,056	1,992
Distributions receivable	1	3
Withholding tax recoverable	42	12
Total debtors	**3,355**	**4,301**

10 Cash and bank balances

as at 30 June	2020 $'000	2019 $'000
Cash held as bank balances	1,231	1,569
Total cash and bank balances	**1,231**	**1,569**

11 Other creditors

as at 30 June	2020 $'000	2019 $'000
ACD's annual management charge payable	0	23
Administration charge payable	0	8
Amounts payable on cancellation of shares	170	299
Annual charge payable	72	0
Currency deals outstanding	0	893
Expenses payable	14	28
Purchases awaiting settlement	842	686
Total other creditors	**1,098**	**1,937**

12 Contingent assets, liabilities and outstanding commitments

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

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13 Shares in issue

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

Share class	Opening 01.07.19	Movements Issued	Movements Cancelled	Closing 30.06.20
Euro				
Class 'A' Income	445,190	17,920	(90,986)	372,124
Class 'A' Accumulation	464,153	26,403	(162,522)	328,034
Class 'C' Income	500	0	0	500
Class 'C' Accumulation	2,910	571,163	(77,628)	496,445
Sterling				
Class 'A' Income	1,917,770	714,930	(588,743)	2,043,957
Class 'A' Accumulation	6,290,218	5,377,680	(5,564,058)	6,103,840
Class 'I' Income	1,920,251	1,035,348	(1,087,191)	1,868,408
Class 'I' Accumulation	6,912,196	7,047,048	(630,938)	13,328,306
Class 'R' Income	279,986	266,470	(191,363)	355,093
Class 'R' Accumulation	1,100,961	713,668	(1,003,743)	810,886
Swiss franc				
Class 'A' Accumulation	32,832	120,301	(13,988)	139,145
Class 'C' Accumulation	500	3,279	0	3,779
US dollar				
Class 'A' Income	24,631	0	(4,108)	20,523
Class 'A' Accumulation	128,952	44,841	(18,434)	155,359
Class 'C' Income	500	0	0	500
Class 'C' Accumulation	2,216	13,379	(5,157)	10,438

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual charge [a] %
Euro			
Class 'A'	4.00	n/a	1.05
Class 'C'	1.25	n/a	0.55
Sterling			
Class 'A'	n/a	n/a	1.05
Class 'I'	n/a	n/a	0.55
Class 'R'	n/a	n/a	0.80
Swiss franc			
Class 'A'	4.00	n/a	1.05
Class 'C'	1.25	n/a	0.55
US dollar			
Class 'A'	4.00	n/a	1.05
Class 'C'	1.25	n/a	0.55

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

15 Related parties

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

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

At the balance sheet date, there were no material shareholders from within M&G plc, of which M&G Securities Limited is a wholly owned subsidiary (2019: same).

16 Events after the balance sheet date

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

17 Fair value analysis

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

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

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

Level 2: Valuation technique using observable market data

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

Level 3: Valuation technique using unobservable inputs

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

as at 30 June Basis of valuation	Assets 2020 $'000	Liabilities 2020 $'000	Assets 2019 $'000	Liabilities 2019 $'000
Level 1	100,771	0	63,696	0
Level 2	187,994	(50)	106,598	0
Level 3	0	0	0	0
	288,765	**(50)**	**170,294**	**0**

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17 Fair value analysis (continued)

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

18 Risk management policies

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

19 Market risk sensitivity

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 30 June 2020 was 18% (2019: 18%).

The lowest, highest and average VaR, as well as utilisation of VaR with reference to the limit above, are calculated during the financial years ended 30 June 2020 and 30 June 2019.

for the year to 30 June	2020 % of VaR	2020 Utilisation of VaR [a] 18%	2019 % of VaR	2019 Utilisation of VaR [a] 18%
Lowest	2.09	11.61	1.90	10.53
Highest	9.36	52.00	3.23	17.94
Average	4.19	23.30	2.33	12.96

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

20 Credit risk

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

as at 30 June	2020 $'000	2019 $'000
Investment grade securities	219,751	131,169
Below investment grade securities	51,679	34,757
Unrated securities	16,084	4,368
Other investments	72	0
Total	**287,586**	**170,294**

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

as at 30 June 2020	Forward currency contracts $'000
BNP Paribas	51
JPMorgan	55
State Street Bank	(34)
Total	**72**

As at 30 June 2019 there was no exposure to counterparties.

21 Leverage risk

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

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

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 30 June 2020 and 30 June 2019 are disclosed in the table below.

for the year to 30 June	2020 [a] $'000	2020 [a] % [b]	2019 [a] $'000	2019 [a] % [b]
Lowest	0	0.00	0	0.00
Highest	58,475	23.00	14,393	16.10
Average	16,707	6.80	2,784	2.90

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

[b] Expressed as a percentage over fund valuation.

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22 Interest distribution tables

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

Semi-annual distribution periods

	Start	End	Xd	Payment
Interim	01.07.19	31.12.19	02.01.20	29.02.20
Final	01.01.20	30.06.20	01.07.20	31.08.20

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

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

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

Euro Class 'A' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020	Group 2 Equalisation 2020	Group 1 & 2 Distribution 2020	Group 1 & 2 Distribution 2019
	Euro ¢	Euro ¢	Euro ¢	Euro ¢
Interim	3.5973	16.0892	19.6865	19.3704
Final	12.2535	5.2485	17.5020	20.6189

Euro Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020	Group 2 Equalisation 2020	Group 1 & 2 Distribution 2020	Group 1 & 2 Distribution 2019
	Euro ¢	Euro ¢	Euro ¢	Euro ¢
Interim	7.6861	7.7503	15.4364	14.7208
Final	7.6247	5.4377	13.0624	16.5924

Euro Class 'C' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020	Group 2 Equalisation 2020	Group 1 & 2 Distribution 2020	Group 1 & 2 Distribution 2019
	Euro ¢	Euro ¢	Euro ¢	Euro ¢
Interim	20.7384	0.0000	20.7384	20.2918
Final	18.3200	0.0000	18.3200	21.1420

Euro Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020	Group 2 Equalisation 2020	Group 1 & 2 Distribution 2020	Group 1 & 2 Distribution 2019
	Euro ¢	Euro ¢	Euro ¢	Euro ¢
Interim	16.3875	2.9950	19.3825	18.8971
Final	3.9573	13.0121	16.9694	20.3279

Sterling Class 'A' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020	Group 2 Equalisation 2020	Group 1 & 2 Distribution 2020	Group 1 & 2 Distribution 2019
	UK p	UK p	UK p	UK p
Interim	0.7399	0.8557	1.5956	1.6565
Final	0.9359	0.5889	1.5248	1.7638

Sterling Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020	Group 2 Equalisation 2020	Group 1 & 2 Distribution 2020	Group 1 & 2 Distribution 2019
	UK p	UK p	UK p	UK p
Interim	1.0545	0.5546	1.6091	1.6189
Final	0.9454	0.5178	1.4632	1.8256

Sterling Class 'I' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020	Group 2 Equalisation 2020	Group 1 & 2 Distribution 2020	Group 1 & 2 Distribution 2019
	UK p	UK p	UK p	UK p
Interim	9.4332	9.3098	18.7430	19.3614
Final	7.1242	10.8324	17.9566	20.6676

Sterling Class 'I' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020	Group 2 Equalisation 2020	Group 1 & 2 Distribution 2020	Group 1 & 2 Distribution 2019
	UK p	UK p	UK p	UK p
Interim	9.5206	8.5814	18.1020	17.9798
Final	6.6683	10.4480	17.1163	20.1033

Sterling Class 'R' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020	Group 2 Equalisation 2020	Group 1 & 2 Distribution 2020	Group 1 & 2 Distribution 2019
	UK p	UK p	UK p	UK p
Interim	1.0879	0.7716	1.8595	1.9245
Final	0.9446	0.8342	1.7788	2.0522

Sterling Class 'R' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020	Group 2 Equalisation 2020	Group 1 & 2 Distribution 2020	Group 1 & 2 Distribution 2019
	UK p	UK p	UK p	UK p
Interim	0.9945	0.6349	1.6294	1.6281
Final	0.6412	0.8727	1.5139	1.8274

Swiss franc Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020	Group 2 Equalisation 2020	Group 1 & 2 Distribution 2020	Group 1 & 2 Distribution 2019
	Swiss ¢	Swiss ¢	Swiss ¢	Swiss ¢
Interim	10.8087	3.0856	13.8943	13.7468
Final	5.8762	5.6629	11.5391	15.2638

Swiss franc Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020	Group 2 Equalisation 2020	Group 1 & 2 Distribution 2020	Group 1 & 2 Distribution 2019
	Swiss ¢	Swiss ¢	Swiss ¢	Swiss ¢
Interim	17.4687	0.2885	17.7572	18.2603
Final	5.0052	10.1456	15.1508	18.7320

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22 Interest distribution tables (continued)

US dollar Class 'A' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 US ¢	Group 2 Equalisation 2020 US ¢	Group 1 & 2 Distribution 2020 US ¢	Group 1 & 2 Distribution 2019 US ¢
Interim	9.7260	6.9165	16.6425	16.7142
Final	14.7842	0.0000	14.7842	17.6787

US dollar Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 US ¢	Group 2 Equalisation 2020 US ¢	Group 1 & 2 Distribution 2020 US ¢	Group 1 & 2 Distribution 2019 US ¢
Interim	8.6610	4.4054	13.0664	12.7084
Final	6.7038	4.3345	11.0383	14.2385

US dollar Class 'C' Income shares

Interest distributions for the year to 30 June	Group 2 Income 2020 US ¢	Group 2 Equalisation 2020 US ¢	Group 1 & 2 Distribution 2020 US ¢	Group 1 & 2 Distribution 2019 US ¢
Interim	17.1220	0.0000	17.1220	17.5656
Final	15.1180	0.0000	15.1180	18.1060

US dollar Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Group 2 Income 2020 US ¢	Group 2 Equalisation 2020 US ¢	Group 1 & 2 Distribution 2020 US ¢	Group 1 & 2 Distribution 2019 US ¢
Interim	10.7880	5.5466	16.3346	15.6486
Final	14.3213	0.0000	14.3213	17.4723

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Investment objective

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

Investment policy

At least 80% of the fund is invested directly in equity securities and equity-related securities of companies across any sectors and market capitalisations that are incorporated, domiciled, listed or do most of their business in the United Kingdom.

The fund may also invest in other transferable securities directly and via collective investment schemes (including funds managed by M&G).

The fund may also hold cash and near cash for liquidity purposes.

Derivatives may be used for efficient portfolio management and hedging.

Investment approach

The fund employs a disciplined approach to investment which concentrates on the analysis and selection of individual companies.

Recovery investing focuses on companies that have experienced difficulties but have the potential to deliver returns for shareholders through their turnaround over the long term.

The fund looks to benefit from the market's inefficiency in valuing companies going through short-term challenges. This enables the fund manager to identify companies whose long-term prospects have been under-appreciated by the market.

When analysing a company, the fund manager focuses on three key factors: people, strategy and cashflow. Developing a constructive dialogue with company management is fundamental to the investment process.

The investment approach means the fund manager is prepared to take a contrarian view and consider areas that are out of favour with other investors. To take this contrarian view, the fund manager focuses on company management, their turnaround strategy and the businesses' ability to generate cashflow.

The fund manager expects individual cases of companies recovering to be the main driver of performance rather than individual sectors and the macroeconomic environment.

The fund manager takes a long-term view with a typical holding period of five years or more.

Benchmark up to 22 March 2020

Benchmark: FTSE All-Share Index.

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

Benchmark from 23 March 2020

Benchmark: FTSE All-Share Index.

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

The fund is actively managed.

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

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

Risk profile

The fund invests in the shares of UK-listed companies and is, therefore, subject to the price volatility of the UK stockmarket and the performance of individual companies. The fund's focus is on companies that are out of favour with the market, and these stocks could potentially experience a degree of illiquidity in times of market distress. However, the fund is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. The fund also invests in the shares of smaller and AIM-listed companies, which can be more unpredictable and difficult to buy and sell. Diversification across industries and market capitalisation is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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Risk profile (continued)

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 not changed during this period.

Investment review

As at 1 July 2020, for the year ended 30 June 2020

Performance against objective

The M&G Recovery Fund invests in companies that, at the time of investment, are out of favour with the stockmarket, and where the fund manager believes a good management team is making concerted efforts to turn the business around. The fund's objective is to outperform the FTSE All-Share Index (net of charges) over any five-year period.

Between 1 July 2019 (the start of the review period) and 1 July 2020, the fund produced a negative total return (the combination of income and growth of capital) across all its share classes. The fund's returns were behind that of its benchmark, the FTSE All-Share Index. Over the same period, returns for the index were -13.9% and -14.7% in sterling and euro terms, respectively.

Over five years, the fund also lagged the FTSE All-Share Index, therefore missing its objective. Over this period, the index returned 2.6% p.a. and -2.2% p.a. in sterling and euro terms, respectively.*

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

Investment performance

The 12-months under review was dominated by markets' risk aversion and has undoubtedly been a tough period for the Recovery strategy. Despite brief bouts of outperformance and particularly in the final three months, the fund underperformed the benchmark FTSE All-Share Index by around 9 percentage points over the year as a whole.

This outcome was primarily due the fund's exposure to more cyclical areas of the economy, such as energy, industrials and financials, which came under extreme stress during the pandemic, and a lack of exposure to quality consumer goods companies which are trading on rich valuations and do not meet the fund's investment criteria.

In particular, the energy sector was overwhelmed by the collapse in the oil price to below zero at one point, before recovering to end the period around the US$40 per barrel mark. Accordingly, this left Tullow Oil and BP as the two worst-performing stocks in the portfolio. Tullow has also had a number of problems of its own, including poor-quality oil discoveries off the coast of Guyana, a reduction in production guidance, the removal of its chief executive and suspension of the dividend. Despite the setback, Tullow has been a profitable investment over the years and we remain supportive of the company, using the opportunity to pick up stock. BP, on the other hand, has held its dividend for the time being, unlike its peer Royal Dutch Shell which implemented a two-thirds cut to its payout.

There was a better performance from the other extractors in the portfolio as the fund's overweight stance in the miners added value, particularly St Barbara, Kenmare Resources, Rio Tinto and Sylvania Platinum. St Barbara benefited from safe-haven buying of gold assets, while Kenmare Resources, which operates the Moma mine in Mozambique, pleased the market by announcing its maiden dividend.

Outsourcer Capita and emerging market banking group HSBC were the main detractors from fund performance in the industrial and financial sectors, as the former's activities were constrained by the lockdown and the latter by a combination of low interest rates and cancelled dividends, as well as rising tensions over China's plans to curtail Hong Kong's autonomy.

Elsewhere, Micro Focus has been another source of disappointment over the past 12 months as the software firm has struggled to absorb the purchase of HP's Enterprise software business. Nevertheless, we used the opportunity presented by share price weakness to add to the fund's holding as fundamentally this is a sound business encountering short-term difficulties. Some of the fund's underperformance in this area was mitigated by a positive contribution from Blancco Technology, as the market is waking up to the opportunity offered by the company's data erasure software.

Notably, the fund's holdings in the biotechnology sector added significant value during the 12 months under review, particularly Mesoblast and Oxford Biomedica. Shares in Mesoblast more than doubled over the period, assisted by news that its GvHD treatment was being trialled in the US as a potential lifeline to patients in the advanced stages of COVID-19. Oxford Biomedica, meanwhile, was supported by the news that it had joined a consortium led by Oxford University to develop and manufacture one of the leading COVID-19 vaccines. Another significant biotech holding, GW Pharmaceuticals, lagged the market, but notwithstanding some share price volatility, GWP is making good progress in gaining approval for its transformative cannabinoid drug treatments, especially Epidiolex which has been approved for sale already in the US, Europe and the UK. Sales thus far in the US are significantly exceeding pre-launch expectations.

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Investment performance (continued)

Takeovers were a further source of added value for the fund over the period. These included defence manufacturer Cobham, the UK's largest pub company, Ei Group (formerly Enterprise Inns), content provider plus Peppa Pig owner Entertainment One, and digital audio specialist Frontier Smart Technologies.

Turning to markets, like other stockmarkets around the world, the UK experienced a painful 12 months as COVID-19 extended its spread worldwide, leading to a significant slowdown in economic activity and the onset of a recession.

The first half of the reporting period had seen global equity markets mostly make solid progress. Investors were encouraged by interest rate cuts and the recommencement of quantitative easing programmes in the US and Europe in response to market volatility and worries about slowing growth. There was also increased optimism about a US-China trade deal and some improvement in global economic data. As a result, many global equity indices were near or at all-time records at the end of 2019, led by the US. UK equities lagged, however, as Brexit and political uncertainty weighed on sterling, deterring investors in the domestic market. However, the market and the currency started to recover some risk appetite from October 2019 after new prime minister Boris Johnson secured an exit deal with the European Union (EU) and went on to win a decisive victory for the Conservative Party in the December general election. This was followed by the UK's departure from the EU at the end of January 2020, albeit abiding by EU rules until the end of 2020.

The outbreak of the coronavirus in China in late 2019 initially made little impact on markets. But, by February 2020, COVID-19 had spread beyond China, swiftly reaching most countries, including the UK. By late March, the FTSE All-Share Index had fallen 35% from its January highs. Authorities around the world started adopting far-reaching measures, aimed at containing the virus and reducing its impact on the global economy. In March in the UK, these steps included two cuts in interest rates to 0.1%, extensive stimulus and support packages, as well as a population lockdown and temporary closure of non-essential businesses. Remarkably, despite a troubling macroeconomic picture, equity markets experienced a resurgence after the March nadir, with the FTSE All-Share up 26% by 30 June 2020. Similarly, sterling staged a sharp recovery in the currency markets, rising over 7% against the US dollar from US$1.149 in March. The combination of massive stimulus and emerging green shoots of economic optimism as countries eased their respective lockdowns re-energised financial markets. However, the gains in share prices towards the end of the 12-month period were not enough to outweigh the earlier substantial losses.

Investment activities

We made eight new purchases and 14 complete sales over the fund's financial year, while another four holdings departed as a result of being taken over.

In the first half of the 12-month period, positions were established in biotech firm Medical Developments International, two advertising stocks, WPP and Mirriad Advertising, along with Chepstow-based Creo Medical Group, a manufacturer of medical devices. In the second half, we took the opportunity presented by the market sell-off to add four companies to the portfolio where risk had been mispriced, in our view: the world's largest contract caterer, Compass Group, food producer and Primark owner AB Foods, pub chain JD Wetherspoon and UK defence contractor Babcock International.

Medical Developments International is in the early stages of developing its product pipeline on expectations of the success of the company's international expansion of its Penthrox pain management. Colloquially known as the 'green whistle', Penthrox is commonly carried by accident and emergency teams in Australia, parts of Asia, Europe, as well as the NHS in the UK, and is a very effective alternative to opioid-based drugs. We took advantage of an attractive valuation last year to pick up stock.

The market does not like WPP's advertising business as it perceives it to be cyclical and under pressure from Google, Facebook and deposed founder Martin Sorrell. However, the agency is not particularly geared, is a global business and has a very competent chief executive who is putting some of its agencies together, merging the back-office operations and reinvesting the cost savings in people.

Mirriad Advertising is a much smaller business, but it is introducing innovative digital techniques to marketing such as product promotions within programmes. AIM-listed Creo Medical Group's devices are minimally invasive in the field of surgical endoscopy and the company was raising capital in order to continue with its development programme and build distribution capabilities in the US. The fund-raising represented an opportunity for Recovery to become involved in a business that is engaged in revolutionary work in healthcare.

Compass operates in numerous different markets and enjoys robust financial strength, but has been hit hard by the worldwide shutdown in offices, educational and sporting facilities; however, we consider that the company will emerge much stronger from the lockdowns than its rivals.

Half of AB Foods' business has been affected by the shutdown of Primark during the crisis, but the company has a healthy balance sheet supported by its grocery and sugar activities. Again, JD Wetherspoon was badly affected by the pandemic-driven closures; nevertheless, the company is conservatively managed and well positioned to recover with a considerable real estate portfolio of centrally located and bigger pubs, which should enable it to cope with the requirements of social distancing.

Babcock International has deferred a decision on its dividend and the share price has halved this year as the virus disrupted productivity; however, the company has just appointed a new CEO while much of its business is conducted with the Ministry of Defence, providing stable and recurring revenues from a strong order book – aside from its submarine programme, Babcock has recently signed a contract extending to 2030 to build five Type 31 general purpose frigates for the Royal Navy.

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Investment activities (continued)

Aside from holdings exiting due to takeovers, amongst the main sales from the portfolio were cruise line operator Carnival, emergency home-cover provider Homeserve, South African miner Sylvania Platinum, aero-engine maker Rolls Royce, insurer Aviva, interdealer broker TP ICAP and Gulf-based oil rig construction business Lamprell. Carnival had been a successful long-term position and, following its pronounced recovery and earlier fund sales, had been reduced to a rump holding. Homeserve had also been a long-term holding and had performed strongly for the fund, but had completed its recovery cycle and appeared fully valued. Similarly, Sylvania Platinum departed following a good run of outperformance. Meanwhile, we exited the position in Rolls Royce in view of the uncertain outlook for the aviation industry, recycling the proceeds into Babcock International, and sold Aviva, TP ICAP plus Lamprell after losing conviction in the investment case for them.

Outlook

It has been an especially challenging year for the fund. In the pandemic-driven, risk-averse climate, the shares of out-of-favour and struggling companies have been hit particularly hard. By definition, it is these unloved companies we invest in. The start of 2020 has exacerbated the pattern of recent years, whereby investors have continued to prefer more solid, predictable stocks. This trend has largely determined the fund's underperformance over much of the past decade.

Despite having to weather an extended period of underperformance, we have stuck to our recovery proposition and been sorely tested for doing so. While many companies face major challenges in the short run, we are confident that many of our holdings are robust and show encouraging evidence of sound management. By giving companies the breathing space they need to execute a strategy for recovery, we can see a very material creation of value as the market re-rates those companies. We believe the potential of our portfolio remains considerable, and expect that long-term opportunities will present themselves as the crisis eases and companies tap the markets to raise funds.

Tom Dobell
Fund manager

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

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

M&G Recovery Fund

Authorised Corporate Director's Report

Portfolio statement

as at 30 June Holding		2020 £'000	2020 %	2019 %
	EQUITIES	1,432,620	100.09	99.92
	Software & computer services	**22,306**	**1.56**	**2.63**
7,063,972	Actual Experience [a]	3,673	0.26	
3,500,000	Blancco Technology [a]	6,720	0.47	
2,200,000	Micro Focus International	9,696	0.68	
2,872,000	Watchstone [a]	2,217	0.15	
	Technology hardware & equipment	**0**	**0.00**	**0.11**
	Telecommunications service providers	**22,484**	**1.57**	**1.66**
19,500,000	BT	22,484	1.57	
	Medical equipment & services	**17,333**	**1.21**	**0.00**
8,333,000	Creo Medical [a]	17,333	1.21	
	Pharmaceuticals & biotechnology	**313,190**	**21.88**	**15.18**
3,450,000	Eco Animal Health [a]	8,280	0.58	
500,000	GW Pharmaceuticals ADR	49,684	3.47	
2,200,000	Hutchison China Meditech ADR	50,130	3.50	
3,428,178	Medical Developments International	13,318	0.93	
62,863,785	Mesoblast	113,687	7.94	
1,391,475	Mesoblast ADR	12,361	0.87	
9,350,000	Oxford Biomedica	65,730	4.59	
	Banks	**157,582**	**11.01**	**15.78**
18,000,000	HSBC	68,211	4.76	
125,680,000	Lloyds Banking	39,250	2.74	
17,000,000	Royal Bank of Scotland	20,697	1.45	
6,800,000	Standard Chartered	29,424	2.06	
	Investment banking & brokerage services	**14,541**	**1.02**	**1.08**
17,657,142	IP	11,548	0.81	
7,301,333	WH Ireland [a]	2,993	0.21	
	Equity investment instruments	**0**	**0.00**	**0.21**
	Life insurance	**0**	**0.00**	**1.51**
	Household goods & home construction	**0**	**0.00**	**0.51**
	Media	**55,783**	**3.90**	**3.67**
20,900,000	ITV	15,546	1.09	
29,666,666	Mirriad Advertising [a]	5,933	0.41	
2,100,000	Pearson	12,163	0.85	
3,500,000	WPP	22,141	1.55	
	Retailers	**7,814**	**0.55**	**0.93**
1,200,000	Dignity	2,946	0.21	
69,542,935	Mothercare	4,868	0.34	
	Travel & leisure	**82,199**	**5.74**	**7.53**
2,000,000	Compass	22,470	1.57	
4,750,000	Dalata Hotel	12,974	0.91	
3,366,667	easyJet	23,486	1.64	
9,321,340	fastjet Warrants 31/07/2021	0	0.00	
239,371	J.D. Wetherspoon	2,425	0.17	
10,728,010	National Express	20,844	1.45	
	Food producers	**38,942**	**2.72**	**1.37**
1,000,000	Associated British Foods	19,140	1.34	
8,757,630	REA	4,861	0.34	
1,700,000	Tate & Lyle	11,468	0.80	
46,304,408	Zambeef Products [a]	3,473	0.24	
	Construction & materials	**78,767**	**5.50**	**4.61**
13,550,000	Balfour Beatty	35,691	2.49	
1,350,000	CRH	37,611	2.63	
5,548,239	Kier	5,465	0.38	
	Aerospace & defence	**35,531**	**2.48**	**3.32**
1,750,000	Babcock International	5,525	0.39	
4,000,000	Meggitt	11,876	0.83	
2,700,000	QinetiQ	8,181	0.57	
146,309,150	TP [a]	9,949	0.69	
	Electronic & electrical equipment	**0**	**0.00**	**0.19**

M&G Recovery Fund

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Portfolio statement (continued)

as at 30 June Holding		2020 £'000	2020 %	2019 %
	EQUITIES (continued)			
	General industrials	**59,527**	**4.16**	**2.75**
14,000,000	Coats	7,854	0.55	
800,000	Smiths	11,180	0.78	
1,520,000	Smurfit Kappa	40,493	2.83	
	Industrial engineering	**23,353**	**1.63**	**1.53**
27,500,000	Renold [a]	3,052	0.21	
33,500,000	Severfield	20,301	1.42	
	Industrial support services	**93,692**	**6.55**	**7.51**
28,444,340	Capita	12,866	0.90	
4,000,000	Essentra	11,736	0.82	
2,000,000	Grafton	13,370	0.94	
18,751,655	IWG	50,292	3.51	
120,629,158	Wameja [a]	5,428	0.38	
	Industrial transportation	**14,068**	**0.98**	**1.68**
5,500,549	Avation	9,351	0.65	
346,934,550	Mercantile Ports & Logistics [a]	902	0.06	
10,000,000	Stobart	3,815	0.27	
	Industrial metals & mining	**158,234**	**11.05**	**8.02** [b]
44,373,385	Bacanora Lithium [a]	9,762	0.68	
132,136,364	Bluejay Mining [a]	7,664	0.54	
5,500,000	First Quantum Minerals	33,224	2.32	
18,557,778	Kenmare Resources	37,672	2.63	
23,346,347	MC Mining [a]	1,751	0.12	
1,300,000	Rio Tinto	58,727	4.10	
153,645,250	White Energy Company	9,434	0.66	
	Precious metals & mining	**49,536**	**3.46**	**3.02** [b]
13,500,000	Hummingbird Resources [a]	3,780	0.26	
100,000,000	Petra Diamonds	1,818	0.13	
22,500,000	St Barbara	39,560	2.76	
94,500,000	Troy Resources	4,378	0.31	
	Non-renewable energy	**128,211**	**8.96**	**14.05**
32,000,000	BP	99,104	6.92	
16,622,508	Great Eastern Energy GDR	1,828	0.13	
2,560,000	Petrofac	4,511	0.32	
98,547,984	Providence Resources [a]	3,548	0.25	
62,000,000	Tullow Oil	19,220	1.34	
	Electricity	**5,577**	**0.39**	**0.37**
50,702,030	OPG Power Ventures [a]	5,577	0.39	
	Gas, water & multi-utilities	**53,950**	**3.77**	**0.70**
5,465,000	National Grid	53,950	3.77	
	Unquoted / unlisted [c]	**0**	**0.00**	**0.00**
38,761,085	African Minerals	0	0.00	
39,868,814	Alizyme	0	0.00	
3,094,020	Izodia	0	0.00	
34,149,791	KSK Power Ventur	0	0.00	
Portfolio of investments		1,432,620	100.09	99.92
	CASH EQUIVALENTS	0	0.00	0.36
	'AAA' rated money market funds [d]	**0**	**0.00**	**0.36**
Total portfolio (notes 2c & 2d on page 7)		1,432,620	100.09	100.28
Net other assets / (liabilities)		**(1,320)**	**(0.09)**	**(0.28)**
Net assets attributable to shareholders		1,431,300	100.00	100.00

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

[a] AIM quoted.

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

[c] Suspended.

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

M&G Recovery Fund

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Top ten portfolio transactions

for the year to 30 June 2020 Largest purchases	£'000
WPP	31,902
National Grid	31,193
Smurfit Kappa	23,544
Compass	22,116
Tullow Oil	19,742
Associated British Foods	19,615
Creo Medical [a]	14,999
Medical Developments International	10,960
Rolls-Royce	10,593
Micro Focus International	9,614
Other purchases	83,206
Total purchases	**277,484**

Largest sales	£'000
Ei	72,443
Entertainment One	63,081
HSBC	50,623
GW Pharmaceuticals ADR	49,975
CRH	34,511
Aviva	32,769
Cobham	32,184
HomeServe	31,539
BP	26,632
IWG	17,767
Other sales	184,089
Total sales	**595,613**

[a] AIM quoted.

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

M&G Recovery Fund

Financial highlights

Fund performance

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

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

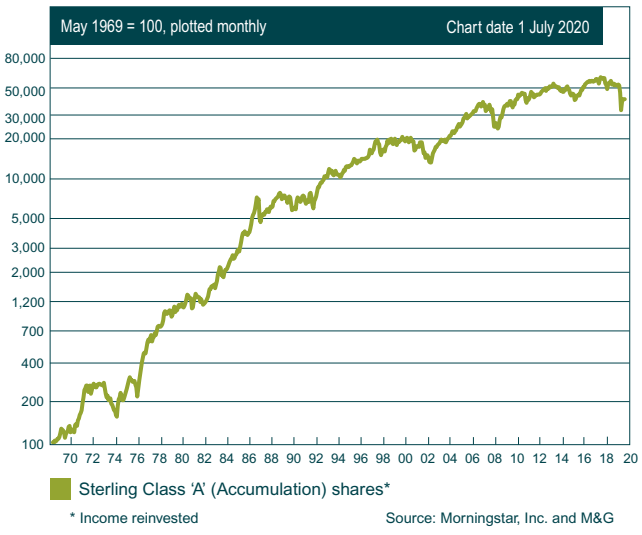
Fund level performance

Fund net asset value

as at 30 June	2020 £'000	2019 £'000	2018 £'000
Fund net asset value (NAV)	1,431,300	2,211,907	2,809,729

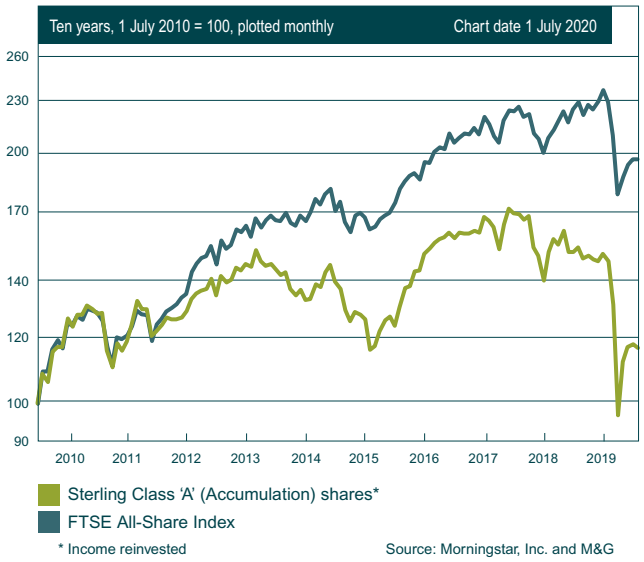
Performance since launch

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



Ten-year performance

Please note that the comparator benchmark's total return is not available from fund launch. Therefore a ten-year comparable performance chart is shown below.



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

Long-term performance by share class

	One year 01.07.19 % [a]	Three years 03.07.17 % p.a.	Five years 01.07.15 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	-24.4	-10.6	-8.3	+3.6 [c]
Class 'C'	-23.8	-10.0	-7.6	+4.4 [c]
Sterling [d]				
Class 'A'	-23.7	-9.7	-3.8	+12.4 [e]
Class 'C'	-22.6	-8.4	-2.3	+6.0 [f]
Class 'I'	-23.3	-9.1	-3.1	+1.2 [g]
Class 'PP'	-23.1	n/a	n/a	-21.7 [h]
Class 'R'	-23.5	-9.3	-3.3	-0.3 [i]
Class 'X'	-23.7	-9.7	-3.8	+5.9 [j]

[a] Absolute basis.

[b] Price to price with net income reinvested.

[c] 29 November 2002, the launch date of the share class.

[d] Price to price with income reinvested.

[e] 23 May 1969, the end of the initial offer period of the predecessor unit trust.

[f] 1 July 2004, the launch date of the share class.

[g] 15 January 2010, the launch date of the share class.

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

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

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

M&G Recovery Fund

Financial highlights

Operating charges and portfolio transaction costs

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

Operating charges

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

- **Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge.

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

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

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

for the year to 30 June	2020	2019	2018	Average [a]
Direct portfolio transaction costs [b]	%	%	%	%
Broker commission	0.02	0.01	0.01	0.01
Taxes	0.05	0.02	0.02	0.03
Costs before dilution adjustments	0.07	0.03	0.03	0.04
Dilution adjustments [c]	(0.03)	(0.02)	(0.02)	(0.02)
Total direct portfolio transaction costs	0.04	0.01	0.01	0.02

as at 30 June	2020	2019	2018	Average [a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.82	0.69	0.59	0.70

[a] Average of first three columns.

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

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

M&G Recovery Fund

Financial highlights

Specific share class performance

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

Historic yields for the current year are calculated as at 10 July 2020.

Euro Class 'A' Accumulation share performance

The share class was launched on 29 November 2002. for the year to 30 June	2020	2019	2018
Change in NAV per share	**Euro ¢**	**Euro ¢**	**Euro ¢**
Opening NAV	2,440.93	2,751.81	2,588.06
Return before operating charges and after direct portfolio transaction costs	(550.74)	(268.28)	207.49
Operating charges	(36.71)	(42.60)	(43.74)
Return after operating charges	(587.45)	(310.88)	163.75
Distributions	(14.52)	(30.61)	(19.50)
Retained distributions	14.52	30.61	19.50
Closing NAV	1,853.48	2,440.93	2,751.81
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	1.67	0.81	0.84
Dilution adjustments [a]	(0.62)	(0.57)	(0.61)
Total direct portfolio transaction costs	1.05	0.24	0.23
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.04	0.01	0.01
Operating charges [c]	1.61	1.66	1.66
Return after operating charges	-24.07	-11.30	+6.33
Historic yield	0.77	1.24	0.71
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	3,444	5,281	8,815
Closing NAV percentage of total fund NAV (%)	0.24	0.24	0.31
Number of shares	203,395	241,155	361,578
Highest share price (Euro ¢)	2,626.35	2,780.15	2,889.21
Lowest share price (Euro ¢)	1,320.89	2,226.86	2,419.72

Euro Class 'C' Accumulation share performance

The share class was launched on 29 November 2002. for the year to 30 June	2020	2019	2018
Change in NAV per share	**Euro ¢**	**Euro ¢**	**Euro ¢**
Opening NAV	2,768.98	3,098.39	2,892.31
Return before operating charges and after direct portfolio transaction costs	(628.65)	(302.97)	233.02
Operating charges	(20.84)	(26.44)	(26.94)
Return after operating charges	(649.49)	(329.41)	206.08
Distributions	(36.35)	(55.94)	(44.04)
Retained distributions	36.35	55.94	44.04
Closing NAV	2,119.49	2,768.98	3,098.39
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	1.87	0.91	0.94
Dilution adjustments [a]	(0.69)	(0.65)	(0.68)
Total direct portfolio transaction costs	1.18	0.26	0.26
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.04	0.01	0.01
Operating charges [c]	0.82	0.91	0.91
Return after operating charges	-23.46	-10.63	+7.12
Historic yield	1.69	2.00	1.42
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	3,140	4,014	11,892
Closing NAV percentage of total fund NAV (%)	0.22	0.18	0.42
Number of shares	162,166	161,571	433,231
Highest share price (Euro ¢)	2,992.88	3,131.01	3,250.49
Lowest share price (Euro ¢)	1,507.09	2,516.52	2,707.52

Sterling Class 'A' Income share performance

The share class was launched on 27 June 1977. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	127.43	146.31	139.67
Return before operating charges and after direct portfolio transaction costs	(26.67)	(12.79)	12.42
Operating charges	(1.55)	(2.24)	(2.37)
Return after operating charges	(28.22)	(15.03)	10.05
Distributions	(2.55)	(3.85)	(3.41)
Closing NAV	96.66	127.43	146.31
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.07	0.04	0.05
Dilution adjustments [a]	(0.03)	(0.03)	(0.03)
Total direct portfolio transaction costs	0.04	0.01	0.02
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.04	0.01	0.01
Operating charges [c]	1.34	1.66	1.66
Return after operating charges	-22.15	-10.27	+7.20
Historic yield	2.63	3.00	2.34
Effect on yield of charges offset against capital	1.34	1.65	1.65
Other information			
Closing NAV (£'000)	271,321	378,214	467,858
Closing NAV percentage of total fund NAV (%)	18.96	17.10	16.65
Number of shares	280,693,010	296,790,684	319,778,985
Highest share price (UK p)	130.82	147.56	154.04
Lowest share price (UK p)	70.78	119.75	132.92

M&G Recovery Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 23 May 1969. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	311.48	346.76	323.47
Return before operating charges and after direct portfolio transaction costs	(66.17)	(29.95)	28.80
Operating charges	(3.82)	(5.33)	(5.51)
Return after operating charges	(69.99)	(35.28)	23.29
Distributions	(2.45)	(3.91)	(2.46)
Retained distributions	2.45	3.91	2.46
Closing NAV	241.49	311.48	346.76
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.18	0.10	0.11
Dilution adjustments [a]	(0.08)	(0.07)	(0.08)
Total direct portfolio transaction costs	0.10	0.03	0.03
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.04	0.01	0.01
Operating charges [c]	1.34	1.66	1.66
Return after operating charges	-22.47	-10.17	+7.20
Historic yield	1.01	1.24	0.71
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	358,620	536,905	634,597
Closing NAV percentage of total fund NAV (%)	25.06	24.27	22.59
Number of shares	148,502,807	172,372,639	183,009,631
Highest share price (UK p)	319.71	349.75	360.34
Lowest share price (UK p)	175.35	285.39	310.94

Sterling Class 'C' Income share performance

Sterling Class 'C' shares are not generally available to all investors. The share class was launched on 1 July 2004. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	133.64	151.14	142.12
Return before operating charges and after direct portfolio transaction costs	(28.19)	(13.27)	12.75
Operating charges	(0.02)	(0.22)	(0.23)
Return after operating charges	(28.21)	(13.49)	12.52
Distributions	(2.68)	(4.01)	(3.50)
Closing NAV	102.75	133.64	151.14
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.08	0.04	0.05
Dilution adjustments [a]	(0.03)	(0.03)	(0.03)
Total direct portfolio transaction costs	0.05	0.01	0.02
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.04	0.01	0.01
Operating charges [c]	0.01	0.16	0.16
Return after operating charges	-21.11	-8.93	+8.81
Historic yield	2.61	2.97	2.32
Effect on yield of charges offset against capital	0.01	0.15	0.15
Other information			
Closing NAV (£'000)	50,773	70,012	93,253
Closing NAV percentage of total fund NAV (%)	3.55	3.17	3.32
Number of shares	49,415,120	52,386,777	61,700,616
Highest share price (UK p)	137.23	152.51	158.86
Lowest share price (UK p)	74.96	124.67	136.82

Sterling Class 'C' Accumulation share performance

Sterling Class 'C' shares are not generally available to all investors. The share class was launched on 1 July 2004. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	387.33	424.80	390.40
Return before operating charges and after direct portfolio transaction costs	(82.93)	(36.84)	35.04
Operating charges	(0.06)	(0.63)	(0.64)
Return after operating charges	(82.99)	(37.47)	34.40
Distributions	(7.76)	(10.77)	(9.06)
Retained distributions	7.76	10.77	9.06
Closing NAV	304.34	387.33	424.80
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.23	0.12	0.13
Dilution adjustments [a]	(0.10)	(0.09)	(0.09)
Total direct portfolio transaction costs	0.13	0.03	0.04
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.04	0.01	0.01
Operating charges [c]	0.01	0.16	0.16
Return after operating charges	-21.43	-8.82	+8.81
Historic yield	2.55	2.75	2.14
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	232,883	360,330	482,882
Closing NAV percentage of total fund NAV (%)	16.27	16.29	17.19
Number of shares	76,519,474	93,028,828	113,673,926
Highest share price (UK p)	398.65	428.66	440.73
Lowest share price (UK p)	220.17	352.19	379.57

Sterling Class 'I' Income share performance

The share class was launched on 15 January 2010. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	130.27	148.43	140.63
Return before operating charges and after direct portfolio transaction costs	(27.35)	(12.98)	12.56
Operating charges	(0.98)	(1.25)	(1.31)
Return after operating charges	(28.33)	(14.23)	11.25
Distributions	(2.61)	(3.93)	(3.45)
Closing NAV	99.33	130.27	148.43
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.08	0.04	0.05
Dilution adjustments [a]	(0.03)	(0.03)	(0.03)
Total direct portfolio transaction costs	0.05	0.01	0.02
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.04	0.01	0.01
Operating charges [c]	0.82	0.91	0.91
Return after operating charges	-21.75	-9.59	+8.00
Historic yield	2.62	2.99	2.33
Effect on yield of charges offset against capital	0.82	0.90	0.90
Other information			
Closing NAV (£'000)	78,995	140,143	173,323
Closing NAV percentage of total fund NAV (%)	5.52	6.34	6.17
Number of shares	79,524,933	107,582,769	116,769,431
Highest share price (UK p)	133.74	149.74	156.15
Lowest share price (UK p)	72.64	121.96	134.61

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Specific share class performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 15 January 2010. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	333.28	368.26	340.98
Return before operating charges and after direct portfolio transaction costs	(71.00)	(31.86)	30.48
Operating charges	(2.52)	(3.12)	(3.20)
Return after operating charges	(73.52)	(34.98)	27.28
Distributions	(4.22)	(6.73)	(5.24)
Retained distributions	4.22	6.73	5.24
Closing NAV	259.76	333.28	368.26
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.20	0.11	0.11
Dilution adjustments [a]	(0.08)	(0.08)	(0.08)
Total direct portfolio transaction costs	0.12	0.03	0.03
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.04	0.01	0.01
Operating charges [c]	0.82	0.91	0.91
Return after operating charges	-22.06	-9.50	+8.00
Historic yield	1.62	2.00	1.43
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	267,099	468,848	643,242
Closing NAV percentage of total fund NAV (%)	18.66	21.20	22.89
Number of shares	102,825,964	140,675,920	174,669,140
Highest share price (UK p)	342.13	371.53	382.38
Lowest share price (UK p)	188.35	304.20	329.64

Sterling Class 'PP' Income share performance

The share class was launched on 5 August 2019. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	100.00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	(18.70)	n/a	n/a
Operating charges	(0.50)	n/a	n/a
Return after operating charges	(19.20)	n/a	n/a
Distributions	(2.06)	n/a	n/a
Closing NAV	78.74	n/a	n/a
Direct portfolio transaction costs	**UK p**	UK p	UK p
Costs before dilution adjustments	0.05	n/a	n/a
Dilution adjustments [a]	(0.02)	n/a	n/a
Total direct portfolio transaction costs	0.03	n/a	n/a
Performance and charges	**%**	%	%
Direct portfolio transaction costs [b]	0.04	n/a	n/a
Operating charges	0.61	n/a	n/a
Return after operating charges	-19.20	n/a	n/a
Historic yield	2.62	n/a	n/a
Effect on yield of charges offset against capital	0.61	n/a	n/a
Other information			
Closing NAV (£'000)	29	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0.00	n/a	n/a
Number of shares	37,204	n/a	n/a
Highest share price (UK p)	104.30	n/a	n/a
Lowest share price (UK p)	57.54	n/a	n/a

Sterling Class 'PP' Accumulation share performance

The share class was launched on 8 April 2019. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	95.81	100.00	n/a
Return before operating charges and after direct portfolio transaction costs	(20.44)	(4.03)	n/a
Operating charges	(0.54)	(0.16)	n/a
Return after operating charges	(20.98)	(4.19)	n/a
Distributions	(1.39)	(1.21)	n/a
Retained distributions	1.39	1.21	n/a
Closing NAV	74.83	95.81	n/a
Direct portfolio transaction costs	**UK p**	**UK p**	UK p
Costs before dilution adjustments	0.06	0.01	n/a
Dilution adjustments [a]	(0.02)	(0.01)	n/a
Total direct portfolio transaction costs	0.04	0.00	n/a
Performance and charges	**%**	**%**	%
Direct portfolio transaction costs [b]	0.04	0.01	n/a
Operating charges [c]	0.62	0.71	n/a
Return after operating charges	-21.90	-4.19	n/a
Historic yield	1.85	1.80	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV (£'000)	485	522	n/a
Closing NAV percentage of total fund NAV (%)	0.03	0.02	n/a
Number of shares	648,414	544,596	n/a
Highest share price (UK p)	98.36	102.00	n/a
Lowest share price (UK p)	54.22	94.55	n/a

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	111.19	127.02	120.65
Return before operating charges and after direct portfolio transaction costs	(23.31)	(11.12)	10.78
Operating charges	(1.08)	(1.36)	(1.45)
Return after operating charges	(24.39)	(12.48)	9.33
Distributions	(2.23)	(3.35)	(2.96)
Closing NAV	84.57	111.19	127.02
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.06	0.04	0.04
Dilution adjustments [a]	(0.03)	(0.03)	(0.03)
Total direct portfolio transaction costs	0.03	0.01	0.01
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.04	0.01	0.01
Operating charges [c]	1.07	1.16	1.16
Return after operating charges	-21.94	-9.83	+7.73
Historic yield	2.63	2.99	2.33
Effect on yield of charges offset against capital	1.07	1.15	1.15
Other information			
Closing NAV (£'000)	8,532	11,259	12,469
Closing NAV percentage of total fund NAV (%)	0.60	0.51	0.44
Number of shares	10,088,561	10,125,699	9,816,918
Highest share price (UK p)	114.16	128.13	133.66
Lowest share price (UK p)	61.89	104.23	115.26

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Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	126.59	140.22	130.16
Return before operating charges and after direct portfolio transaction costs	(26.95)	(12.12)	11.64
Operating charges	(1.23)	(1.51)	(1.58)
Return after operating charges	(28.18)	(13.63)	10.06
Distributions	(1.31)	(2.23)	(1.66)
Retained distributions	1.31	2.23	1.66
Closing NAV	98.41	126.59	140.22
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.07	0.04	0.04
Dilution adjustments [a]	(0.03)	(0.03)	(0.03)
Total direct portfolio transaction costs	0.04	0.01	0.01
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.04	0.01	0.01
Operating charges [c]	1.07	1.16	1.16
Return after operating charges	-22.26	-9.72	+7.73
Historic yield	1.33	1.75	1.19
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	53,949	72,636	72,805
Closing NAV percentage of total fund NAV (%)	3.77	3.28	2.59
Number of shares	54,819,119	57,380,182	51,920,764
Highest share price (UK p)	129.94	141.46	145.64
Lowest share price (UK p)	71.41	115.69	125.59

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	128.27	147.26	140.58
Return before operating charges and after direct portfolio transaction costs	(26.86)	(12.86)	12.50
Operating charges	(1.56)	(2.25)	(2.38)
Return after operating charges	(28.42)	(15.11)	10.12
Distributions	(2.56)	(3.88)	(3.44)
Closing NAV	97.29	128.27	147.26
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.07	0.04	0.05
Dilution adjustments [a]	(0.03)	(0.03)	(0.03)
Total direct portfolio transaction costs	0.04	0.01	0.02
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.04	0.01	0.01
Operating charges [c]	1.34	1.66	1.66
Return after operating charges	-22.16	-10.26	+7.20
Historic yield	2.63	3.00	2.34
Effect on yield of charges offset against capital	1.34	1.65	1.65
Other information			
Closing NAV (£'000)	40,422	58,168	74,042
Closing NAV percentage of total fund NAV (%)	2.82	2.63	2.64
Number of shares	41,547,675	45,349,600	50,279,512
Highest share price (UK p)	131.67	148.53	155.05
Lowest share price (UK p)	71.24	120.53	133.79

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	308.21	343.12	320.08
Return before operating charges and after direct portfolio transaction costs	(65.44)	(29.63)	28.49
Operating charges	(3.81)	(5.28)	(5.45)
Return after operating charges	(69.25)	(34.91)	23.04
Distributions	(2.43)	(3.87)	(2.43)
Retained distributions	2.43	3.87	2.43
Closing NAV	238.96	308.21	343.12
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.18	0.10	0.10
Dilution adjustments [a]	(0.08)	(0.07)	(0.08)
Total direct portfolio transaction costs	0.10	0.03	0.02
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.04	0.01	0.01
Operating charges [c]	1.34	1.66	1.66
Return after operating charges	-22.47	-10.17	+7.20
Historic yield	1.01	1.24	0.71
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	61,608	105,575	134,551
Closing NAV percentage of total fund NAV (%)	4.30	4.77	4.79
Number of shares	25,781,914	34,253,763	39,213,889
Highest share price (UK p)	316.36	346.08	356.56
Lowest share price (UK p)	173.51	282.40	307.68

[a] In respect of direct portfolio transaction costs.

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

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

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Statement of total return

for the year to 30 June	Note	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Income					
Net capital gains / (losses)	3		(459,267)		(305,856)
Revenue	5	42,115		69,671	
Expenses	6	(17,455)		(27,506)	
Net revenue / (expense) before taxation		24,660		42,165	
Taxation	7	(49)		(22)	
Net revenue / (expense) after taxation			24,611		42,143
Total return before distributions			(434,656)		(263,713)
Distributions	8		(30,835)		(51,744)
Change in net assets attributable to shareholders from investment activities			(465,491)		(315,457)

Statement of change in net assets attributable to shareholders

for the year to 30 June	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Opening net assets attributable to shareholders		**2,211,907**		**2,809,729**
Amounts received on issue of shares	44,888		72,506	
Amounts paid on cancellation of shares	(378,541)		(386,179)	
		(333,653)		(313,673)
Dilution adjustments		1,663		1,583
Change in net assets attributable to shareholders from investment activities (see above)		(465,491)		(315,457)
Retained distributions on Accumulation shares		16,841		29,688
Unclaimed distributions		33		37
Closing net assets attributable to shareholders		1,431,300		2,211,907

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Balance sheet

as at 30 June	Note	2020 £'000	2019 £'000
Assets			
Fixed assets			
Investments		1,432,620	2,210,023
Current assets			
Debtors	9	1,341	7,379
Cash and bank balances	10	3,173	4,071
Cash equivalents		0	8,051
Total assets		1,437,134	2,229,524
Liabilities			
Creditors			
Distribution payable		(3,817)	(11,246)
Other creditors	11	(2,017)	(6,371)
Total liabilities		(5,834)	(17,617)
Net assets attributable to shareholders		1,431,300	2,211,907

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Financial statements and notes

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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

In determining the amount available for distribution, ordinary stock dividends have been transferred to capital, reducing the amount available.

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

3 Net capital gains / (losses)

for the year to 30 June	2020 £'000	2019 £'000
Non-derivative securities	(459,026)	(305,851)
Currency gains / (losses)	(241)	1
Transaction charges	0	(6)
Net capital gains / (losses)	**(459,267)**	**(305,856)**

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 128.

for the year to 30 June	2020 £'000	% of transaction	2019 £'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	276,502		160,045	
Commissions	73	0.03	50	0.03
Taxes	909	0.33	521	0.33
Equities after transaction costs	**277,484**		**160,616**	
Other transaction types				
Corporate actions	0		865	
Total purchases after transaction costs	**277,484**		**161,481**	
b) Sales				
Equities				
Equities before transaction costs	595,832		460,865	
Commissions	(217)	0.04	(190)	0.04
Taxes	(2)	0.00	(1)	0.00
Total sales after transaction costs	**595,613**		**460,674**	

c) Direct portfolio transaction costs	2020 £'000	% of average NAV	2019 £'000	% of average NAV
Commissions paid				
Equities	290	0.02	240	0.01
Taxes paid				
Equities	911	0.05	522	0.02
Total direct portfolio transaction costs [a]	**1,201**	**0.07**	**762**	**0.03**
d) Indirect portfolio transaction costs		**%**		**%**
Portfolio dealing spread [b]		0.82		0.69

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

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

5 Revenue

for the year to 30 June	2020 £'000	2019 £'000
Bank interest	2	4
Dividends from equity investments: non-taxable	41,661	69,128
Dividends from equity investments: taxable	212	47
Interest distributions	78	27
Rebate of ongoing charges from underlying funds	7	0
Underwriting commission	155	465
Total revenue	**42,115**	**69,671**

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6 Expenses

for the year to 30 June	2020 £'000	2019 £'000
Payable to the ACD or associate		
Annual charge	15,161	0
Annual management charge [a]	1,973	23,622
Administration charge [a]	302	3,638
	17,436	27,260
Payable to the Depositary or associate		
Depositary's charge (including VAT) [a]	8	97
Other expenses		
Audit fee (including VAT) [a] [b]	1	9
Interest payable	7	18
Safe custody charge [a]	3	122
	11	149
Total expenses	**17,455**	**27,506**

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

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

7 Taxation

for the year to 30 June	2020 £'000	2019 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	49	22
Deferred tax (note 7c)	0	0
Total taxation	**49**	**22**
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	24,660	42,165
Corporation tax at 20%	4,932	8,433
Effects of:		
Dividends from equity investments: non-taxable	(8,332)	(13,826)
Current year expenses not utilised	3,400	5,393
Withholding tax	49	22
Total tax charge (note 7a)	**49**	**22**
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	**0**	**0**

The fund has not recognised a deferred tax asset of £161,830,000 (2019: £158,430,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

	2020		2019	
for the year to 30 June	Inc [a]	Acc [b]	Inc [a]	Acc [b]
Dividend distributions	**£'000**	**£'000**	**£'000**	**£'000**
Interim	8,632	13,100	9,029	11,965
Final	3,817	3,741	11,246	17,723
Total net distributions		29,290		49,963
Income deducted on cancellation of shares		1,826		2,284
Income received on issue of shares		(281)		(503)
Distributions		**30,835**		**51,744**
Net revenue / (expense) per statement of total return		24,611		42,143
Expenses offset against capital		6,223		9,600
Undistributed income brought forward		0		1
Income deficit transferred to capital		1		0
Distributions		**30,835**		**51,744**

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 30 June	2020 £'000	2019 £'000
Amounts receivable on issues of shares	0	147
Currency deals outstanding	3	0
Distributions receivable	0	6
Dividends receivable	354	3,616
Sales awaiting settlement	984	3,399
Withholding tax recoverable	0	211
Total debtors	**1,341**	**7,379**

10 Cash and bank balances

as at 30 June	2020 £'000	2019 £'000
Cash held as bank balances	3,173	4,071
Total cash and bank balances	**3,173**	**4,071**

11 Other creditors

as at 30 June	2020 £'000	2019 £'000
ACD's annual management charge payable	0	662
Administration charge payable	0	101
Amounts payable on cancellation of shares	1,449	3,641
Annual charge payable	555	0
Currency deals outstanding	3	0
Expenses payable	10	25
Purchases awaiting settlement	0	1,942
Total other creditors	**2,017**	**6,371**

12 Contingent assets, liabilities and outstanding commitments

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

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Notes to the financial statements

13 Shares in issue

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

Share class	Opening 01.07.19	Movements Issued	Movements Cancelled	Closing 30.06.20
Euro				
Class 'A' Accumulation	241,155	11,564	(49,324)	203,395
Class 'C' Accumulation	161,571	160,419	(159,824)	162,166
Sterling				
Class 'A' Income	296,790,684	6,551,875	(22,649,549)	280,693,010
Class 'A' Accumulation	172,372,639	1,126,765	(24,996,597)	148,502,807
Class 'C' Income	52,386,777	952,163	(3,923,820)	49,415,120
Class 'C' Accumulation	93,028,828	2,065,547	(18,574,901)	76,519,474
Class 'I' Income	107,582,769	3,641,730	(31,699,566)	79,524,933
Class 'I' Accumulation	140,675,920	5,122,243	(42,972,199)	102,825,964
Class 'PP' Income	0	37,204	0	37,204
Class 'PP' Accumulation	544,596	187,555	(83,737)	648,414
Class 'R' Income	10,125,699	1,104,487	(1,141,625)	10,088,561
Class 'R' Accumulation	57,380,182	3,165,396	(5,726,459)	54,819,119
Class 'X' Income	45,349,600	1,062,959	(4,864,884)	41,547,675
Class 'X' Accumulation	34,253,763	90,464	(8,562,313)	25,781,914

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual charge [a] %
Euro			
Class 'A'	5.25	n/a	1.65
Class 'C'	3.25	n/a	0.85
Sterling			
Class 'A'	n/a	n/a	1.35
Class 'C'	n/a	n/a	0.00
Class 'I'	n/a	n/a	0.85
Class 'PP'	n/a	n/a	0.65
Class 'R'	n/a	n/a	1.10
Class 'X'	n/a	n/a	1.35

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

15 Related parties

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

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

During the year, there were transactions with related parties of M&G Securities Limited with a total value of £nil (2019: £74,209,000).

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

At the balance sheet date, shareholders from within M&G plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 14.64% (2019: 14.70%) of the fund's shares.

16 Events after the balance sheet date

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

17 Fair value analysis

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

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

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

Level 2: Valuation technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs. However no such financial instruments were held.

Level 3: Valuation technique using unobservable inputs

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

as at 30 June Basis of valuation	Assets 2020 £'000	Liabilities 2020 £'000	Assets 2019 £'000	Liabilities 2019 £'000
Level 1	1,432,620	0	2,210,023	0
Level 2	0	0	0	0
Level 3	0	0	0	0
	1,432,620	**0**	**2,210,023**	**0**

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions

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17 Fair value analysis (continued)

within the fund take place regularly at that price. The shares in issue as detailed in note 13 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

18 Risk management policies

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

19 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by £71,631,000 (2019: £110,501,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

A five per cent increase in the value of the fund's currency exposure would have the effect of increasing the return and net assets by £71,565,000 (2019: £110,595,000). A five per cent decrease would have an equal and opposite effect.

as at 30 June	2020 £'000	2019 £'000
Currency exposure in respect of the fund		
Australian dollar	180,376	90,849
Canadian dollar	33,224	52,095
Euro	12,974	24,095
Sterling	1,092,551	1,850,761
US dollar	112,175	194,107
Total	**1,431,300**	**2,211,907**

21 Interest rate risk sensitivity and exposure

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

22 Credit risk

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

23 Dividend distribution tables

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

Semi-annual distribution periods

	Start	End	Xd	Payment
Interim	01.07.19	31.12.19	02.01.20	29.02.20
Final	01.01.20	30.06.20	01.07.20	31.08.20

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

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

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

Euro Class 'A' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 Euro ¢	Group 2 Equalisation 2020 Euro ¢	Group 1 & 2 Distribution 2020 Euro ¢	Group 1 & 2 Distribution 2019 Euro ¢
Interim	3.1033	11.4199	14.5232	10.2358
Final	0.0000	0.0000	0.0000	20.3774

Euro Class 'C' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 Euro ¢	Group 2 Equalisation 2020 Euro ¢	Group 1 & 2 Distribution 2020 Euro ¢	Group 1 & 2 Distribution 2019 Euro ¢
Interim	14.3329	13.4886	27.8215	22.2307
Final	0.0000	8.5265	8.5265	33.7100

Sterling Class 'A' Income shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	0.7067	1.0206	1.7273	1.6736
Final	0.1994	0.6209	0.8203	2.1806

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	0.8446	1.2856	2.1302	1.3057
Final	0.0000	0.3211	0.3211	2.6004

Sterling Class 'C' Income shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	1.1941	0.6225	1.8166	1.7341
Final	0.3841	0.4838	0.8679	2.2776

Sterling Class 'C' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	3.3879	1.8244	5.2123	4.5769
Final	0.7829	1.7633	2.5462	6.1915

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23 Dividend distribution tables (continued)

Sterling Class 'I' Income shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	0.5535	1.2143	1.7678	1.7005
Final	0.2266	0.6149	0.8415	2.2245

Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	1.2200	1.9526	3.1726	2.6748
Final	0.0000	1.0449	1.0449	4.0575

Sterling Class 'PP' Income shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	0.0349	1.3632	1.3981	n/a
Final	0.6662	0.0000	0.6662	n/a

Sterling Class 'PP' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	0.9245	0.0819	1.0064	n/a
Final	0.2005	0.1807	0.3812	1.2117

Sterling Class 'R' Income shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	0.5203	0.9880	1.5083	1.4545
Final	0.0638	0.6532	0.7170	1.9000

Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	0.3158	0.7338	1.0496	0.8549
Final	0.0000	0.2638	0.2638	1.3798

Sterling Class 'X' Income shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	0.6989	1.0397	1.7386	1.6846
Final	0.2242	0.6015	0.8257	2.1947

Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	0.8110	1.2969	2.1079	1.2919
Final	0.0000	0.3177	0.3177	2.5732

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Investment objective

The fund aims to deliver a higher total return (the combination of capital growth and income) than the Numis Smaller Companies Index (excluding Investment Companies), net of the ongoing charge figure, over any five year period.

Investment policy

At least 80% of the fund is invested in UK smaller companies. These are UK listed companies which, at the initial time of purchase, are:

- in the bottom 10% (by market capitalisation) of the FTSE All-Share index, or
- in the Numis Smaller Companies Index (excluding Investment Companies), or
- listed on the Alternative Investment Market.

The fund may also invest in collective investment schemes and other transferable securities. Cash and near cash may be held for ancillary purposes and derivatives, including warrants, may be used for efficient portfolio management and hedging purposes.

Investment approach

The fund manager takes a bottom-up approach to stockpicking and aims to construct a well-diversified portfolio. A long-term perspective is adopted with particular focus placed on 'growth drivers', competitive advantage, change, quality of management and valuation.

When a company held by the fund grows such that it no longer has the characteristics of a smaller company, the fund manager will reduce the holding in a manner and timescale best suited to meeting the fund's objective.

Benchmark

Benchmark: Numis Smaller Companies Index (excluding Investment Companies).

The benchmark is a target which the fund seeks to outperform. The index has been chosen as the fund's benchmark as it best reflects the scope of the fund's investment policy. The benchmark is used to measure the fund's performance and, together with the other index, and the Alternative Investment Market constrains the fund's portfolio construction as they define the investment universe of the fund.

The fund is actively managed.

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

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

Risk profile

The fund invests in the shares of smaller UK-listed companies and is, therefore, subject to the price volatility of the UK stockmarket and the performance of individual companies. The fund's focus is on smaller companies and it can also invest in the shares of AIM-listed companies. Shares in both types of company can be more unpredictable and difficult to buy and sell compared to those of larger companies. Diversification is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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

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 not changed during this period.

Investment review

As at 1 July 2020, for the year ended 30 June 2020

Performance against objective

Between 1 July 2019 (the start of the review period) and 1 July 2020, the M&G Smaller Companies Fund delivered a negative total return (the combination of income and growth of capital) across all of its share classes*. The fund finished the period ahead of its benchmark, the Numis Smaller Companies Index excluding Investment Companies, which returned -15.4%.

The fund met its objective of delivering a higher total return than the Numis Smaller Companies excluding Investment Companies Index over any five-year period. All share classes registered positive returns over five years, ahead of the benchmark index which returned 0.7% p.a. over the same period.

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

Investment performance

The 12-month period under review saw the emergence and spread of the COVID-19 pandemic, leading to a tragic loss of life and widespread risk-aversion in global financial markets. The UK stockmarket was reasonably buoyant until mid-February

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Investment performance (continued)

2020 when widespread panic about the virus set in, resulting in plunging markets worldwide, as well as a significant slowdown in economic activity and the near certainty of recession.

Throughout the second half of 2019, investors were encouraged as US interest rates were reduced three times, although the ongoing trade tensions between the US and China, coupled with weaker global growth, unnerved investors at times. The UK Conservative Party's decisive victory in the December 2019 general election removed much uncertainty, particularly regarding Brexit. The UK duly left the European Union (EU) at the end of January 2020, with the UK abiding by EU rules until the end of 2020.

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

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

Following the steep declines in February and March, the UK stockmarket subsequently rallied as investors were encouraged by some indications that the rate of infection was slowing. The mood was also supported by some discussion of when and how economies may be re-opened and continued announcements of support from the government. However, the gains in share prices towards the end of the 12-month period were not enough to outweigh the earlier substantial losses.

Against this background, the fund declined but ended the period ahead of its benchmark index as overall stock selection added value. Notable contributors to the fund's performance included miniature wargaming manufacturing firm Games Workshop, homeware retailer Dunelm and building materials firm Breedon.

Despite a period of weakness, Games Workshop has traded ahead of expectations, with its shares further supported by a new computer game tie-up for its main Warhammer franchise. Dunelm has relaunched its website, which is gaining momentum, and the firm has also benefited from the coronavirus-enforced population lockdown. Breedon is in a good position to take advantage of possible renewed investment in UK infrastructure and the stock is attractively valued. The firm has also been buoyed by greater certainty following the general election.

Other contributors included defence & aerospace firm Ultra Electronics and UK housebuilder Countryside Properties. Ultra Electronics' first-half earnings indicated encouraging progress under new management, which drove up the firm's share price. Ultra Electronics also proved very defensive in the market downturn in early 2020, which further supported its share price. Meanwhile, Countryside Properties proved more resilient than other housebuilders due to its Partnerships business, which builds homes for housing associations and local authorities.

On the other hand, detractors from fund performance included Accesso Technology Group, a supplier of ticketing and queueing software services for visitor attractions, and digital marketing company Kin and Carta. Accesso has struggled due to disappointing trading and the need to invest in its core systems. The share price of Kin and Carta was weak after the company issued a disappointing trading statement. We took the opportunity to top up the holding as Kin and Carta's management team continue to restructure the business to focus on its growing markets in digital transformation.

Investment activities

Against a backdrop of weaker economic data in the UK, we initially took a cautious approach to starting new investments. However, the outlook became more favourable following the decisive general election result in December 2019, leading to reduced uncertainty, and we increased our exposure to UK-focused stocks.

New purchases in the first half of the period under review included Dunelm, mentioned earlier, mortgage platform intermediary Mortgage Advice Bureau and NCC, a cyber security consultant. Despite a difficult market backdrop, Dunelm is well capitalised and we feel the company has the potential to gain significant market share. Mortgage Advice Bureau is growing strongly and the firm's shares were attractively valued. Following a difficult period, NCC has stabilised under new management. The company's balance sheet has improved and we feel its prospects are increasingly favourable.

We also started new positions in Breedon, described earlier, and branding and promotional products company Pebble Group. We took advantage of attractive valuations to start a new holding in Pebble when it listed on the London Stock Exchange in December 2019.

From the early stages of 2020, we sought to increase diversification to remove any excessive risk in the fund. At the same time, we looked to identify companies that would still have a decent balance sheet once the pandemic crisis passed. We started new holdings in a broad selection of businesses that we believe should survive and prosper after the crisis, notably: telecommunications testing firm Spirent Communications; Avon Rubber, which makes respiratory protection equipment for military, law enforcement and fire personnel; public services provider Serco Group; Midwich Group, a specialist audio-visual distributor; and veterinary services provider CVS Group. Other good-quality companies that entered the portfolio included multi-utility supplier Telecom Plus and Lancashire Holdings, an insurance underwriter that we believe could see improved profitability due to the impact of the current crisis.

As the pandemic continued through spring 2020, a range of companies undertook re-financing measures and we took the opportunity to start new positions in some firms that we felt had

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Investment activities (continued)

been solid businesses before the virus emerged. In our view, despite the current uncertain climate, the stocks still have reasonable potential. Such purchases involved leisure travel group Dart, which owns airline Jet2.com, clothing manufacturer Joules, 'no-frills' fitness group The Gym, and pub company JD Wetherspoon. We also supported a re-financing exercise from existing holding Accesso Technology Group, mentioned earlier, as we believe the firm has recovery potential.

A number of companies held in the portfolio were sold after they were taken over. Specific examples include exhibition and events company Tarsus, Consort Medical, a provider of services to the drug manufacturing sector, and industrial REIT Hansteen. Other disposals included data and identity security firm GB Group, which has proved a very resilient stock and a strong performer.

Towards the end of the period under review, we reduced our allocation to housing, as our view of the UK had become more cautious. This involved selling positions in housebuilder Redrow and Forterra, a major brick supplier to the UK market. We also sold the holding in aerospace components provider Senior, due to difficulties relating to Boeing's grounded 737 Max jet, a slump in air demand and uncertainty about the firm's prospects post the pandemic.

Outlook

At the time of writing, the situation remains very uncertain. Many companies have been forced to cut dividends and earnings have come under significant pressure. The government has taken unprecedented steps to support individuals, businesses and the economy, but it is too early to understand the ultimate impact of coronavirus on UK economic activity. Meanwhile, although fiscal and monetary policies are providing some support against the economic fallout, stockmarkets are likely to be volatile until the virus is contained or a medical solution is found.

Towards the end of the period under review, the government began easing the lockdown restrictions, with a view to beginning a return to something approaching normality. As restrictions on movement for individuals are relaxed, the authorities are aware of the potential for a second spike of the virus, which could lead to renewed restrictions.

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

In our opinion, investors frequently focus on the short term, which can present opportunities for patient long-term investors. In the current challenging environment, we will continue to seek out quality companies with stronger balance sheets than their immediate competitors and that look better placed to survive the present crisis. While acknowledging the potential for volatility in the near term, we remain cautiously optimistic about prospects for the very long term, once the economic recovery from the pandemic gets underway.

Garfield Kiff
Fund manager

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

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

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Portfolio statement

as at 30 June Holding		2020 £'000	2020 %	2019 %
	EQUITIES	356,223	97.10	95.96
	Software & computer services	**51,438**	**14.02**	**12.89**
1,141,636	accesso Technology [a]	3,254	0.89	
262,212	Blue Prism [a]	2,979	0.81	
516,107	Computacenter	8,413	2.29	
965,711	EMIS [a]	10,236	2.79	
821,895	FDM	7,652	2.09	
2,854,021	NCC	5,194	1.42	
1,782,515	SDL	8,752	2.38	
456,524	Softcat	4,958	1.35	
	Technology hardware & equipment	**2,697**	**0.73**	**0.00**
1,121,549	Spirent Communications	2,697	0.73	
	Telecommunications service providers	**5,640**	**1.54**	**0.00**
400,000	Telecom Plus	5,640	1.54	
	Medical equipment & services	**3,506**	**0.96**	**3.12**
2,909,885	Medica	3,506	0.96	
	Pharmaceuticals & biotechnology	**6,133**	**1.67**	**1.36**
2,171,051	PureTech Health	6,133	1.67	
	Finance & credit services	**11,493**	**3.13**	**2.86**
805,202	Mortgage Advice Bureau [a]	4,718	1.28	
2,539,316	OneSavings Bank	6,775	1.85	
	Investment banking & brokerage services	**12,794**	**3.49**	**6.92**
368,091	Alpha FX [a]	2,687	0.73	
2,525,458	Brewin Dolphin	6,491	1.77	
251,135	Rathbone Brothers	3,616	0.99	
	Non-life insurance	**10,040**	**2.74**	**2.15**
157,505	Lancashire	1,278	0.35	
3,294,020	Sabre Insurance	8,762	2.39	
	Real estate investment & services	**7,574**	**2.06**	**2.19**
2,396,759	Helical	7,574	2.06	
	Real estate investment trusts	**13,873**	**3.78**	**5.34**
3,818,467	LondonMetric Property	8,057	2.20	
868,651	Workspace	5,816	1.58	
	Consumer services	**3,746**	**1.02**	**0.00**
371,580	CVS [a]	3,746	1.02	
	Household goods & home construction	**14,998**	**4.09**	**5.53**
1,681,869	Countryside Properties	5,543	1.51	
414,373	IG Design [a]	2,155	0.59	
429,287	Vistry Group	3,072	0.84	
2,788,873	Watkin Jones [a]	4,228	1.15	
	Leisure goods	**3,348**	**0.91**	**2.22**
41,902	Games Workshop	3,348	0.91	
	Personal goods	**3,326**	**0.91**	**0.00**
1,714,212	Inspecs [a]	3,326	0.91	
	Media	**23,880**	**6.51**	**6.94**
241,791	4imprint	5,948	1.62	
2,010,171	Ascential	5,833	1.59	
220,162	Euromoney Institutional Investor	1,810	0.49	
569,974	Future	7,296	1.99	
2,992,829	Pebble [a]	2,993	0.82	
	Retailers	**9,765**	**2.66**	**0.00**
623,199	Dunelm	7,372	2.01	
2,185,431	Joules [a]	2,393	0.65	
	Travel & leisure	**13,797**	**3.76**	**3.40**
284,020	Dart	2,406	0.66	
996,582	Gym	1,519	0.41	
274,276	J.D. Wetherspoon	2,778	0.76	
2,413,539	Loungers [a]	3,065	0.83	
1,171,933	On the Beach	3,446	0.94	
494,048	William Hill	583	0.16	

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Portfolio statement (continued)

as at 30 June Holding		2020 £'000	2020 %	2019 %
	EQUITIES (continued)			
	Beverages	**7,932**	**2.16**	**1.70**
3,354,117	Stock Spirits	7,932	2.16	
	Construction & materials	**29,950**	**8.16**	**8.89**
7,621,984	Breedon [a]	5,899	1.61	
2,528,792	Galliford Try	3,013	0.82	
857,275	Marshalls	5,341	1.46	
2,186,595	Polypipe	9,698	2.64	
3,131,028	Tyman	5,999	1.63	
	Aerospace & defense	**12,828**	**3.50**	**3.43**
71,021	Avon Rubber	2,251	0.62	
523,603	Ultra Electronics	10,577	2.88	
	Electronic & electrical equipment	**7,069**	**1.93**	**2.08**
4,145,962	TT Electronics	7,069	1.93	
	General industrials	**6,662**	**1.82**	**2.79**
11,875,792	Coats	6,662	1.82	
	Industrial engineering	**14,161**	**3.86**	**4.39**
710,625	Hill & Smith	8,783	2.39	
768,280	Vitec	5,378	1.47	
	Industrial support services	**51,096**	**13.93**	**11.39**
3,697,971	Alpha Financial Markets Consulting [a]	6,656	1.81	
2,006,192	Essentra	5,886	1.61	
8,105,367	Kin & Carta	5,106	1.39	
664,621	Marlowe [a]	3,323	0.91	
1,180,977	Midwich [a]	4,665	1.27	
732,965	Pagegroup	2,799	0.76	
1,949,444	Restore [a]	6,667	1.82	
1,418,875	Sanne	9,024	2.46	
4,561,419	Serco	6,970	1.90	
	Industrial transportation	**11,552**	**3.15**	**1.99**
64,543	Clarkson	1,449	0.40	
458,999	James Fisher & Sons	6,096	1.66	
7,130,088	Speedy Hire	4,007	1.09	
	Chemicals	**8,477**	**2.31**	**2.73**
3,252,969	Elementis	2,059	0.56	
2,320,416	Synthomer	6,418	1.75	
	Non-renewable energy	**8,448**	**2.30**	**1.65**
4,864,471	Cairn Energy	5,667	1.54	
1,315,586	Hunting	2,781	0.76	
Portfolio of investments		356,223	97.10	95.96
	CASH EQUIVALENTS	21,562	5.88	4.92
	'AAA' rated money market funds [b]	**21,562**	**5.88**	**4.92**
21,561,858	Northern Trust Global Fund - Sterling	21,562	5.88	
Total portfolio (notes 2c & 2d on page 7)		377,785	102.98	100.88
Net other assets / (liabilities)		(10,935)	(2.98)	(0.88)
Net assets attributable to shareholders		366,850	100.00	100.00

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

[a] AIM quoted.

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

M&G Smaller Companies Fund

Authorised Corporate Director's Report

Top ten portfolio transactions

for the year to 30 June 2020 Largest purchases	£'000
Dunelm	7,554
Future	6,657
Midwich [a]	6,056
Breedon [a]	5,944
Serco	5,480
Telecom Plus	5,434
Hunting	5,153
NCC	4,714
Huntsworth	4,634
Mortgage Advice Bureau [a]	4,511
Other purchases	80,345
Total purchases	**136,482**

Largest sales	£'000
Tarsus	11,640
Consort Medical	9,369
Games Workshop	9,150
Hansteen	8,288
GB [a]	8,067
Alpha FX [a]	7,950
Softcat	7,052
Forterra	6,992
Huntsworth	5,824
Boku [a]	4,967
Other sales	60,491
Total sales	**139,790**

[a] AIM quoted.

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

M&G Smaller Companies Fund

Financial highlights

Fund performance

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

The following charts and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be different. For more information on the different share classes in this fund please refer to the Prospectus for M&G Investment Funds (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 30 June	2020 £'000	2019 £'000	2018 £'000
Fund net asset value (NAV)	366,850	414,010	449,970

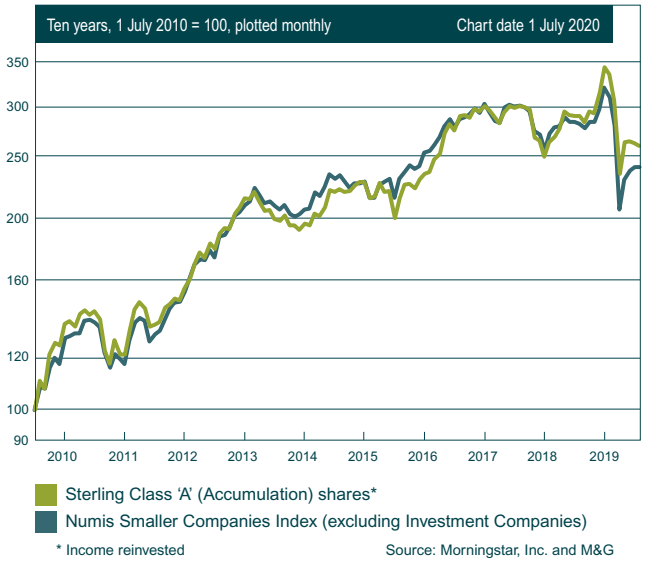
Performance since launch

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



Ten-year performance

Please note that the comparator benchmark's total return is not available from fund launch. Therefore a ten-year comparable performance chart is shown below.



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

Long-term performance by share class

	One year 01.07.19 % [a]	Three years 03.01.17 % p.a.	Five years 01.07.15 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	-10.6	-1.8	+3.2	+11.7 [c]
Class 'C'	-9.4	-0.4	+4.8	+9.0 [d]
Class 'I'	-10.2	-1.1	+3.9	+9.1 [e]
Class 'R'	-10.4	-1.4	+3.7	+8.8 [e]
Class 'X'	-10.6	-1.8	+3.2	+11.4 [f]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 27 September 1967, the end of the initial offer period of the predecessor unit trust.

[d] 3 January 2006, the launch date of the share class.

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

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

M&G Smaller Companies Fund

Financial highlights

Operating charges and portfolio transaction costs

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

Operating charges

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

- **Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge.

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

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

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

for the year to 30 June	2020	2019	2018	Average [a]
Direct portfolio transaction costs [b]	%	%	%	%
Broker commission	0.02	0.03	0.03	0.03
Taxes	0.10	0.13	0.11	0.11
Costs before dilution adjustments	0.12	0.16	0.14	0.14
Dilution adjustments [c]	(0.02)	(0.01)	0.00	(0.01)
Total direct portfolio transaction costs	0.10	0.15	0.14	0.13

as at 30 June	2020	2019	2018	Average [a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	1.20	0.67	0.67	0.85

[a] Average of first three columns.

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

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

M&G Smaller Companies Fund

Financial highlights

Specific share class performance

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

Historic yields for the current year are calculated as at 10 July 2020.

Sterling Class 'A' Income share performance

The share class was launched on 27 September 1967. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	346.52	369.03	348.07
Return before operating charges and after direct portfolio transaction costs	(26.34)	(5.82)	35.78
Operating charges	(4.79)	(5.73)	(6.10)
Return after operating charges	(31.13)	(11.55)	29.68
Distributions	(6.10)	(10.96)	(8.72)
Closing NAV	309.29	346.52	369.03
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.37	0.56	0.49
Dilution adjustments [a]	(0.06)	(0.02)	(0.02)
Total direct portfolio transaction costs	0.31	0.54	0.47
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.10	0.15	0.14
Operating charges [c]	1.38	1.66	1.66
Return after operating charges	-8.98	-3.13	+8.53
Historic yield	1.97	3.17	2.37
Effect on yield of charges offset against capital	1.38	1.65	1.65
Other information			
Closing NAV (£'000)	90,030	109,944	122,473
Closing NAV percentage of total fund NAV (%)	24.54	26.56	27.22
Number of shares	29,108,557	31,727,678	33,187,811
Highest share price (UK p)	413.10	375.26	385.20
Lowest share price (UK p)	241.60	304.69	346.37

Sterling Class 'A' Accumulation share performance

The share class was launched on 27 September 1967. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	921.63	949.64	875.06
Return before operating charges and after direct portfolio transaction costs	(72.54)	(13.18)	89.97
Operating charges	(12.79)	(14.83)	(15.39)
Return after operating charges	(85.33)	(28.01)	74.58
Distributions	(4.42)	(13.73)	(6.76)
Retained distributions	4.42	13.73	6.76
Closing NAV	836.30	921.63	949.64
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.98	1.44	1.24
Dilution adjustments [a]	(0.16)	(0.05)	(0.04)
Total direct portfolio transaction costs	0.82	1.39	1.20
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.10	0.15	0.14
Operating charges [c]	1.38	1.66	1.66
Return after operating charges	-9.26	-2.95	+8.52
Historic yield	0.53	1.50	0.71
Effect on yield of charges offset against capital	1.38	0.00	0.00
Other information			
Closing NAV (£'000)	27,767	33,354	38,151
Closing NAV percentage of total fund NAV (%)	7.57	8.06	8.48
Number of shares	3,320,255	3,619,045	4,017,459
Highest share price (UK p)	1,102.81	965.67	977.55
Lowest share price (UK p)	649.14	784.06	870.78

Sterling Class 'C' Income share performance

Sterling Class 'C' shares are not generally available to all investors. The share class was launched on 3 January 2006. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	370.26	388.41	360.88
Return before operating charges and after direct portfolio transaction costs	(28.63)	(5.91)	37.27
Operating charges	(0.05)	(0.60)	(0.62)
Return after operating charges	(28.68)	(6.51)	36.65
Distributions	(6.51)	(11.64)	(9.12)
Closing NAV	335.07	370.26	388.41
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.39	0.59	0.51
Dilution adjustments [a]	(0.06)	(0.02)	(0.02)
Total direct portfolio transaction costs	0.33	0.57	0.49
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.10	0.15	0.14
Operating charges [c]	0.01	0.16	0.16
Return after operating charges	-7.75	-1.68	+10.16
Historic yield	1.94	3.15	2.36
Effect on yield of charges offset against capital	0.01	0.15	0.15
Other information			
Closing NAV (£'000)	156,492	175,806	187,664
Closing NAV percentage of total fund NAV (%)	42.66	42.45	41.71
Number of shares	46,704,180	47,481,931	48,316,209
Highest share price (UK p)	444.47	396.31	405.12
Lowest share price (UK p)	260.71	323.08	359.18

M&G Smaller Companies Fund

Financial highlights

Specific share class performance

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	1,922.15	2,031.62	1,901.88
Return before operating charges and after direct portfolio transaction costs	(147.07)	(31.48)	195.98
Operating charges	(16.52)	(17.38)	(18.37)
Return after operating charges	(163.59)	(48.86)	177.61
Distributions	(33.84)	(60.61)	(47.87)
Closing NAV	1,724.72	1,922.15	2,031.62
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	2.04	3.07	2.70
Dilution adjustments [a]	(0.32)	(0.11)	(0.09)
Total direct portfolio transaction costs	1.72	2.96	2.61
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.10	0.15	0.14
Operating charges [c]	0.86	0.91	0.91
Return after operating charges	-8.51	-2.40	+9.34
Historic yield	1.96	3.16	2.13
Effect on yield of charges offset against capital	0.86	0.90	0.90
Other information			
Closing NAV (£'000)	54,453	52,949	57,307
Closing NAV percentage of total fund NAV (%)	14.84	12.79	12.73
Number of shares	3,157,208	2,754,654	2,820,730
Highest share price (UK p)	2,297.75	2,069.45	2,119.86
Lowest share price (UK p)	1,345.31	1,683.65	1,892.74

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	2,210.12	2,260.31	2,067.30
Return before operating charges and after direct portfolio transaction costs	(175.29)	(30.72)	213.08
Operating charges	(19.13)	(19.47)	(20.07)
Return after operating charges	(194.42)	(50.19)	193.01
Distributions	(19.98)	(48.83)	(32.55)
Retained distributions	19.98	48.83	32.55
Closing NAV	2,015.70	2,210.12	2,260.31
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	2.36	3.44	2.95
Dilution adjustments [a]	(0.37)	(0.12)	(0.10)
Total direct portfolio transaction costs	1.99	3.32	2.85
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.10	0.15	0.14
Operating charges [c]	0.86	0.91	0.91
Return after operating charges	-8.80	-2.22	+9.34
Historic yield	0.99	2.22	1.44
Effect on yield of charges offset against capital	0.86	0.00	0.00
Other information			
Closing NAV (£'000)	22,153	24,091	26,197
Closing NAV percentage of total fund NAV (%)	6.04	5.82	5.82
Number of shares	1,099,008	1,090,021	1,158,983
Highest share price (UK p)	2,653.63	2,302.40	2,325.89
Lowest share price (UK p)	1,562.37	1,873.18	2,057.36

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	190.75	202.12	189.69
Return before operating charges and after direct portfolio transaction costs	(14.57)	(3.15)	19.55
Operating charges	(2.11)	(2.20)	(2.35)
Return after operating charges	(16.68)	(5.35)	17.20
Distributions	(3.35)	(6.02)	(4.77)
Closing NAV	170.72	190.75	202.12
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.20	0.30	0.27
Dilution adjustments [a]	(0.03)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.17	0.29	0.26
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.10	0.15	0.14
Operating charges [c]	1.11	1.16	1.16
Return after operating charges	-8.74	-2.65	+9.07
Historic yield	1.96	3.17	2.37
Effect on yield of charges offset against capital	1.11	1.15	1.15
Other information			
Closing NAV (£'000)	2,392	2,526	2,427
Closing NAV percentage of total fund NAV (%)	0.65	0.61	0.54
Number of shares	1,401,232	1,324,519	1,200,768
Highest share price (UK p)	227.73	205.77	210.93
Lowest share price (UK p)	133.26	167.29	188.77

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	217.15	222.63	204.13
Return before operating charges and after direct portfolio transaction costs	(17.19)	(3.04)	21.05
Operating charges	(2.41)	(2.44)	(2.55)
Return after operating charges	(19.60)	(5.48)	18.50
Distributions	(1.41)	(4.28)	(2.69)
Retained distributions	1.41	4.28	2.69
Closing NAV	197.55	217.15	222.63
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.23	0.34	0.29
Dilution adjustments [a]	(0.04)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.19	0.33	0.28
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.10	0.15	0.14
Operating charges [c]	1.11	1.16	1.16
Return after operating charges	-9.03	-2.46	+9.06
Historic yield	0.72	1.98	1.21
Effect on yield of charges offset against capital	1.11	0.00	0.00
Other information			
Closing NAV (£'000)	8,128	8,605	7,569
Closing NAV percentage of total fund NAV (%)	2.22	2.08	1.68
Number of shares	4,114,172	3,962,631	3,399,718
Highest share price (UK p)	260.30	226.65	229.12
Lowest share price (UK p)	153.23	184.27	203.14

M&G Smaller Companies Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	346.36	368.86	347.91
Return before operating charges and after direct portfolio transaction costs	(26.34)	(5.81)	35.75
Operating charges	(4.78)	(5.73)	(6.09)
Return after operating charges	(31.12)	(11.54)	29.66
Distributions	(6.09)	(10.96)	(8.71)
Closing NAV	309.15	346.36	368.86
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.37	0.56	0.49
Dilution adjustments [a]	(0.06)	(0.02)	(0.02)
Total direct portfolio transaction costs	0.31	0.54	0.47
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.10	0.15	0.14
Operating charges [c]	1.38	1.66	1.66
Return after operating charges	-8.98	-3.13	+8.53
Historic yield	1.97	3.17	2.37
Effect on yield of charges offset against capital	1.38	1.65	1.65
Other information			
Closing NAV (£'000)	3,585	4,342	5,094
Closing NAV percentage of total fund NAV (%)	0.98	1.05	1.13
Number of shares	1,159,745	1,253,711	1,381,035
Highest share price (UK p)	412.91	375.09	385.02
Lowest share price (UK p)	241.49	304.54	346.21

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002. for the year to 30 June	2020	2019	2018
Change in NAV per share	**UK p**	**UK p**	**UK p**
Opening NAV	910.73	938.41	864.71
Return before operating charges and after direct portfolio transaction costs	(71.75)	(13.02)	88.91
Operating charges	(12.70)	(14.66)	(15.21)
Return after operating charges	(84.45)	(27.68)	73.70
Distributions	(4.36)	(13.57)	(6.68)
Retained distributions	4.36	13.57	6.68
Closing NAV	826.28	910.73	938.41
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.97	1.42	1.23
Dilution adjustments [a]	(0.15)	(0.05)	(0.04)
Total direct portfolio transaction costs	0.82	1.37	1.19
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.10	0.15	0.14
Operating charges [c]	1.38	1.66	1.66
Return after operating charges	-9.27	-2.95	+8.52
Historic yield	0.53	1.50	0.71
Effect on yield of charges offset against capital	1.38	0.00	0.00
Other information			
Closing NAV (£'000)	1,850	2,393	3,088
Closing NAV percentage of total fund NAV (%)	0.50	0.58	0.69
Number of shares	223,915	262,702	329,122
Highest share price (UK p)	1,089.72	954.25	965.99
Lowest share price (UK p)	641.35	774.79	860.49

[a] In respect of direct portfolio transaction costs.

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

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

M&G Smaller Companies Fund

Financial statements and notes

Financial statements

Statement of total return

for the year to 30 June	Note	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Income					
Net capital gains / (losses)	3		(39,225)		(20,741)
Revenue	5	7,248		13,241	
Expenses	6	(2,850)		(3,641)	
Net revenue / (expense) before taxation		4,398		9,600	
Taxation	7	0		2	
Net revenue / (expense) after taxation			4,398		9,602
Total return before distributions			(34,827)		(11,139)
Distributions	8		(6,482)		(12,289)
Change in net assets attributable to shareholders from investment activities			(41,309)		(23,428)

Statement of change in net assets attributable to shareholders

for the year to 30 June	2020 £'000	2020 £'000	2019 £'000	2019 £'000
Opening net assets attributable to shareholders		**414,010**		**449,970**
Amounts received on issue of shares	23,664		6,916	
Amounts paid on cancellation of shares	(30,225)		(20,766)	
		(6,561)		(13,850)
Dilution adjustments		238		69
Change in net assets attributable to shareholders from investment activities (see above)		(41,309)		(23,428)
Retained distributions on Accumulation shares		468		1,245
Unclaimed distributions		4		4
Closing net assets attributable to shareholders		366,850		414,010

M&G Smaller Companies Fund

Financial statements and notes

Financial statements (continued)

Balance sheet

as at 30 June	Note	2020 £'000	2019 £'000
Assets			
Fixed assets			
Investments		356,223	397,268
Current assets			
Debtors	9	253	1,638
Cash and bank balances	10	0	1,599
Cash equivalents		21,562	20,372
Total assets		**378,038**	**420,877**
Liabilities			
Creditors			
Bank overdrafts		(6,926)	0
Distribution payable		(1,935)	(6,450)
Other creditors	11	(2,327)	(417)
Total liabilities		**(11,188)**	**(6,867)**
Net assets attributable to shareholders		**366,850**	**414,010**

M&G Smaller Companies Fund

Financial statements and notes

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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

In determining the amount available for distribution, ordinary stock dividends have been transferred to capital, reducing the amount available.

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

3 Net capital gains / (losses)

for the year to 30 June	2020 £'000	2019 £'000
Non-derivative securities	(39,225)	(20,736)
Transaction charges	0	(5)
Net capital gains / (losses)	**(39,225)**	**(20,741)**

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 147.

for the year to 30 June	2020 £'000	% of transaction	2019 £'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	137,346		144,330	
Commissions	50	0.04	59	0.04
Taxes	411	0.30	548	0.38
Equities after transaction costs	**137,807**		**144,937**	
Other transaction types				
Corporate actions	177		0	
Total purchases after transaction costs	**137,984**		**144,937**	
b) Sales				
Equities				
Equities before transaction costs	130,467		148,481	
Commissions	(46)	0.03	(63)	0.04
Equities after transaction costs	**130,421**		**148,418**	
Other transaction types				
Corporate actions	9,369		10,496	
Total sales after transaction costs	**139,790**		**158,914**	

c) Direct portfolio transaction costs	2020 £'000	% of average NAV	2019 £'000	% of average NAV
Commissions paid				
Equities	96	0.02	122	0.03
Taxes paid				
Equities	411	0.10	548	0.13
Total direct portfolio transaction costs [a]	**507**	**0.12**	**670**	**0.16**
d) Indirect portfolio transaction costs		**%**		**%**
Portfolio dealing spread [b]		1.20		0.67

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

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

5 Revenue

for the year to 30 June	2020 £'000	2019 £'000
Bank interest	0	1
Dividends from equity investments: non-taxable	6,369	12,275
Dividends from equity investments: taxable	626	830
Interest distributions	163	135
Rebate of ongoing charges from underlying funds	14	0
Stock dividends	76	0
Total revenue	**7,248**	**13,241**

M&G Smaller Companies Fund

Financial statements and notes

Notes to the financial statements

6 Expenses

for the year to 30 June	2020 £'000	2019 £'000
Payable to the ACD or associate		
Annual charge	2,525	0
Annual management charge [a]	265	2,980
Administration charge [a]	56	623
	2,846	3,603
Payable to the Depositary or associate		
Depositary's charge (including VAT) [a]	3	29
Other expenses		
Audit fee (including VAT) [a] [b]	1	9
Total expenses	**2,850**	**3,641**

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

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

7 Taxation

for the year to 30 June	2020 £'000	2019 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	0	(2)
Deferred tax (note 7c)	0	0
Total taxation	**0**	**(2)**
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	4,398	9,600
Corporation tax at 20%	879	1,920
Effects of:		
Dividends from equity investments: non-taxable	(1,274)	(2,455)
Stock dividends not taxable	(15)	0
Current year expenses not utilised	410	417
Withholding tax	0	(2)
Prior year adjustment to expenses not utilised	0	118
Total tax charge (note 7a)	**0**	**(2)**
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	**0**	**0**

The fund has not recognised a deferred tax asset of £11,032,000 (2019: £10,622,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

	2020		2019	
for the year to 30 June	Inc [a]	Acc [b]	Inc [a]	Acc [b]
Dividend distributions	**£'000**	**£'000**	**£'000**	**£'000**
Interim	4,112	430	4,496	428
Final	1,935	38	6,450	817
Total net distributions		6,515		12,191
Income deducted on cancellation of shares		126		119
Income received on issue of shares		(159)		(21)
Distributions		**6,482**		**12,289**
Net revenue / (expense) per statement of total return		4,398		9,602
Expenses offset against capital		2,056		2,687
Income deficit transferred to capital		28		0
Distributions		**6,482**		**12,289**

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 30 June	2020 £'000	2019 £'000
Amounts receivable on issues of shares	15	17
Distributions receivable	5	11
Dividends receivable	233	1,610
Total debtors	**253**	**1,638**

10 Cash and bank balances

as at 30 June	2020 £'000	2019 £'000
Cash held as bank balances	0	1,599
Total cash and bank balances	**0**	**1,599**

11 Other creditors

as at 30 June	2020 £'000	2019 £'000
ACD's annual management charge payable	0	91
Administration charge payable	0	19
Amounts payable on cancellation of shares	331	295
Annual charge payable	101	0
Expenses payable	10	12
Purchases awaiting settlement	1,885	0
Total other creditors	**2,327**	**417**

12 Contingent assets, liabilities and outstanding commitments

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

M&G Smaller Companies Fund

Financial statements and notes

Notes to the financial statements

13 Shares in issue

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

Share class	Opening 01.07.19	Movements Issued	Movements Cancelled	Closing 30.06.20
Sterling				
Class 'A' Income	31,727,678	496,471	(3,115,592)	29,108,557
Class 'A' Accumulation	3,619,045	13,652	(312,442)	3,320,255
Class 'C' Income	47,481,931	392,572	(1,170,323)	46,704,180
Class 'I' Income	2,754,654	584,348	(181,794)	3,157,208
Class 'I' Accumulation	1,090,021	247,943	(238,956)	1,099,008
Class 'R' Income	1,324,519	185,348	(108,635)	1,401,232
Class 'R' Accumulation	3,962,631	732,083	(580,542)	4,114,172
Class 'X' Income	1,253,711	51,626	(145,592)	1,159,745
Class 'X' Accumulation	262,702	61,900	(100,687)	223,915

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual charge [a] %
Sterling			
Class 'A'	n/a	n/a	1.35
Class 'C'	n/a	n/a	0.00
Class 'I'	n/a	n/a	0.85
Class 'R'	n/a	n/a	1.10
Class 'X'	n/a	n/a	1.35

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

15 Related parties

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

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

At the balance sheet date, shareholders from within M&G plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 58.33% (2019: 58.51%) of the fund's shares.

16 Events after the balance sheet date

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

17 Fair value analysis

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

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

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

Level 2: Valuation technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs. However no such financial instruments were held.

Level 3: Valuation technique using unobservable inputs

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

as at 30 June Basis of valuation	Assets 2020 £'000	Liabilities 2020 £'000	Assets 2019 £'000	Liabilities 2019 £'000
Level 1	356,223	0	397,268	0
Level 2	0	0	0	0
Level 3	0	0	0	0
	356,223	**0**	**397,268**	**0**

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

18 Risk management policies

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

19 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by £17,733,000 (2019: £19,863,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

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

M&G Smaller Companies Fund

Financial statements and notes

Notes to the financial statements

21 Interest rate risk sensitivity and exposure

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

22 Credit risk

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

23 Dividend distribution tables

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

Semi-annual distribution periods

	Start	End	Xd	Payment
Interim	01.07.19	31.12.19	02.01.20	29.02.20
Final	01.01.20	30.06.20	01.07.20	31.08.20

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

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

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

Sterling Class 'A' Income shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	2.2933	1.8303	4.1236	4.4813
Final	1.0602	0.9130	1.9732	6.4798

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	1.2918	3.1252	4.4170	4.1825
Final	0.0000	0.0000	0.0000	9.5501

Sterling Class 'C' Income shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	2.3990	2.0222	4.4212	4.7346
Final	1.1394	0.9535	2.0929	6.9026

Sterling Class 'I' Income shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	2.5964	20.3098	22.9062	24.7181
Final	4.6943	6.2365	10.9308	35.8886

Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	1.5508	15.1517	16.7025	17.9413
Final	1.3581	1.9158	3.2739	30.8857

Sterling Class 'R' Income shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	0.3692	1.9026	2.2718	2.4576
Final	0.3652	0.7174	1.0826	3.5633

Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	0.2279	1.1368	1.3647	1.5047
Final	0.0000	0.0493	0.0493	2.7734

Sterling Class 'X' Income shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	2.0023	2.1193	4.1216	4.4792
Final	1.1515	0.8196	1.9711	6.4768

Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2 Income 2020 UK p	Group 2 Equalisation 2020 UK p	Group 1 & 2 Distribution 2020 UK p	Group 1 & 2 Distribution 2019 UK p
Interim	0.8320	3.5327	4.3647	4.1331
Final	0.0000	0.0000	0.0000	9.4372

M&G Investment Funds (3)

Other regulatory disclosures

Annual value assessment

An annual assessment report is available which shows 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

Remuneration

In line with the requirements of the Undertakings for Collective Investment in Transferable Securities (UCITS) V, the UCITS Manager is subject to a remuneration policy which is consistent with the principles outlined in SYSC19E of the FCA Handbook (UCITS Remuneration Code).

The remuneration policy is designed to ensure that any relevant conflicts of interest can be managed appropriately at all times and that the remuneration of employees is in line with the risk policies and objectives of the UCITS funds managed by the UCITS Manager. Further details of the remuneration policy can be found here: https://www.mandg.com/about-us/policies-and-business-principles. The remuneration policy, and its implementation, is reviewed on an annual basis, or more frequently where required, and is approved by the M&G plc Board Remuneration Committee.

The UCITS management company is required under UCITS to make quantitative disclosures of remuneration. These disclosures are made in line with M&G's interpretation of currently available guidance on quantitative remuneration disclosures. As market or regulatory guidance evolves, M&G may consider it appropriate to make changes to the way in which quantitative disclosures are calculated. Members of staff and senior management typically provide both UCITS and non-UCITS related services and have a number of areas of responsibility. Therefore, only the portion of remuneration for those individuals' services which may be attributable to UCITS is included in the remuneration figures disclosed. Accordingly the figures are not representative of any individual's actual remuneration.

M&G Securities Limited does not directly employ any staff members. However, for the financial year ended 31 December 2019, aggregate remuneration of £37,357,114 (£6,853,720 in respect of fixed remuneration and £30,503,394 in respect of variable remuneration) was paid to individuals whose actions may have a material impact on the risk profile of the UCITS Manager, of which £2,111,206 related to senior management.

Swiss investor information

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

For these funds the TERs are the same as the operating charges disclosed in each fund's financial highlights section under 'Performance and charges'.

Glossary

Accumulation shares: A type of share where distributions are automatically reinvested and reflected in the value of the shares.

Accumulation units: A type of unit where distributions are automatically reinvested and reflected in the value of the units.

Asset: Anything having commercial or exchange value that is owned by a business, institution or individual.

Asset allocation: Apportioning a portfolio's assets according to risk tolerance and investment goals.

Asset class: Category of assets, such as cash, company shares, fixed income securities and their sub-categories, as well as tangible assets such as real estate.

Bond: A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

Bond issue: A set of fixed income securities offered for sale to the public by a company or government. If the bonds are sold for the first time, it is called a 'new issue'.

Bottom-up selection: Selecting stocks based on the attractiveness of a company.

Bunds: Fixed income securities issued by the German government.

Capital: Refers to the financial assets, or resources, that a company has to fund its business operations.

Capital growth: Occurs when the current value of an investment is greater than the initial amount invested.

Capital return: The term for the gain or loss derived from an investment over a particular period. Capital return includes capital gain or loss only and excludes income (in the form of interest or dividend payments).

Cash equivalents: Deposits or investments with similar characteristics to cash.

Charity Authorised Investment Fund (CAIF) : An investment entity that is both a registered charity and an authorised investment fund. The CAIF must comply with charity law as well as financial services laws and regulations, and is usually treated as a registered charity for tax purposes.

Comparative sector: A group of funds with similar investment objectives and/or types of investment, as classified by bodies such as the Investment Association (IA) or Morningstar™. Sector definitions are mostly based on the main assets a fund should invest in, and may also have a geographic focus. Sectors can be the basis for comparing the different characteristics of similar funds, such as their performance or charging structure.

Consumer Prices Index (CPI): An index used to measure inflation, which is the rate of change in prices for a basket of goods and services. The contents of the basket are meant to be representative of products and services we typically spend our money on.

Convertible bonds: Fixed income securities that can be exchanged for predetermined amounts of company shares at certain times during their life.

Corporate bonds: Fixed income securities issued by a company. They are also known as bonds and can offer higher interest payments than bonds issued by governments as they are often considered more risky.

Coupon: The interest paid by the government or company that has raised a loan by selling bonds.

Credit: The borrowing capacity of an individual, company or government. More narrowly, the term is often used as a synonym for fixed income securities issued by companies.

Credit default swaps (CDS): Are a type of derivative, namely financial instruments whose value, and price, are dependent on one or more underlying assets. CDS are insurance-like contracts that allow investors to transfer the risk of a fixed income security defaulting to another investor.

Credit rating: An independent assessment of a borrower's ability to repay its debts. A high rating indicates that the credit rating agency considers the issuer to be at low risk of default; likewise, a low rating indicates high risk of default. Standard & Poor's, Fitch and Moody's are the three most prominent credit rating agencies. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

Credit rating agency: A company that analyses the financial strength of issuers of fixed income securities and attaches a rating to their debt. Examples include Standard & Poor's and Moody's.

Credit risk: Risk that a financial obligation will not be paid and a loss will result for the lender.

Credit selection: The process of evaluating a fixed income security, also called a bond, in order to ascertain the ability of the borrower to meet its debt obligations. This research seeks to identify the appropriate level of default risk associated with investing in that particular bond.

Credit spread: The difference between the yield of a corporate bond, a fixed income security issued by a company, and a government bond of the same life span. Yield refers to the income received from an investment and is expressed as a percentage of the investment's current market value.

Default: When a borrower does not maintain interest payments or repay the amount borrowed when due.

Default risk: Risk that a debtholder will not receive interest and full repayment of the loan when due.

Derivatives: Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded over the counter.

Developed economy/market: Well-established economies with a high degree of industrialisation, standard of living and security.

Dilution adjustments: The dilution adjustment is used to protect ongoing investors against the transaction charges incurred in investing or divesting in respect of creations and cancellations. The dilution adjustment is made up of the direct and indirect transaction charges. In the financial statements the direct transaction charges as a percentage of average NAV will be disclosed. This percentage will take account of those direct transaction charges that have been recovered through the dilution adjustment leaving a percentage that just represents the costs incurred in portfolio management.

Distribution: Distributions represent a share in the income of the fund and are paid out to Income shareholders or reinvested for Accumulation shareholders at set times of the year (monthly, quarterly, half-yearly or annually). They may either be in the form of interest distributions or dividend distributions.

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

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

Glossary

Dividend: Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.

Duration: A measure of the sensitivity of a fixed income security, also called a bond, or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

Duration risk: The longer a fixed income security, also called a bond, or bond fund's duration, the more sensitive and therefore at risk it is to changes in interest rates.

Emerging economy or market: Economies in the process of rapid growth and increasing industrialisation. Investments in emerging markets are generally considered to be riskier than those in developed markets.

Equities: Shares of ownership in a company.

Exchange traded: Usually refers to investments traded on an exchange, such as company shares on a stock exchange.

Ex-dividend, ex-distribution or XD date: The date on which declared distributions officially belong to underlying investors.

Exposure: The proportion of a fund invested in a particular share/fixed income security, sector/region, usually expressed as a percentage of the overall portfolio.

Fixed income security: A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid. Also referred to as a bond.

Floating rate notes (FRNs): Securities whose interest (income) payments are periodically adjusted depending on the change in a reference interest rate.

Foreign exchange: The exchange of one currency for another, or the conversion of one currency into another currency. Foreign exchange also refers to the global market where currencies are traded virtually around the clock. The term foreign exchange is usually abbreviated as 'forex' and occasionally as 'FX'.

Foreign exchange (FX) strategy: Currencies can be an asset class in its own right, along with company shares, fixed income securities, property and cash. Foreign exchange strategy can therefore be a source of investment returns.

Forward contract: A contract between two parties to buy or sell a particular commodity or financial instrument at a pre-determined price at a future date. Examples include forward currency contracts.

Fundamentals (company): A basic principle, rule, law, or the like, that serves as the groundwork of a system. A company's fundamentals pertain specifically to that company, and are factors such as its business model, earnings, balance sheet and debt.

Fundamentals (economic): A basic principle, rule, law, or the like, that serves as the groundwork of a system. Economic fundamentals are factors such as inflation, employment, economic growth.

Futures: A futures contract is a contract between two parties to buy or sell a particular commodity or financial instrument at a predetermined price at a future date. Futures are traded on a regulated exchange.

Gilts: Fixed income securities issued by the UK government.

Government bonds: Fixed income securities issued by governments, that normally pay a fixed rate of interest over a given time period, at the end of which the initial investment is repaid.

Hedging: A method of reducing unnecessary or unintended risk.

High water mark (HWM): The highest level that a fund's NAV (net asset value) has reached at the end of any 12-month accounting period.

High yield bonds: Fixed income securities issued by companies with a low credit rating from a recognised credit rating agency. They are considered to be at higher risk of default than better quality, ie higher-rated fixed income securities but have the potential for higher rewards. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

Historic yield: The historic yield reflects distributions declared over the past 12 months as a percentage of the share price, as at the date shown.

Income yield: Refers to the income received from an investment and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.

Index: An index represents a particular market or a portion of it, serving as a performance indicator for that market.

Income shares: A type of share where distributions are paid out as cash on the payment date.

Income units: A type of unit where distributions are paid out as cash on the payment date.

Index tracking: A fund management strategy that aims to match the returns from a particular index.

Index-linked bonds: Fixed income securities where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. Also referred to as inflation-linked bonds.

Inflation: The rate of increase in the cost of living. Inflation is usually quoted as an annual percentage, comparing the average price this month with the same month a year earlier.

Inflation risk: The risk that inflation will reduce the return of an investment in real terms.

Initial public offering (IPO): The first sale of shares by a private company to the public.

Interest rate risk: The risk that a fixed income investment will lose value if interest rates rise.

Interest rate swap: An agreement between two parties to swap a fixed interest payment with a variable interest payment over a specified period of time.

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

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

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

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

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

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

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Long position: Refers to ownership of a security held in the expectation that the security will rise in value.

Macroeconomic: Refers to the performance and behaviour of an economy at the regional or national level. Macroeconomic factors such as economic output, unemployment, inflation and investment are key indicators of economic performance. Sometimes abbreviated to 'macro'.

Maturity: The length of time until the initial investment amount of a fixed income security is due to be repaid to the holder of the security.

Modified duration: A measure of the sensitivity of a fixed income security, called a bond, or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

Monetary easing: When central banks lower interest rates or buy securities on the open market to increase the money in circulation.

Monetary policy: A central bank's regulation of money in circulation and interest rates.

Monetary tightening: When central banks raise interest rates or sell securities on the open market to decrease the money in circulation.

Morningstar™: A provider of independent investment research, including performance statistics and independent fund ratings.

Near cash: Deposits or investments with similar characteristics to cash.

Net asset value (NAV): A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.

Ongoing Charge Figure: The Ongoing charge Figure represents the operating costs investors can reasonably expect to pay under normal circumstances.

Open-ended investment company (OEIC): A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

Options: Financial contracts that offer the right, but not the obligation, to buy or sell an asset at a given price on or before a given date in the future.

Over-the-counter (OTC): Whereby financial assets are traded directly between two parties. This is in contrast to exchange trading, which is carried out through exchanges set up specifically for the purpose of trading. OTC is also known as off-exchange trading.

Overweight: If a fund is 'overweight' a stock, it holds a larger proportion of that stock than the comparable index or sector.

Payment date: The date on which distributions will be paid by the fund to investors, usually the last business day of the month.

Physical assets: An item of value that has tangible existence, for example, cash, equipment, inventory or real estate. Physical assets can also refer to securities, such as company shares or fixed income securities.

Portfolio transaction cost: The cost of trading, such as brokerage, clearing, exchange fees and bid-offer spread as well as taxes such as stamp duty.

Preference shares: Preference shares are a loan to a company that may be traded in the same way as ordinary shares, but generally have a higher yield and pay dividends on fixed dates. Preference shares have varying characteristics as to the treatment of the principal and the dividend payment, which includes ranking them above ordinary shares when it comes to dividend payments.

Principal: The face value of a fixed income security, which is the amount due back to the investor by the borrower when the security reaches the end of its life.

Private placement: An offer of sale of securities to a relatively small number of investors selected by the company, generally investment banks, mutual funds, insurance companies or pension funds.

Property Expense Ratio (PER): Property expenses are the operating expenses that relate to the management of the property assets in the portfolio. These include: insurance and rates, rent review and lease renewal costs and maintenance and repairs, but not improvements. They depend on the level of activity taking place within the fund. The Property Expense Ratio is the ratio of property expenses to the fund's net asset value.

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

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

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

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

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

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

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

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

Security: Financial term for a paper asset – usually a share in a company or a fixed income security also known as a bond.

Share class: Each M&G fund has different share classes, such as A, R and I. Each has a different level of charges and minimum investment. Details on charges and minimum investments can be found in the Key Investor Information Documents.

Share class hedging: Activities undertaken in respect of hedged shares to mitigate the impact on performance of exchange rate movements between the fund's currency exposure and the investor's chosen currency.

Short position: A way for a fund manager to express his or her view that the market might fall in value.

Short selling: This often refers to the practice whereby an investor sells an asset they do not own. The investor borrows the asset from someone who does own it and pays a fee. The investor must eventually return the borrowed asset by buying it in the open market. If the asset has fallen in price, the investor buys it for less than they sold it for, thus making a profit. The contrary may also occur.

Short-dated corporate bonds: Fixed income securities issued by companies and repaid over relatively short periods.

Short-dated government bonds: Fixed income securities issued by governments and repaid over relatively short periods.

Sovereign debt: Debt of a government. Also referred to as government bonds.

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

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Top-down investing: An investment approach that analyses economic factors, ie surveys the 'big picture', before selecting which companies to invest in. The top-down investor will look at which industries are likely to generate the best returns in certain economic conditions and limit the search to that area.

Total return: The term for the gain or loss derived from an investment over a particular period. Total return includes income (in the form of interest or dividend payments) and capital gains.

Treasuries: Fixed income securities issued by the US government.

Triple A or AAA rated: The highest possible rating a fixed income security, also called a bond, can be assigned by credit rating agencies. Bonds that are rated AAA are perceived to have the lowest risk of default. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

UCITS: Stands for Undertakings for Collective Investment in Transferable Securities. This is the European regulatory framework for an investment vehicle that can be marketed across the European Union and is designed to enhance the single market in financial assets while maintaining high levels of investor protection.

Unconstrained: The term used to describe the mandate of a fund whereby the manager has the freedom to invest according to his or her own strategy, not being obliged to allocate capital according to the weightings of any index, for example.

Underlying value: The fundamental value of a company, reflecting both tangible and intangible assets, rather than the current market value.

Underlying yield: Refers to the income received by a managed fund, and is usually expressed annually as a percentage based on the fund's current value.

Underweight: If a portfolio is 'underweight' a stock, it holds a smaller proportion of that stock than the comparable index or sector.

Unit trust: A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

Unit/share type: Type of units/shares held by investors in a trust or fund (unit/share types differ by features such as whether income is to be paid out as cash or reinvested on the payment date).

Valuation: The worth of an asset or company based on its current price.

Volatile: When the value of a particular share, market or sector swings up and down fairly frequently and/or significantly, it is considered volatile.

Volatility: The degree to which a given security, fund, or index rapidly changes. It is calculated as the degree of deviation from the norm for that type of investment over a given time period. The higher the volatility, the riskier the security tends to be.

Warrant: A security issued by a company that gives the holder the right to buy shares in that company at a specified price and within a certain timeframe.

Yield: This refers to either the interest received from a fixed income security or to the dividends received from a share. It is usually expressed as a percentage based on the investment's costs, its current market value or its face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

Yield (equity): Refers to the dividends received by a holder of company shares and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

Yield (bonds): This refers to the interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

Yield (income): Refers to the income received from an investment and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.

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