

M&G Investment Funds (3)

Annual Long Report and audited Financial Statements
for the year ended 30 June 2018

Please note that when this document was originally published we stated, on page 32, that we had maintained the income level for the fund. This statement was based on preliminary figures and has now been amended. Final figures are shown on page 31.

We would like to make you aware that this statement has been corrected in this version.



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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 2018.

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 nine 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 2018, none of the funds held shares of the other funds within this OEIC.

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

Fund managers

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

M&G Corporate Bond Fund
Richard Woolnough

M&G Dividend Fund
Phil Cliff

M&G Emerging Markets Bond Fund
Claudia Calich

M&G European Corporate Bond Fund
Stefan Isaacs

M&G European High Yield Bond Fund
James Tomlins

M&G Fund of Investment Trust Shares
Richard O'Connor

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,
Laurence Pountney Hill, London EC4R 0HH, UK
Telephone: 0800 390 390 (UK only)

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

Directors of the ACD

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

W J Nott resigned with effect from 31 December 2017.

* Appointed 26 July 2018.

** Appointed 9 June 2017.

Investment manager

M&G Investment Management Limited,
Laurence Pountney Hill, London EC4R 0HH, UK
Telephone: +44 (0)20 7626 4588

(Authorised and regulated by the Financial Conduct Authority)

Registrar

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

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

Depositary

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

Independent auditor

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

Important information

On 30 January 2018, the M&G Fund of Investment Trust Shares and the M&G Smaller Companies Fund amended their investment objective and policy and their investment approach.

M&G Investment Funds (3)

Authorised Corporate Director's Report

Investor information

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

Customer services and administration for UK clients:

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

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

Telephone: 0800 390 390 (UK only)

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

Customer services and administration for non-UK clients:

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

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

Telephone: +352 2605 9944

Email: csmandg@rbc.com

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

Austrian paying and information agent:

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

Belgian financial agent:

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

Danish representative agent:

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

French centralising agent:

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

During the financial year, the effective proportion of the net assets of the M&G Recovery Fund in PEA ('Plan d'Epargne en Actions') eligible assets has permanently been equal to at least 75%.

German information agent:

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

Greek paying agent and distributor:

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

Irish facilities agent:

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

Italian paying agents:

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

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

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

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

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

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

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

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

Luxembourg paying and information agent:

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

Portuguese distributor:

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

Spanish representative:

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

Swedish paying agent:

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

Swiss paying agent and representative:

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

M&G Investment Funds (3)

Authorised Corporate Director's Report

Authorised Corporate Director's Responsibilities

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

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

Directors' statement

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

G W MACDOWALL
L J MUMFORD

} Directors

15 August 2018

M&G Investment Funds (3)

Depository's Responsibilities and Report

Statement of the Depository's Responsibilities and Report of the Depository to the Shareholders of M&G Investment Funds (3) ('the Company') for the period ended 30 June 2018

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

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

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

The Depository must ensure that:

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

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

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

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

Edinburgh
15 August 2018

National Westminster Bank Plc
Trustee and Depository Services

M&G Investment Funds (3)

Independent Auditor's Report

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

Opinion

We have audited the financial statements of M&G Investment Funds (3) ICVC ("the Company") for the year ended 30 June 2018 which comprise the Statement of Total Return and Statement of Change in Net Assets Attributable to Shareholders together with the Balance Sheet for each of the Company's funds, the accounting policies of the Company, the related notes for each fund and the Distribution Tables, including 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 2018 and of the net revenue and the net capital gains / (losses) on the scheme property of the Company comprising each of its funds for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice 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.

Matters on which we are required to report by exception

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

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

Responsibilities of the Authorised Corporate Director (ACD)

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

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

M&G Investment Funds (3)

Independent Auditor's Report

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Edinburgh
15 August 2018

Ernst & Young LLP
Statutory Auditor

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

M&G Investment Funds (3)

Financial statements and notes

Notes to the financial statements

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

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.

2 Summary of significant accounting policies

a) Basis of preparation

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

The functional and presentational currency of M&G Investment Funds (3) is UK sterling. 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 29 June 2018 being the last business day of the accounting period.

d) Investments - recognition and valuation

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

At the end of the reporting period all investments have been measured at their fair value using the prices and the portfolio holdings determined at 12 noon on 29 June 2018, being the last valuation point of the accounting period, as this is not materially different from a valuation carried out at close of business on the balance sheet date.

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

- Equities and debt securities which are traded on an active market are included at the quoted price, which is normally the bid price, excluding any accrued interest in respect of bonds.
- Equities traded on the Alternative Investment Market (AIM), whose liquidity cannot be guaranteed, are included at their quoted bid price as this represents the most objective and appropriate method of valuation.

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

e) Recognition of income and expenses

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

f) Treatment of income and expenses

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

M&G Investment Funds (3)

Financial statements and notes

Notes to the financial statements

2 Summary of significant accounting policies (continued)

f) Treatment of income and expenses (continued)

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

g) Tax

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

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

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

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

h) Allocation of returns to share classes

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

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

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

3 Risk management policies

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

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

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

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

Market risk

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

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

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

Commitment approach

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

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

M&G Investment Funds (3)

Financial statements and notes

Notes to the financial statements

3 Risk management policies (continued)

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

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

Value at Risk approach

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

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

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

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

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

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

Fund	Global exposure approach
M&G 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 European High Yield Bond Fund	VaR
M&G Fund of Investment Trust Shares	Commitment
M&G Global Government Bond Fund	VaR
M&G Recovery Fund	Commitment
M&G Smaller Companies Fund	Commitment

Liquidity risk

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

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

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

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

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

Credit risk

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

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

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

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

M&G Investment Funds (3)

Financial statements and notes

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M&G Corporate Bond Fund

Authorised Corporate Director's Report

Investment objective

The fund aims to provide income and capital growth.

Investment policy

At least 70% of the fund is invested in 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 approach

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.

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.



The above number:

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

Investment review

As at 2 July 2018, for the year ended 30 June 2018

Performance against objective

Between 3 July 2017 (the start of the review period) and 2 July 2018, the M&G Corporate Bond Fund delivered either a flat or small positive total return (the combination of income and growth of capital) in its sterling share classes, while returns for its euro share classes were modestly negative*.

The M&G Corporate Bond Fund invests predominantly in high-quality, sterling-denominated corporate bonds, with the aim of providing income and capital growth.

Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. The initial amount borrowed by the entity is usually repaid at the end of the loan's life. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'. Investment grade corporate bonds refer to debt 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 of non-repayment than those issued by companies with lower credit ratings (known as high yield bonds). The performance of investment grade corporate bond markets can be influenced by the performance of government bonds.

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

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Investment review

Investment performance

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

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

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

The European Central Bank (ECB) announced last October that it would gradually reduce the amount of money it spends each month on its bond-buying programme, but would continue to support markets until at least September 2018. In June this year, the ECB announced it would halve its bond purchases in September and end them altogether in December. The Bank of England last November confirmed investors' expectations by announcing a small interest rate rise of a quarter of a percentage point, taking rates back to their level immediately before 2016's Brexit referendum vote. The Federal Reserve followed suit, increasing US interest rates in December 2017 and again in March and June 2018.

But after a broadly positive end to 2017 and a strong January 2018 for financial markets, many areas in the global bond market weakened, as investors reacted to the prospect of higher inflation and interest rates. By March, weakness in global stockmarkets, caused mainly by the prospect of a trade war between the US and China and the US imposition of sanctions on Russia, had started to spill over into corporate bond markets. While April proved somewhat calmer, Italian political turmoil, combined with ongoing trade tensions between the US and China, caused further volatility in May.

The more challenging conditions from the start of 2018 led to muted returns across the bond market over the 12-month review period as a whole. Sterling-denominated corporate bonds generally delivered small positive returns over the period, ahead of US dollar corporate bonds but trailing European corporate bonds.

The fund's performance was driven by its sizeable exposure to investment grade corporate bonds (fixed income securities issued by a company with a medium or high credit rating from a recognised credit rating agency, which are considered to be at lower risk from default than those issued by companies with lower credit ratings) and to asset-backed securities (bonds whose income payments are derived from a specified group of underlying pooled assets). The fund's holdings in

bonds issued by financials aided performance in the first half of the review period, but then detracted in the latter stages, as these underperformed bonds issued by companies from other sectors.

Investment activities

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. During the course of the reporting period, we moved the fund's duration very slightly between 6.7 years and 6.9 years, keeping it roughly the same amount short of a comparable index, the iBoxx £ Corporate Index.

During the review period, we undertook a number of relative value trades – for example, taking advantage of the difference in pricing between bonds from the same company issued in different currencies or different maturities – in names including AT&T, Microsoft and British American Tobacco.

We have been finding significant opportunities in the asset-backed securities market, especially those backed by residential and commercial mortgages. Such securities tend to be floating rate in nature, meaning they adjust periodically depending on the change in a reference interest rate, and should therefore perform well even when interest rates rise. We bought bonds from Land Securities and took part in a securitisation from Gatwick Airport during the review period.

We continue to think that UK government bonds (also known as gilts) look expensive and so we have little exposure to these assets. We do hold small positions in bonds from peripheral eurozone governments, such as Spain and Italy, as these have looked attractively priced compared to European corporate bonds with similar credit ratings. Our Spanish and Italian government bond holdings are denominated in sterling, and so held up relatively better than comparable euro-denominated bonds issued by these governments during the Italian political volatility in May.

Outlook

From a macroeconomic perspective, we believe the global economic recovery remains on track. While recent economic data have been slightly weaker than expected in some cases, this is coming off a high base; so far, we see little evidence that this will be the start of a new downward trend. In the US, consumer confidence is at its highest level since the financial crisis, while a healthy labour market is expected to drive further wage growth over the coming months. Various key economic indicators look especially encouraging, with the recent surge in the number of people changing jobs strongly indicative of a future rise in wages.

Europe is also an improving economic story, in our view: its growth outlook has brightened and, while we saw significant market reaction to Italian political uncertainty in May, overall political risk has receded. As the European Central Bank slowly continues to reduce the amount of support it provides to bond markets, this may have an impact on bond prices.

While the current period of economic growth may appear long compared to historic standards, we believe we are witnessing an unusually elongated economic cycle and so this slow and steady expansion is likely to persist. As a result, we want to retain a big exposure to corporate bonds, while maintaining the fund's relative lack of sensitivity to changes in interest rates.

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Investment review

Outlook (continued)

We continue to monitor closely the possible impact on markets should the US Federal Reserve be forced to raise interest rates higher or faster than investors currently expect due to the rapid onset of inflation. The second potential challenge relates to the next stage of the UK's Brexit negotiations with the EU. The outcome of these negotiations will have a major impact on whether we find ourselves in a more stable, or more challenging, political environment in the next few years. At the same time, political news flow – from the US in particular – may cause further volatility, as we have seen during the escalating trade tensions between the US and China.

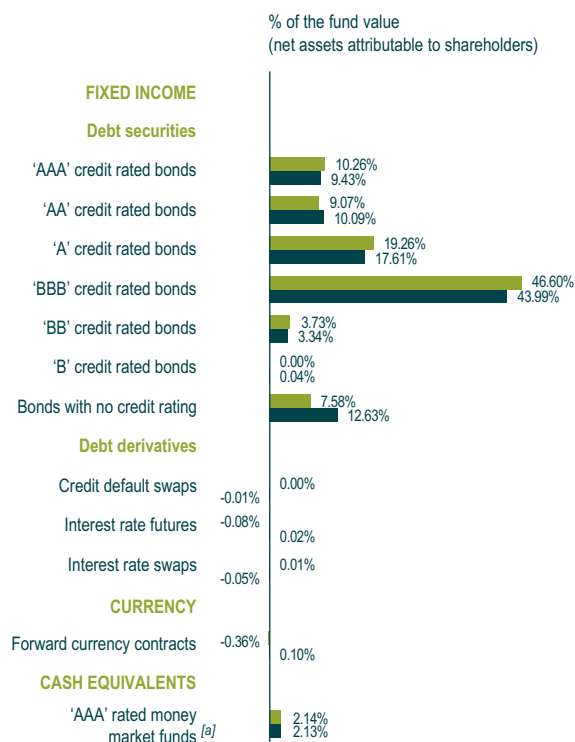
Regardless of how these situations develop, what we do as fund managers does not change. We look at where we are in the interest rate cycle and the economic cycle, and we look at where we can find the most attractive opportunities for the fund from different sectors and individual issuers at any given stage.

Richard Woolnough
Fund manager

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

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

Classification of investments



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

30 June 2018
30 June 2017

Source: M&G

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement

as at 30 June Holding	2018 £'000	2018 %	2017 %
FIXED INCOME	3,564,168	96.43	97.09
Debt securities	3,566,814	96.50	97.13
'AAA' credit rated bonds	379,334	10.26	9.43
£1,032,936 Alba FRN 2049	1,040	0.03	
£10,000,000 Barclays Bank 4.25% 2022	11,010	0.30	
£7,906,000 Barclays Bank FRN 2023	7,894	0.21	
£152,110 BL Superstores Finance 4.482% 2030	172	0.01	
£3,840,000 Broadgate Financing 4.821% 2036	4,996	0.14	
£395,025 Broadgate Financing 4.949% 2031	461	0.01	
£7,619,705 Broadgate Financing FRN 2032	7,469	0.20	
£4,600,000 Cie de Financement Foncier 5.5% 2027	5,938	0.16	
£3,942,000 Delamare Cards FRN 2022	3,948	0.11	
£2,621,950 Dukinfield FRN 2052	2,655	0.07	
£2,573,775 E-Carat FRN 2023	2,572	0.07	
£640,000 European Coal and Steel 6.875% 2019	660	0.02	
£10,000,000 European Investment Bank 0.875% 2023	9,746	0.26	
£5,000,000 European Investment Bank 4.5% 2029	6,361	0.17	
£25,000,000 European Investment Bank 5.5% 2025	31,675	0.86	
£30,000,000 European Investment Bank FRN 2021	30,193	0.82	
£5,000,000 European Investment Bank FRN 2022	5,009	0.14	
£287,276 First Flexible No.5 FRN 2034	286	0.01	
£14,157,536 Hawksmoor Mortgages FRN 2053	14,268	0.39	
£5,000,000 KFW 0.875% 2022	4,955	0.13	
£5,000,000 KFW 1% 2022	4,953	0.13	
£1,000,000 KFW 5.5% 2025	1,272	0.03	
£1,000,000 KFW 6% 2028	1,417	0.04	
£10,448,240 Lanark Master Issuer FRN 2054	10,488	0.28	
£13,428,000 Lanark Master Issuer FRN 2069	13,480	0.36	
\$20,000,000 Microsoft 3.45% 2036	14,512	0.39	
\$5,000,000 Microsoft 3.5% 2042	3,573	0.10	
\$15,000,000 Microsoft 3.75% 2043	11,108	0.30	
\$15,741,000 Microsoft 3.95% 2056	11,740	0.32	
\$23,571,000 Microsoft 4% 2055	17,771	0.48	
\$6,666,000 Microsoft 4.1% 2037	5,258	0.14	
\$7,000,000 Microsoft 4.5% 2040	5,761	0.16	
\$30,000,000 Microsoft 4.75% 2055	25,800	0.70	
\$500,000 Microsoft 5.2% 2039	447	0.01	
\$3,000,000 Microsoft 5.3% 2041	2,722	0.07	
£1,123,457 Moorgate Funding FRN 2050	1,123	0.03	
£348,832 Paragon Mortgages No.11 FRN 2041	338	0.01	
\$2,729,237 Paragon Mortgages No.15 FRN 2039	2,001	0.05	
£3,986,000 Penarth Master Issuer FRN 2022	3,994	0.11	
£369,014 Precise Mortgage Funding FRN 2048	370	0.01	
£2,038,707 Residential Mortgage Securities No.28 FRN 2046	2,053	0.06	
£1,675,636 Residential Mortgage Securities No.29 FRN 2046	1,685	0.05	
£4,630,922 Residential Mortgage Securities No.30 FRN 2050	4,646	0.13	
£8,919,731 Ripon Mortgages FRN 2056	8,961	0.24	
£16,250,000 Santander 5.125% 2021	17,951	0.49	
£10,000,000 Santander UK FRN 2020	10,016	0.27	
£4,944,000 Santander UK FRN 2022	4,933	0.13	
£3,719,995 Silverstone Master Issuer FRN 2070	3,720	0.10	
£2,289,017 Slate FRN 2052	2,303	0.06	

Portfolio statement (continued)

as at 30 June Holding	2018 £'000	2018 %	2017 %
'AAA' credit rated bonds (continued)			
£1,599,271 THRONES 2014-1 FRN 2049	1,602	0.04	
£4,154,884 Towd Point Mortgage Funding FRN 2045	4,174	0.11	
£5,013,847 Towd Point Mortgage Funding FRN 2045	5,031	0.14	
£10,352,970 Towd Point Mortgage Funding FRN 2051	10,370	0.28	
£3,439,999 Trinity Square FRN 2051	3,476	0.09	
£2,514,344 Warwick Finance Residential Mortgage FRN 2049 01-A	2,531	0.07	
£6,359,183 Warwick Finance Residential Mortgage FRN 2049 02-A	6,446	0.17	
'AA' credit rated bonds	335,308	9.07	10.09
\$6,000,000 Apple 2.9% 2027	4,289	0.12	
£25,000,000 Apple 3.05% 2029	26,962	0.73	
£946,080 Autolink Concessionaires (M6) 8.39% 2022	1,089	0.03	
£815,000 Broadgate Financing 4.999% 2033	985	0.03	
£5,000,000 Deutsche Bahn Finance 3.125% 2026	5,483	0.15	
£576,713 Eurosail-UK FRN 2045	569	0.01	
£2,400,000 Federal National Mortgage Association 5.375% 2021	2,677	0.07	
£5,601,000 Federal National Mortgage Association 5.375% 2028	7,349	0.20	
£3,142,651 Integrated Accommodation 6.48% 2029	3,892	0.10	
£960,000 Investor 5.5% 2037	1,327	0.04	
£3,068,878 Juturna 5.063% 2033	3,709	0.10	
£20,000,000 Land Securities Capital Markets Var. Rate 2026 (1.974%)	20,072	0.54	
£16,000,000 Land Securities Capital Markets 2.375% 2029	16,161	0.44	
£8,858,000 Land Securities Capital Markets 2.399% 2031	8,915	0.24	
£5,000,000 Land Securities Capital Markets Var. Rate 2039 (2.625%)	4,899	0.13	
£553,000 Land Securities Capital Markets Var. Rate 2027 (5.391%)	651	0.02	
£2,500,000 LCR Finance 4.5% 2028	3,167	0.09	
£6,807,000 Mercantile Investment Trust 6.125% 2030	8,787	0.24	
€447,759 Paragon Mortgages No.13 FRN 2039 A2B	383	0.01	
\$895,513 Paragon Mortgages No.13 FRN 2039 A2C	651	0.02	
£960,000 Places for People 8.625% 2020	1,031	0.03	
£2,530,000 Province of Quebec 12.25% 2020	2,965	0.08	
£10,000,000 Réseau Ferré de France 5% 2052	16,134	0.44	
£10,000,000 Réseau Ferré de France 5.25% 2028	13,061	0.35	
£6,000,000 Réseau Ferré de France 5.25% 2035	8,454	0.23	
£3,000,000 Réseau Ferré de France 5.5% 2021	3,422	0.09	
£3,400,000 Slate No.1 FRN 2051	3,419	0.09	
£2,000,000 SLM Student Loan Trust 5.15% 2039	1,925	0.05	
£14,000,000 SNCF 5.375% 2027	17,819	0.48	
£14,441,000 Towd Point Mortgage Funding FRN 2046	14,522	0.39	
£5,400,000 Trafford Centre Finance FRN 2038	4,990	0.14	
£25,000,000 Transport for London 2.25% 2022	25,807	0.70	
£5,000,000 Transport for London 3.875% 2042	6,281	0.17	
£15,000,000 Treasury 3.25% 2044	19,625	0.53	
£25,000,000 Treasury 4.5% 2034	35,206	0.95	
£10,000,000 Treasury 4.75% 2030	13,703	0.37	
£15,000,000 Treasury 4.75% 2038	22,918	0.62	
£2,000,000 Warwick Finance Residential Mortgage FRN 2049	2,009	0.05	

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)				
as at 30 June Holding	2018 £'000	2018 %	2017 %	
'A' credit rated bonds	711,983	19.26	17.61	
£1,556,000 Anheuser-Busch InBev 2.85% 2037	1,493	0.04		
£25,000,000 Anheuser-Busch InBev 6% 2029	23,943	0.65		
£14,000,000 Anheuser-Busch InBev 9.75% 2024	20,021	0.54		
\$2,140,000 Aquarius Plus Investments 8.25% IL Perp.	1,637	0.05		
£5,000,000 ASIF III Jersey 5% 2018	5,089	0.14		
£35,000,000 Bank of America 2.3% 2025	34,465	0.93		
£2,000,000 Bank of America 4.25% 2026	2,236	0.06		
£3,000,000 Bank of America 7% 2028	4,081	0.11		
\$8,571,000 Bank of America Var. Rate 2028 (3.705%)	6,271	0.17		
£3,400,000 Bank of Scotland 2.64% IL 2020	5,761	0.16		
£687,574 BL Superstores Finance 5.27% 2030	753	0.02		
\$5,000,000 BNP Paribas 3.8% 2024	3,717	0.10		
£4,362,000 Brown-Forman 2.6% 2028	4,387	0.12		
£10,000,000 Canadian Imperial Bank of Commerce FRN 2022	10,062	0.27		
£1,358,443 Clavis Securities FRN 2032	1,325	0.04		
\$3,474,000 Cloverie Var. Rate 2046 (5.625%)	2,661	0.07		
£20,000,000 Comcast 5.5% 2029	24,940	0.68		
£2,500,000 Crédit Agricole Var. Rate Perp. (7.5%)	2,682	0.07		
£5,000,000 Deutsche Pfandbriefbank 1% 2020	4,970	0.14		
£4,000,000 EDF 6% 2114	5,117	0.14		
£6,650,000 ELM Var. Rate Perp. (6.3024%)	6,801	0.18		
€15,583,000 ENGIE 5.95% 2111	23,224	0.63		
£1,587,932 Eurosail FRN 2044	1,574	0.04		
£1,658,703 General Electric Capital 6.44% 2022	1,825	0.05		
\$2,952,863 Great Hall Mortgages No.1 FRN 2039	2,203	0.06		
£2,413,409 Greene King Finance 4.0643% 2035	2,571	0.07		
£2,330,607 Greene King Finance 5.318% 2031	2,697	0.07		
£2,500,000 Heathrow Funding 5.225% 2025	2,865	0.08		
£2,000,000 Heathrow Funding 6.45% 2033	2,759	0.08		
£20,123,529 Heathrow Funding 6.75% 2028	26,385	0.71		
£12,000,000 Heathrow Funding 7.075% 2030	16,405	0.44		
£3,150,000 Heathrow Funding 9.2% 2023	3,788	0.10		
£2,192,000 Housing Finance 5% 2027	2,521	0.07		
£3,000,000 Housing Finance 8.625% 2023	3,906	0.11		
£3,000,000 HSBC Bank 5.375% 2033	3,639	0.10		
£500,000 HSBC Bank 6.5% 2023	595	0.02		
£11,550,000 HSBC Bank Var. Rate 2030 (5.375%)	13,297	0.36		
£19,000,000 HSBC Holdings 2.625% 2028	18,304	0.50		
£10,000,000 HSBC Holdings Var. Rate 2026 (2.256%)	9,606	0.26		
\$10,000,000 HSBC Holdings Var. Rate 2028 (4.041%)	7,374	0.20		
£4,000,000 INTU (SGS) Finance 3.875% 2023	4,227	0.11		
£4,808,000 INTU (SGS) Finance 4.25% 2030	5,309	0.14		
£5,500,000 INTU (SGS) Finance 4.625% 2028	6,188	0.17		
£7,000,000 INTU Finance 4.125% 2028	7,547	0.20		
£21,000,000 JPMorgan Chase 3.5% 2026	22,558	0.61		
£350,000 Lloyds Bank (formerly Cheltenham & Gloucester) 11.75% Perp.	759	0.02		
£50,000,000 Lloyds Bank 5.125% 2025	60,654	1.64		
£3,386,000 London & Quadrant Housing Trust 2.625% 2026	3,438	0.09		

Portfolio statement (continued)

as at 30 June Holding	2018 £'000	2018 %	2017 %
'A' credit rated bonds (continued)			
£2,891,000 London & Quadrant Housing Trust 2.625% 2028	2,881	0.08	
£4,807,000 London & Quadrant Housing Trust 3.125% 2053	4,757	0.13	
£5,902,000 London Merchant Securities 6.5% 2026	7,426	0.20	
£3,555,840 Mitchells & Butlers Finance 5.574% 2030	4,063	0.11	
£15,000,000 Munich Re Finance Var. Rate 2042 (6.625%)	17,115	0.46	
£4,500,000 National Grid Electricity Transmission 2.983% IL 2018	7,150	0.19	
£3,000,000 National Grid Electricity Transmission 3.806% IL 2020	5,275	0.14	
£2,857,000 National Westminster Bank FRN 2020	2,862	0.08	
£1,316,205 Newgate Funding FRN 2050	1,275	0.03	
£2,000,000 Northern Powergrid Holdings 7.25% 2022	2,459	0.07	
£3,750,000 Northern Powergrid Yorkshire 4.375% 2032	4,450	0.12	
£6,116,000 Notting Hill Housing Trust 3.25% 2048	6,017	0.16	
£1,339,000 Penarian Housing Finance 3.212% 2052	1,318	0.04	
£5,000,000 Places for People 3.625% 2028	5,072	0.14	
£9,598,000 Places for People 5.875% 2031	11,869	0.32	
£2,600,000 Quadrant Housing Finance Var. Rate 2033 (7.93%)	3,635	0.10	
£1,946,135 RMAC Securities No.1 FRN 2044	1,885	0.05	
£3,324,248 RSL Finance No.1 6.625% 2038	4,578	0.12	
\$1,000,000 Security Capital Group 7.7% 2028	922	0.03	
\$1,000,000 Société Générale Var. Rate Perp. (6%)	735	0.02	
£2,888,000 Society of Lloyds Var. Rate 2047 (4.875%)	3,038	0.08	
£5,000,000 Southern Water Services Finance 5% 2021	5,467	0.15	
£10,000,000 Southern Water Services Finance 6.125% 2019	10,360	0.28	
£16,000,000 Spain (Kingdom of) 5.25% 2029	18,891	0.51	
£6,000,000 SSE 8.375% 2028	9,032	0.24	
£1,526,000 T.H.F.C Funding No 3 5.2% 2043	2,027	0.05	
£2,000,000 UNITE (USAF) II 3.374% 2023	2,134	0.06	
£1,152,000 UNITE (USAF) II 3.921% 2030	1,279	0.03	
£4,066,000 United Utilities Water Finance 2% 2025	4,044	0.11	
£11,000,000 Wales & West Utilities Finance 4.625% 2023	12,518	0.34	
£8,000,000 Wales & West Utilities Finance 5% 2028	9,716	0.26	
£4,500,000 Wales & West Utilities Finance 5.75% 2030	5,892	0.16	
£33,000,000 Wells Fargo 2% 2025	31,750	0.86	
£4,246,000 Wells Fargo 2.125% 2023	4,209	0.11	
£40,000,000 Wells Fargo 5.25% 2023	44,928	1.22	
£3,500,000 Westfield America Management 2.125% 2025	3,450	0.09	
\$1,000,000 Willow No.2 (Ireland) Var. Rate 2045 (4.25%)	706	0.02	
£3,426,000 Yorkshire Power Finance 7.25% 2028	4,825	0.13	
£6,000,000 Yorkshire Water Services Odsal Finance 6.5876% 2023	7,256	0.20	
£5,420,000 Zurich Finance (UK) Var. Rate Perp. (6.625%)	6,087	0.16	

M&G Corporate Bond Fund

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Investments

Portfolio statement (continued)			
as at 30 June Holding	2018 £'000	2018 %	2017 %
'BBB' credit rated bonds	1,722,302	46.60	43.99
£5,000,000 3i Group 5.75% 2032	6,266	0.17	
£4,965,000 Akelius Residential Property 2.375% 2025	4,793	0.13	
£3,666,000 Anglian Water Services Financing 2.625% 2027	3,510	0.10	
£7,000,000 Anglian Water Services Financing 4.5% 2026	7,681	0.21	
£2,972,000 Annington Funding 2.646% 2025	2,959	0.08	
£3,889,000 Annington Funding 3.184% 2029	3,895	0.11	
£3,703,000 Annington Funding 3.685% 2034	3,789	0.10	
£2,812,000 Annington Funding 3.935% 2047	2,911	0.08	
£4,100,000 APT Pipelines 4.25% 2024	4,489	0.12	
£2,207,000 Aroundtown 3% 2029	2,123	0.06	
£6,300,000 AT&T 4.25% 2043	6,626	0.18	
£9,800,000 AT&T 4.375% 2029	10,790	0.29	
\$15,000,000 AT&T 4.5% 2048	9,760	0.26	
£41,120,000 AT&T 4.875% 2044	47,100	1.27	
£3,450,000 AT&T 5.2% 2033	4,100	0.11	
\$3,000,000 AT&T 5.25% 2037	2,255	0.06	
\$10,000,000 AT&T 5.65% 2047	7,663	0.21	
\$2,000,000 AT&T 6.35% 2040	1,661	0.05	
\$750,000 AT&T 6.375% 2041	625	0.02	
£4,100,000 AT&T 7% 2040	5,944	0.16	
£21,100,000 Aviva Var. Rate 2036 (6.125%)	23,533	0.64	
£2,000,000 Aviva Var. Rate 2049 (4.375%)	1,946	0.05	
£11,500,000 Aviva Var. Rate 2058 (6.875%)	13,924	0.38	
£26,500,000 Aviva Var. Rate Perp. (6.125%)	28,868	0.78	
£11,000,000 AXA Var. Rate 2054 (5.625%)	11,749	0.32	
£6,500,000 AXA Var. Rate Perp. (5.453%)	6,827	0.19	
£14,630,000 AXA Var. Rate Perp. (6.6862%)	16,637	0.45	
\$5,000,000 Bank of America 4.183% 2027	3,704	0.10	
\$5,833,000 Bank of America 4.25% 2026	4,374	0.12	
£15,000,000 Bank of America 5.5% 2021	16,632	0.45	
£6,000,000 Barclays 3.125% 2024	6,005	0.16	
£12,077,000 Barclays 3.25% 2033	11,022	0.30	
£3,420,000 Barclays Var. Rate 2023 (2.375%)	3,358	0.09	
£9,654,000 BAT Capital 2.125% 2025	9,357	0.25	
\$8,000,000 BAT Capital 4.39% 2037	5,696	0.15	
\$5,000,000 BAT Capital 4.54% 2047	3,526	0.10	
£10,000,000 BAT International Finance 2.25% 2052	7,549	0.20	
£16,000,000 BAT International Finance 4% 2026	17,392	0.47	
£2,500,000 BAT International Finance 4% 2055	2,725	0.07	
£1,000,000 BAT International Finance 5.75% 2040	1,352	0.04	
£4,500,000 BAT International Finance 6% 2022	5,207	0.14	
£1,000,000 BAT International Finance 6% 2034	1,334	0.04	
\$5,000,000 Bayer US Finance 4.375% 2028	3,796	0.10	
\$5,000,000 Bayer US Finance 4.625% 2038	3,763	0.10	
\$7,500,000 Bayer US Finance 4.875% 2048	5,721	0.16	
\$1,143,000 BNP Paribas 4.375% 2025	845	0.02	
\$15,000,000 BNP Paribas 4.625% 2027	11,144	0.30	
£6,000,000 Bouygues 5.5% 2026	7,217	0.20	
£9,000,000 BPCE 5.25% 2029	10,213	0.28	
£25,000,000 British Telecommunications 3.125% 2031	24,170	0.65	

Portfolio statement (continued)

as at 30 June Holding	2018 £'000	2018 %	2017 %
'BBB' credit rated bonds (continued)			
£6,264,000 British Telecommunications 3.5% IL 2025	12,928	0.35	
£12,500,000 British Telecommunications 3.625% 2047	12,006	0.33	
\$9,931,000 British Telecommunications 9.625% 2030	10,786	0.29	
£2,260,000 Bunzl Finance 2.25% 2025	2,220	0.06	
£13,455,000 Cadent Finance (formerly National Grid) 2.125% 2028	12,723	0.34	
£3,666,000 Channel Link Enterprises Finance 3.848% 2050	3,929	0.11	
£10,000,000 Channel Link Enterprises Finance Var. Rate 2050 (3.043%)	9,920	0.27	
£2,500,000 Cie De St-Gobain 4.625% 2029	2,903	0.08	
\$4,834,000 Citigroup 4.4% 2025	3,653	0.10	
\$17,500,000 Citigroup 4.45% 2027	13,033	0.35	
£5,000,000 Citigroup 4.5% 2031	5,423	0.15	
\$4,985,000 Citigroup 5.5% 2025	4,022	0.11	
£6,000,000 CPUK Finance 7.239% 2042	7,423	0.20	
\$2,500,000 Crédit Agricole 4.125% 2027	1,840	0.05	
\$3,000,000 Crédit Agricole Var. Rate Perp. (4%)	2,076	0.06	
£3,000,000 Credit Suisse Group Funding 2.75% 2025	2,969	0.08	
£9,000,000 Credit Suisse Group Var. Rate 2025 (2.125%)	8,584	0.23	
£2,703,000 CRH Finance (U.K.) 4.125% 2029	3,022	0.08	
\$3,692,000 Deutsche Telekom International Finance 4.875% 2042	2,777	0.08	
£5,111,000 Deutsche Telekom International Finance 7.625% 2030	7,525	0.20	
\$10,000,000 Deutsche Telekom International Finance 8.75% 2030	10,118	0.27	
£13,000,000 Deutsche Telekom International Finance 8.875% 2028	20,069	0.54	
£1,776,000 Digital Stout Holding 2.75% 2024	1,790	0.05	
£3,806,000 Digital Stout Holding 3.3% 2029	3,827	0.10	
£1,500,000 E.ON International Finance 5.875% 2037	2,029	0.06	
£1,000,000 Enel 5.75% 2037	1,241	0.03	
\$2,000,000 Enel Finance International 3.5% 2028	1,359	0.04	
\$24,292,000 Enel Finance International 3.625% 2027	16,865	0.46	
£5,000,000 Enel Finance International 5.625% 2024	5,823	0.16	
£500,000 Enel Var. Rate 2075 (7.75%)	551	0.01	
\$500,000 Energy Transfer Partners 4.9% 2035	345	0.01	
\$1,000,000 Energy Transfer Partners 6.125% 2045	752	0.02	
\$3,572,000 Energy Transfer Partners 6.5% 2042	2,804	0.08	
£3,000,000 ENGIE Var. Rate Perp. (4.625%)	3,024	0.08	
£5,000,000 Eni Finance International 4.75% 2021	5,352	0.14	
£5,000,000 Eni Finance International 6.125% 2018	5,109	0.14	
£132,000 ENW Capital Finance 6.125% 2021	150	0.00	
£1,042,000 FCE Bank 2.625% 2018	1,047	0.03	
£7,116,000 FCE Bank 2.727% 2022	7,269	0.20	
£5,000,000 FCE Bank 2.759% 2019	5,079	0.14	
£5,000,000 FCE Bank 3.25% 2020	5,158	0.14	
\$10,000,000 Ford Motor Credit 4.389% 2026	7,493	0.20	
£6,000,000 G4S 7.75% 2019	6,317	0.17	
£5,500,000 Gatwick Funding 2.625% 2048	4,782	0.13	

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Portfolio statement (continued)			
as at 30 June Holding	2018 £'000	2018 %	2017 %
'BBB' credit rated bonds (continued)			
£17,500,000 Gatwick Funding 3.125% 2041	16,984	0.46	
£7,500,000 Gatwick Funding 3.25% 2048	7,372	0.20	
£16,000,000 Gatwick Funding 5.25% 2024	18,442	0.50	
£16,000,000 Gatwick Funding 6.125% 2028	19,864	0.54	
\$2,500,000 General Motors 5.15% 2038	1,801	0.05	
\$1,000,000 General Motors 6.6% 2036	830	0.02	
\$1,500,000 General Motors Financial 4% 2025	1,110	0.03	
\$2,500,000 General Motors Financial 4% 2026	1,810	0.05	
\$7,000,000 General Motors Financial 4.3% 2025	5,236	0.14	
£3,500,000 Goldman Sachs Group 5.5% 2021	3,863	0.10	
£4,800,000 Goldman Sachs Group 6.875% 2038	6,700	0.18	
£4,200,000 Goldman Sachs Group 7.125% 2025	5,386	0.15	
£2,500,000 Goldman Sachs Group 7.25% 2028	3,392	0.09	
£7,000,000 H.J. Heinz Finance 6.25% 2030	8,698	0.24	
\$955,000 HCA 5% 2024	726	0.02	
\$2,308,000 HCA 5.25% 2025	1,763	0.05	
\$5,000,000 HCA 5.5% 2047	3,477	0.09	
\$1,000,000 HCA 5.875% 2022	792	0.02	
£5,000,000 Heathrow Funding 6% 2020	5,382	0.15	
£2,500,000 Heathrow Funding 7.125% 2024	3,068	0.08	
\$1,163,000 HSBC Holdings 4.375% 2026	867	0.02	
£5,500,000 HSBC Holdings 5.75% 2027	6,505	0.18	
£7,500,000 HSBC Holdings 6% 2040	9,685	0.26	
£11,000,000 HSBC Holdings 6.75% 2028	13,947	0.38	
£4,000,000 HSBC Holdings 7% 2038	5,663	0.15	
£3,500,000 Iberdrola Finanzas 7.375% 2024	4,447	0.12	
£6,750,000 Imperial Brands Finance (formerly Imperial Tobacco) 4.875% 2032	7,789	0.21	
£19,500,000 Imperial Brands Finance (formerly Imperial Tobacco) 5.5% 2026	22,994	0.62	
£23,000,000 Imperial Brands Finance (formerly Imperial Tobacco) 8.125% 2024	29,605	0.80	
£6,750,000 Imperial Brands Finance (formerly Imperial Tobacco) 9% 2022	8,400	0.23	
£8,000,000 InterContinental Hotels 2.125% 2026	7,576	0.20	
£915,000 Italy (Republic of) 5.25% 2034	1,047	0.03	
£35,000,000 Italy (Republic of) 6% 2028	41,606	1.13	
\$5,000,000 JPMorgan Chase 3.625% 2027	3,569	0.10	
\$15,000,000 JPMorgan Chase 3.875% 2024	11,274	0.31	
\$4,000,000 JPMorgan Chase 4.125% 2026	2,996	0.08	
\$7,500,000 JPMorgan Chase 4.25% 2027	5,641	0.15	
\$3,500,000 Kinder Morgan 5.05% 2046	2,500	0.07	
\$6,000,000 Kinder Morgan Energy Partners 6.95% 2038	5,199	0.14	
£12,500,000 KPN 5% 2026	14,418	0.39	
£11,250,000 KPN 5.75% 2029	13,868	0.38	
\$7,000,000 KPN 8.375% 2030	7,002	0.19	
£10,000,000 Kraft Heinz Foods 4.125% 2027	10,766	0.29	
£10,000,000 LafargeHolcim Sterling Finance (Netherlands) 3% 2032	9,470	0.26	
£25,000,000 Legal & General Group 5.375% 2045	26,877	0.73	
\$5,000,000 Legal & General Group Var. Rate 2047 (5.25%)	3,562	0.10	
£18,000,000 Legal & General Group Var. Rate 2064 (5.5%)	18,568	0.50	

Portfolio statement (continued)

as at 30 June Holding	2018 £'000	2018 %	2017 %
'BBB' credit rated bonds (continued)			
£10,000,000 Lloyds Bank 7.625% 2025	12,849	0.35	
£5,500,000 Lloyds Bank 9.625% 2023	7,129	0.19	
£10,000,000 Lloyds Bank Var. Rate 2025 (5.75%)	10,652	0.29	
£1,750,000 Longstone Finance 4.896% 2036	1,978	0.05	
£885,000 Marston's Issuer Var. Rate 2027 (5.1576%)	881	0.02	
£2,000,000 Marston's Issuer Var. Rate 2032 (5.1774%)	2,194	0.06	
£2,625,000 McDonald's 5.875% 2032	3,469	0.09	
\$1,250,000 McDonald's 6.3% 2037	1,161	0.03	
\$2,000,000 McDonald's 6.3% 2038	1,819	0.05	
£5,000,000 McKesson 3.125% 2029	4,963	0.13	
£18,000,000 Mexico (United Mexican States) 5.625% 2114	18,252	0.49	
£631,399 Mitchells & Butlers Finance 5.965% 2025	690	0.02	
£1,263,798 Mitchells & Butlers Finance 6.013% 2030	1,461	0.04	
£3,000,000 Mitchells & Butlers Finance FRN 2033	2,567	0.07	
£1,000,000 Mondelēz International 3.875% 2045	1,029	0.03	
£1,750,000 Mondelēz International 4.5% 2035	1,927	0.05	
\$3,000,000 Monsanto 4.7% 2064	1,994	0.05	
£15,000,000 Morgan Stanley 2.625% 2027	14,774	0.40	
\$7,500,000 Morgan Stanley 3.95% 2027	5,439	0.15	
\$1,000,000 Morgan Stanley 4.1% 2023	763	0.02	
\$8,500,000 Morgan Stanley 4.35% 2026	6,382	0.17	
\$1,141,000 Nationwide Building Society 4% 2026	812	0.02	
£12,500,000 Next 3.625% 2028	12,533	0.34	
£10,500,000 Next 4.375% 2026	11,266	0.30	
£11,250,000 NGG Finance Var. Rate 2073 (5.625%)	12,252	0.33	
£5,000,000 NIE Finance 6.375% 2026	6,425	0.17	
£2,000,000 Northern Gas Networks 5.875% 2019	2,090	0.06	
£7,000,000 Northumbrian Water 6.875% 2023	8,507	0.23	
£12,175,000 Orange 5.625% 2034	15,811	0.43	
£19,250,000 Orange 8.125% 2028	28,415	0.77	
\$10,000,000 Orange 8.5% 2031	10,481	0.28	
€7,500,000 Orange Var. Rate Perp. (5%)	7,209	0.20	
£6,500,000 Orange Var. Rate Perp. (5.75%)	7,003	0.19	
£1,500,000 Orange Var. Rate Perp. (5.875%)	1,617	0.04	
\$2,800,000 Rabobank 4% 2029	2,055	0.06	
£3,167,000 Rabobank 4.625% 2029	3,521	0.10	
£833,000 Rabobank 5.25% 2027	959	0.03	
£2,600,000 RELX Investments 2.75% 2019	2,630	0.07	
\$1,000,000 Reynolds American 6.15% 2043	860	0.02	
€3,422,000 Royal Bank of Scotland 2.5% 2023	3,188	0.09	
\$7,723,000 Royal Bank of Scotland FRN 2029	5,838	0.16	
£7,500,000 Royal Bank of Scotland Var. Rate 2026 (2.875%)	7,403	0.20	
£1,000,000 Severn Trent 1.3% IL 2022	1,232	0.03	
£4,160,000 Severn Trent Utilities Finance 2.75% 2031	4,096	0.11	
£6,000,000 Severn Trent Utilities Finance 3.625% 2026	6,432	0.17	
£1,250,000 Severn Trent Utilities Finance 6.125% 2024	1,508	0.04	
£10,000,000 Severn Trent Utilities Finance 6.25% 2029	13,269	0.36	

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Portfolio statement (continued)				
as at 30 June	2018	2018	2017	
Holding	£'000	%	%	
'BBB' credit rated bonds (continued)				
\$3,000,000 Société Générale 4% 2027	2,190	0.06		
\$2,500,000 Société Générale 5% 2024	1,913	0.05		
£3,000,000 South East Water Finance 5.6577% 2019	3,148	0.09		
£6,176,000 South Eastern Power Networks 5.5% 2026	7,454	0.20		
£8,100,000 South Eastern Power Networks 6.375% 2031	11,172	0.30		
£2,533,000 Southern Gas Networks 3.1% 2036	2,538	0.07		
£5,000,000 Southern Gas Networks 4.875% 2023	5,720	0.15		
£10,000,000 Southern Gas Networks 5.125% 2018	10,130	0.27		
£2,000,000 Student Finance 2.6663% 2024	1,988	0.05		
\$5,000,000 Telefónica (Europe) 8.25% 2030	4,934	0.13		
£6,500,000 Telefónica Emisiones 5.289% 2022	7,402	0.20		
£6,500,000 Telefónica Emisiones 5.375% 2026	7,590	0.21		
£11,500,000 Telefónica Emisiones 5.597% 2020	12,262	0.33		
\$8,000,000 Telefónica Emisiones 7.045% 2036	7,344	0.20		
£216,670 Telereal Securitisation 6.1645% 2033	267	0.01		
£5,000,000 Thames Water Utilities Cayman 1.875% 2024	4,868	0.13		
£1,967,000 Thames Water Utilities Cayman 2.375% 2023	1,922	0.05		
£3,543,000 Thames Water Utilities Cayman 2.875% 2027	3,420	0.09		
£1,485,000 Thames Water Utilities Cayman 3.5% 2028	1,574	0.04		
£7,000,000 Thames Water Utilities Cayman 4% 2025	7,688	0.21		
£10,000,000 Thames Water Utilities Cayman 4.375% 2034	11,486	0.31		
£6,500,000 Thames Water Utilities Cayman Var. Rate 2030 (5.75%)	7,254	0.20		
£3,727,000 Thames Water Utilities Finance 3.375% IL 2021	6,642	0.18		
£3,590,000 Thames Water Utilities Finance 5.125% 2037	4,508	0.12		
£12,500,000 Thames Water Utilities Finance 6.75% 2028	16,939	0.46		
£17,550,000 Time Warner Cable 5.25% 2042	19,146	0.52		
£4,950,000 Time Warner Cable 5.75% 2031	5,618	0.15		
\$4,000,000 United Business Media 5.75% 2020	3,105	0.08		
£3,813,000 Vector Group 7.625% 2019	3,898	0.11		
£4,000,000 Verizon Communications 3.125% 2035	3,812	0.10		
£10,000,000 Verizon Communications 3.375% 2036	9,766	0.26		
\$13,870,000 Verizon Communications 4.272% 2036	9,673	0.26		
\$14,000,000 Verizon Communications 4.4% 2034	10,013	0.27		
\$7,784,000 Verizon Communications 4.522% 2048	5,389	0.15		
\$35,000,000 Verizon Communications 4.672% 2022	23,536	0.64		
\$9,000,000 Verizon Communications 5.012% 2049	6,636	0.18		
\$43,000,000 Verizon Communications 5.012% 2054	30,594	0.83		
\$11,000,000 Verizon Communications 5.25% 2037	8,540	0.23		
£40,000,000 Vodafone Group 3% 2056	34,410	0.93		
£12,500,000 Vodafone Group 3.375% 2049	11,626	0.31		
\$5,000,000 Vodafone Group 5% 2038	3,749	0.10		
\$8,889,000 Vodafone Group 5.25% 2048	6,708	0.18		
£532,000 Wales & West Utilities Finance Var. Rate 2036 (6.75%)	544	0.01		

Portfolio statement (continued)

as at 30 June	2018	2018	2017
Holding	£'000	%	%
'BBB' credit rated bonds (continued)			
£5,000,000 Walgreens Boots Alliance 3.6% 2025	5,204	0.14	
\$2,394,000 Wells Fargo 4.1% 2026	1,775	0.05	
£5,500,000 Wells Fargo 4.875% 2035	6,315	0.17	
£7,500,000 Welltower 4.5% 2034	8,426	0.23	
£2,198,000 Welltower 4.8% 2028	2,503	0.07	
'BB' credit rated bonds			
	137,828	3.73	3.34
£307,774 Coventry & Rugby Hospital 3.246% IL 2040	603	0.02	
\$1,000,000 Crédit Agricole Var. Rate Perp. (7.875%)	776	0.02	
£2,050,000 Daily Mail & General Trust 6.375% 2027	2,358	0.06	
£5,647,561 Delamare Finance 5.5457% 2029	6,321	0.17	
£8,920,000 Delamare Finance 6.067% 2029	10,185	0.27	
£2,000,000 Ei Group 6.375% 2031	2,200	0.06	
£5,000,000 Ei Group 6.875% 2025	5,459	0.15	
£1,250,000 KPN Var. Rate 2073 (6.875%)	1,319	0.04	
£3,000,000 Lloyds Banking Group Var. Rate Perp. (7.625%)	3,279	0.09	
£3,367,000 Lloyds Banking Group Var. Rate Perp. (7.875%)	3,903	0.11	
£4,000,000 Nationwide Building Society Var. Rate Perp. (6.875%)	4,086	0.11	
£3,000,000 Petrobras Global Finance 5.375% 2029	2,696	0.07	
£814,000 Petrobras Global Finance 6.25% 2026	819	0.02	
£3,000,000 Petrobras Global Finance 6.625% 2034	2,903	0.08	
£72,368 Road Management Consolidated 9.18% 2021	81	0.00	
\$3,300,000 Royal Bank of Scotland 6% 2023	2,622	0.07	
\$7,059,000 Royal Bank of Scotland 6.1% 2023	5,647	0.15	
\$7,000,000 Royal Bank of Scotland 6.125% 2022	5,596	0.15	
\$750,000 Société Générale Var. Rate Perp. (7.875%)	584	0.02	
£13,000,000 Telecom Italia 5.875% 2023	14,317	0.39	
£27,587,777 Tesco Property Finance 3 5.744% 2040	32,061	0.87	
£9,797,782 Tesco Property Finance 4 5.8006% 2040	11,502	0.31	
£9,849,332 Tesco Property Finance 5 5.6611% 2041	11,386	0.31	
\$5,000,000 UBS Group Funding (Switzerland) Var. Rate Perp. (5%)	3,334	0.09	
€2,000,000 Unitymedia 3.5% 2027	1,849	0.05	
€1,000,000 Unitymedia 4% 2025	926	0.02	
£1,000,000 Virgin Media Secured Finance 5.125% 2025	1,016	0.03	
'B' credit rated bonds			
	0	0.00	0.04
Bonds with no credit rating			
	280,059	7.58	12.63
€1,822,000 Assicurazioni Generali Var. Rate 2047 (5.5%)	1,709	0.05	
£10,050,000 Assicurazioni Generali Var. Rate Perp. (6.269%)	10,122	0.27	
£3,721,056 Brass No. 6 FRN 2060	3,720	0.10	
£902,000 British Land 5.264% 2035	1,142	0.03	
£1,308,000 British Land 5.264% 2035	1,667	0.05	
£3,000,000 BUPA Finance 5% 2026	3,236	0.09	
£3,993,000 Charter Mortgage Funding FRN 2025	3,988	0.11	
£3,412,000 Coventry Building Society 1.875% 2023	3,365	0.09	

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Portfolio statement (continued)				
as at 30 June	2018	2018	2017	
Holding	£'000	%	%	
Bonds with no credit rating (continued)				
£1,588,000 Coventry Building Society FRN 2020	1,592	0.04		
£1,944,752 Duncan Funding FRN 2063	1,953	0.05		
£4,152,000 Eversholt Funding 3.529% 2042	4,088	0.11		
£10,000,000 Eversholt Funding 6.359% 2025	12,323	0.33		
£3,645,008 Feldspar 2016-1 FRN 2045	3,664	0.10		
£2,685,493 Finsbury Square Mortgage FRN 2059+	2,689	0.07		
£2,082,439 Finsbury Square Mortgage FRN 2065	2,087	0.06		
£3,277,647 Fintrust Debenture 9.25% 2023	4,150	0.11		
£63,912 Gemgarto 2015-1 FRN 2047	64	0.00		
£10,000,000 GESB 8.35% 2018	10,199	0.28		
£1,869,061 Gosforth Funding FRN 2058	1,872	0.05		
£7,423,000 Gosforth Funding FRN 2059	7,443	0.20		
£4,000,000 Grand Union 4.625% 2043	5,063	0.14		
£1,764,959 Greater Gabbard Ofco 4.137% 2032	1,995	0.05		
£7,800,000 Grosvenor UK Finance 6.5% 2026	10,077	0.27		
£721,000 Guardian Royal Exchange 6.625% 2023	873	0.02		
£12,000,000 Hammerson 6% 2026	14,428	0.39		
£6,500,000 Hammerson 7.25% 2028	8,714	0.24		
£920,000 Hastings Group Finance 3% 2025	919	0.03		
£1,000,000 Heathrow Finance 5.75% 2025	1,080	0.03		
£4,022,418 Highbury Finance 7.017% 2023	4,674	0.13		
£7,265,133 Housing Securities 8.375% 2019	7,515	0.20		
£199,972 INTU Debenture 5.562% 2027	228	0.01		
£2,500,000 John Lewis 4.25% 2034	2,496	0.07		
£6,000,000 John Lewis 6.125% 2025	6,971	0.19		
£985,420 Kenrick FRN 2049	986	0.03		
£3,000,000 LAB Investments 7.125% 2019	3,100	0.08		
£2,996,583 LaSer ABS FRN 2030	3,003	0.08		
£2,333,000 Leeds Building Society Var. Rate 2029 (3.75%)	2,252	0.06		
£3,478,000 Midland Heart Capital 5.087% 2044	4,671	0.13		
£7,477,000 Moat Homes Finance 5% 2041	9,678	0.26		
£2,282,000 National Express 2.5% 2023	2,265	0.06		
£2,500,000 National Express 6.625% 2020	2,730	0.07		
£2,950,000 Old Mutual 8% 2021	3,249	0.09		
£7,071,000 Orbit Capital 3.375% 2048	7,160	0.19		
£4,984,000 Orbit Group 3.5% 2045	5,194	0.14		
£483,424 Orbita Funding FRN 2023	484	0.01		
£1,143,224 Paragon Mortgages FRN 2042	1,145	0.03		
£2,859,000 PCL Funding FRN 2023	2,868	0.08		
£9,300,000 Peel South East 10% 2026	13,081	0.35		
£2,500,000 Principality Building Society 2.375% 2023	2,466	0.07		
£391,473 Road Management Services 3.642% IL 2028	699	0.02		
£15,000,000 Segro 5.625% 2020	16,421	0.44		
£4,750,000 South West Water Finance 5.875% 2040	6,903	0.19		
£10,000,000 Suez (formerly Suez Environnement) 5.375% 2030	12,824	0.35		
£1,747,987 Summit Finance (Law) 6.484% 2028	2,024	0.06		
£422,826 THFC Social Housing 8.75% 2021	510	0.01		
£3,115,924 THRONES 2013-1 FRN 2044	3,117	0.08		
£2,491,150 Together Asset Backed Securitisation FRN 2049	2,502	0.07		

Portfolio statement (continued)

as at 30 June	2018	2018	2017
Holding	£'000	%	%
Bonds with no credit rating (continued)			
£2,500,000 Virgin Money Holdings (UK) Var. Rate 2024 (4.75%)	2,505	0.07	
£250,000 Washington Mutual Bank 5.5% 2019 ^[a]	0	0.00	
£2,000,000 Westfield Stratford FRN 2024	1,999	0.05	
£1,900,000 Witan Investment Trust 6.125% 2025	2,338	0.06	
£2,600,000 Wm Morrison Supermarkets 3.5% 2026	2,759	0.08	
£5,000,000 Wm Morrison Supermarkets 4.625% 2023	5,623	0.15	
£7,000,000 Wm Morrison Supermarkets 4.75% 2029	8,088	0.22	
£1,250,000 Yorkshire Building Society 3.5% 2026	1,309	0.04	
Debt derivatives	(2,646)	(0.07)	(0.04)
Credit default swaps	(15)	0.00	(0.01)
€10,000,000 Markit iTraxx Europe Series 27 10 Year Jun 2027	(15)	0.00	
Interest rate futures	(2,813)	(0.08)	0.02
(187) Euro Bund Sep 2018	(60)	0.00	
(1,838) US Ultra Bond CBT Sep 18	(2,753)	(0.08)	
Interest rates swaps	182	0.01	(0.05)
£10,000,000 Pay 1.5425% Receive VAR Mar 2047	182	0.01	
CURRENCY	(13,233)	(0.36)	0.10
Forward currency contracts	(13,233)	(0.36)	0.10
€2,356,031 Bought for £2,074,272 (expires 25.07.18)	14	0.00	
€(16,904,477) Sold for £14,870,879 (expires 25.07.18)	(114)	0.00	
€(19,191,147) Sold for £16,767,190 (expires 22.08.18)	(260)	(0.01)	
€(10,516,799) Sold for £9,278,951 (expires 19.09.18)	(60)	0.00	
\$3,568,099 Bought for £2,690,489 (expires 25.07.18)	22	0.00	
\$(253,930,388) Sold for £183,892,900 (expires 25.07.18)	(9,174)	(0.25)	
\$(193,000,117) Sold for £144,861,842 (expires 22.08.18)	(1,700)	(0.05)	
\$(193,000,117) Sold for £174,663,165 (expires 19.09.18)	(1,961)	(0.05)	
Portfolio of investments	3,550,935	96.07	97.19
CASH EQUIVALENTS	79,060	2.14	2.13
'AAA' rated money market funds ^[b]	79,060	2.14	
79,060,000 Northern Trust Global Fund - Sterling	79,060	2.14	
Total portfolio (notes 2c & 2d on page 7)	3,629,995	98.21	99.32
Net other assets / (liabilities)	66,148	1.79	0.68
Net assets attributable to shareholders	3,696,143	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 show the performance for two of the fund's share classes – Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

We show performance for these two share classes because:

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

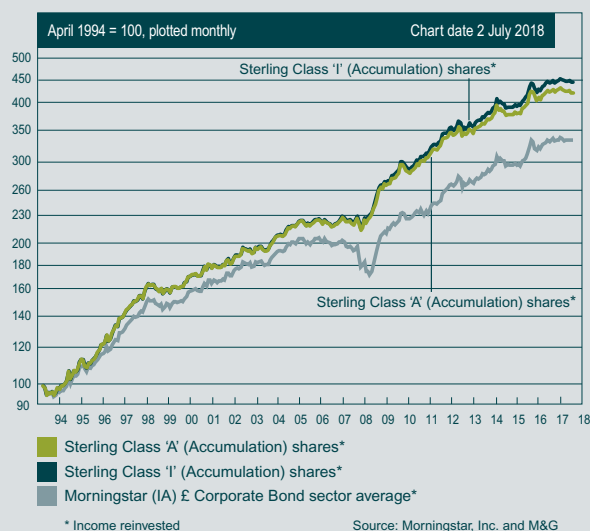
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 30 June	2018 £'000	2017 £'000	2016 £'000
Fund net asset value (NAV)	3,696,143	4,127,165	4,490,189

Performance since launch

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



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 03.07.17 % [a]	Three years 02.07.15 % p.a.	Five years 02.07.13 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	-0.9	-3.2	+3.9	+4.0 [c]
Class 'C'	-0.2	-2.5	+4.7	+4.5 [c]
Sterling [d]				
Class 'A'	+0.0	+4.1	+4.4	+6.1 [e]
Class 'I'	+0.5	+4.5	+4.8	+6.6 [f]
Class 'R'	+0.3	+4.3	+4.6	+4.3 [g]
Class 'X'	+0.0	+4.0	+4.2	+6.0 [h]

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

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

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

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

M&G Corporate Bond Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

as at 30 June	2018	2017	2016	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.72	0.70	0.85	0.76

^[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 Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,869.07	1,884.71	2,052.07
Return before operating charges and after direct portfolio transaction costs	4.65	10.91	(139.21)
Operating charges	(26.30)	(26.55)	(28.15)
Return after operating charges	(21.65)	(15.64)	(167.36)
Distributions	(41.42)	(45.87)	(54.91)
Retained distributions	41.42	45.87	54.91
Closing NAV	1,847.42	1,869.07	1,884.71
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.02	0.02	0.03
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.02	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.41	1.41	1.41
Return after operating charges	-1.16	-0.83	-8.16
Distribution yield	2.19	2.27	2.61
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	14,337	19,148	28,653
Closing NAV percentage of total fund NAV (%)	0.39	0.46	0.64
Number of shares	875,979	1,165,891	1,839,784
Highest share price (Euro ¢)	1,916.24	1,973.09	2,130.28
Lowest share price (Euro ¢)	1,795.84	1,770.31	1,862.69

Euro Class 'C' Accumulation share performance

The share class was launched on 29 November 2002.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,985.70	1,987.37	2,147.91
Return before operating charges and after direct portfolio transaction costs	4.89	11.47	(146.90)
Operating charges	(13.13)	(13.14)	(13.64)
Return after operating charges	(8.24)	(1.67)	(160.54)
Distributions	(59.15)	(63.47)	(72.75)
Retained distributions	59.15	63.47	72.75
Closing NAV	1,977.46	1,985.70	1,987.37
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.02	0.02	0.04
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.02	0.04
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.66	0.66	0.66
Return after operating charges	-0.41	-0.08	-7.47
Distribution yield	2.94	3.02	3.36
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	3,234	3,021	3,551
Closing NAV percentage of total fund NAV (%)	0.09	0.07	0.08
Number of shares	184,614	173,121	216,258
Highest share price (Euro ¢)	2,044.58	2,083.25	2,236.12
Lowest share price (Euro ¢)	1,910.26	1,871.36	1,959.09

Sterling Class 'A' Income share performance

The share class was launched on 15 April 1994.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	41.21	40.50	39.05
Return before operating charges and after direct portfolio transaction costs	0.45	2.79	3.13
Operating charges	(0.48)	(0.48)	(0.46)
Return after operating charges	(0.03)	2.31	2.67
Distributions	(1.48)	(1.60)	(1.22)
Closing NAV	39.70	41.21	40.50
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.16	1.16	1.16
Return after operating charges	-0.07	+5.70	+6.84
Distribution yield ^[c]	3.59	3.67	2.86
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (£'000)	224,543	302,208	348,247
Closing NAV percentage of total fund NAV (%)	6.08	7.32	7.76
Number of shares	565,571,858	733,359,260	859,822,404
Highest share price (UK p)	41.95	43.16	40.74
Lowest share price (UK p)	39.95	40.42	38.64

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 Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	69.24	65.67	61.78
Return before operating charges and after direct portfolio transaction costs	0.74	4.54	5.01
Operating charges	(0.81)	(0.79)	(0.73)
Return after operating charges	(0.07)	3.75	4.28
Distributions	(1.72)	(1.84)	(1.95)
Retained distributions	1.72	1.66	1.56
Closing NAV	69.17	69.24	65.67

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	1.16	1.16	1.16
Return after operating charges	-0.10	+5.71	+6.93
Distribution yield	2.44	2.52	2.86
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (£'000)	367,913	459,881	508,135
Closing NAV percentage of total fund NAV (%)	9.95	11.14	11.32
Number of shares	531,917,115	664,216,712	773,805,749
Highest share price (UK p)	70.75	70.07	65.67
Lowest share price (UK p)	68.85	66.07	61.38

Sterling Class 'I' Income share performance

The share class was launched on 2 July 2007.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	41.44	40.52	39.07
Return before operating charges and after direct portfolio transaction costs	0.44	2.80	3.13
Operating charges	(0.27)	(0.27)	(0.26)
Return after operating charges	0.17	2.53	2.87
Distributions	(1.49)	(1.61)	(1.42)
Closing NAV	40.12	41.44	40.52

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

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.66	0.66	0.66
Return after operating charges	+0.41	+6.24	+7.35
Distribution yield ^[c]	3.59	3.68	3.36
Effect on yield of charges offset against capital	0.65	0.65	0.00

Other information

Closing NAV (£'000)	2,073,188	2,235,091	2,429,683
Closing NAV percentage of total fund NAV (%)	56.09	54.16	54.11
Number of shares	5,167,353,603	5,394,151,045	5,996,199,649
Highest share price (UK p)	42.22	43.22	40.80
Lowest share price (UK p)	40.36	40.51	38.67

Sterling Class 'I' Accumulation share performance

The share class was launched on 2 July 2007.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	72.12	68.09	63.81
Return before operating charges and after direct portfolio transaction costs	0.76	4.73	5.18
Operating charges	(0.48)	(0.47)	(0.43)
Return after operating charges	0.28	4.26	4.75
Distributions	(2.16)	(2.27)	(2.34)
Retained distributions	2.16	2.04	1.87
Closing NAV	72.40	72.12	68.09

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

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.66	0.66	0.66
Return after operating charges	+0.39	+6.26	+7.44
Distribution yield	2.94	3.02	3.36
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (£'000)	573,803	618,336	654,547
Closing NAV percentage of total fund NAV (%)	15.52	14.98	14.58
Number of shares	792,512,099	857,427,451	961,297,408
Highest share price (UK p)	73.89	72.98	68.09
Lowest share price (UK p)	71.87	68.62	63.39

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	110.46	108.29	104.41
Return before operating charges and after direct portfolio transaction costs	1.20	7.47	8.36
Operating charges	(1.00)	(1.01)	(0.96)
Return after operating charges	0.20	6.46	7.40
Distributions	(3.97)	(4.29)	(3.52)
Closing NAV	106.69	110.46	108.29

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

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.91	0.91	0.91
Return after operating charges	+0.18	+5.97	+7.09
Distribution yield ^[c]	3.59	3.68	3.11
Effect on yield of charges offset against capital	0.90	0.90	0.00

Other information

Closing NAV (£'000)	9,318	4,014	4,171
Closing NAV percentage of total fund NAV (%)	0.25	0.10	0.09
Number of shares	8,733,707	3,633,768	3,851,873
Highest share price (UK p)	112.50	115.46	108.98
Lowest share price (UK p)	107.33	108.16	103.33

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Financial highlights

Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	127.78	120.92	113.54
Return before operating charges and after direct portfolio transaction costs	1.36	8.38	9.22
Operating charges	(1.17)	(1.14)	(1.06)
Return after operating charges	0.19	7.24	8.16
Distributions	(3.50)	(3.72)	(3.88)
Retained distributions	3.50	3.34	3.10
Closing NAV	127.97	127.78	120.92
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.91	0.91	0.91
Return after operating charges	+0.15	+5.99	+7.19
Distribution yield	2.69	2.77	3.11
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	15,318	1,913	6,220
Closing NAV percentage of total fund NAV (%)	0.41	0.05	0.14
Number of shares	11,969,919	1,496,999	5,143,782
Highest share price (UK p)	130.75	129.31	120.92
Lowest share price (UK p)	127.27	121.77	112.80

Sterling Class 'X' Income share performance

The share class was launched on 15 April 1994.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	41.17	40.51	39.06
Return before operating charges and after direct portfolio transaction costs	0.45	2.79	3.13
Operating charges	(0.47)	(0.53)	(0.56)
Return after operating charges	(0.02)	2.26	2.57
Distributions	(1.48)	(1.60)	(1.12)
Closing NAV	39.67	41.17	40.51
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.16	1.28*	1.41
Return after operating charges	-0.05	+5.58	+6.58
Distribution yield ^[c]	3.59	3.67	2.61
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (£'000)	394,950	457,161	479,592
Closing NAV percentage of total fund NAV (%)	10.69	11.08	10.68
Number of shares	995,698,514	1,110,390,963	1,183,823,837
Highest share price (UK p)	41.91	43.16	40.73
Lowest share price (UK p)	39.91	40.38	38.64

* As the annual management charge has been discounted during the period, 1.16% is a more reliable estimate of the operating charges for the period to 30.06.17.

Sterling Class 'X' Accumulation share performance

The share class was launched on 15 April 1994.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	67.20	63.79	60.14
Return before operating charges and after direct portfolio transaction costs	0.71	4.42	4.86
Operating charges	(0.78)	(0.85)	(0.86)
Return after operating charges	(0.07)	3.57	4.00
Distributions	(1.67)	(1.71)	(1.74)
Retained distributions	1.67	1.55	1.39
Closing NAV	67.13	67.20	63.79
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	1.16	1.28*	1.41
Return after operating charges	-0.10	+5.60	+6.65
Distribution yield	2.44	2.29	2.61
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	19,539	26,392	27,390
Closing NAV percentage of total fund NAV (%)	0.53	0.64	0.60
Number of shares	29,105,020	39,274,822	42,936,027
Highest share price (UK p)	68.67	68.01	63.79
Lowest share price (UK p)	66.83	64.14	59.75

* As the annual management charge has been discounted during the period, 1.16% is a more reliable estimate of the operating charges for the period to 30.06.17.

^[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	2018		2017	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		(98,239)		128,029
Revenue	5	143,534		170,375	
Expenses	6	(31,808)		(36,525)	
Net revenue / (expense) before taxation		111,726		133,850	
Taxation	7	(359)		(1)	
Net revenue / (expense) after taxation			111,367		133,849
Total return before distributions			13,128		261,878
Distributions	8		(133,469)		(159,417)
Change in net assets attributable to shareholders from investment activities			(120,341)		102,461

Statement of change in net assets attributable to shareholders				
	2018		2017	
for the year to 30 June	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		4,127,165		4,490,189
Amounts received on issue of shares	182,544		360,567	
Amounts paid on cancellation of shares	<u>(523,734)</u>		<u>(861,227)</u>	
		(341,190)		(500,660)
Dilution adjustments		1,384		3,981
Change in net assets attributable to shareholders from investment activities (see above)		(120,341)		102,461
Retained distributions on Accumulation shares		29,098		31,160
Unclaimed distributions		27		34
Closing net assets attributable to shareholders		3,696,143		4,127,165

Balance sheet			
as at 30 June	Note	2018	2017
		£'000	£'000
Assets			
Fixed assets			
Investments		3,567,032	4,014,654
Current assets			
Debtors	9	84,904	72,576
Cash and bank balances	10	28,564	9,730
Cash equivalents		79,060	87,873
Total assets		3,759,560	4,184,833
Liabilities			
Investment liabilities		(16,097)	(3,269)
Creditors			
Overdrawn positions at futures clearing houses and collateral manager		(44)	(520)
Distribution payable		(25,462)	(29,033)
Other creditors	11	(21,814)	(24,846)
Total liabilities		(63,417)	(57,668)
Net assets attributable to shareholders		3,696,143	4,127,165

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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

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

3 Net capital gains / (losses)

for the year to 30 June	2018	2017
	£'000	£'000
Non-derivative securities	(109,184)	131,223
Derivative contracts	3,113	5,162
Currency gains / (losses)	7,845	(8,336)
Transaction charges	(13)	(20)
Net capital gains / (losses)	(98,239)	128,029

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 21.

for the year to 30 June	2018	2017
	£'000	£'000
a) Purchases		
Debt securities ^[a]	718,354	1,268,647
Total purchases	718,354	1,268,647
b) Sales		
Debt securities ^[a]	922,586	1,653,560
Other transaction types		
Corporate actions	120,414	115,618
Total sales	1,043,000	1,769,178

c) Direct portfolio transaction costs	£'000	£'000
There were no direct portfolio transaction costs		
d) Indirect portfolio transaction costs	%	%
Portfolio dealing spread ^[b]	0.72	0.70

^[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	2018	2017
	£'000	£'000
Bank interest	32	44
Derivative revenue	(1,559)	(4,541)
Interest distributions	380	212
Interest on debt securities	144,681	174,660
Total revenue	143,534	170,375

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6 Expenses

for the year to 30 June	2018 £'000	2017 £'000
Payable to the ACD or associate		
Annual management charge	25,540	29,530
Administration charge	5,928	6,627
	31,468	36,157
Payable to the Depositary or associate		
Depositary's charge (including VAT)	142	157
Other expenses		
Audit fee (including VAT)	11	10
Interest payable	21	12
Safe custody charge	166	189
	198	211
Total expenses	31,808	36,525

7 Taxation

for the year to 30 June	2018 £'000	2017 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	355	1
Prior year adjustment	4	0
Deferred tax (note 7c)	0	0
Total taxation	359	1
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	111,726	133,850
Corporation tax at 20%	22,345	26,770
Effects of:		
Interest distributions	(22,345)	(26,770)
Withholding tax	355	1
Prior year adjustment	4	0
Total tax charge (note 7a)	359	1
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	0	0

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

Interest distributions have been made in respect of all distributions during the current and preceding periods. Income tax at 20% was accounted for on shareholders' behalf to HM Revenue & Customs up to 31 December 2016.

8 Distributions

	2018		2017	
for the year to 30 June	Inc ^[a] £'000	Acc ^[b] £'000	Inc ^[a] £'000	Acc ^[b] £'000
Interest distributions				
First interim	26,308	7,614	25,591	7,355
Second interim	26,098	7,410	25,012	7,263
Third interim	24,966	7,019	28,698	8,260
Final	25,462	7,055	29,037	8,282
Total net distributions		131,932		139,498
Income tax deducted at source		0		16,716
Interest distributions		131,932		156,214
Income deducted on cancellation of shares		2,297		4,147
Income received on issue of shares		(760)		(944)
Distributions		133,469		159,417
Net revenue / (expense) per statement of total return		111,367		133,849
Expenses offset against capital		22,104		25,550
Undistributed income brought forward		4		22
Undistributed income carried forward		(6)		(4)
Distributions		133,469		159,417

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

9 Debtors

as at 30 June	2018 £'000	2017 £'000
Amounts receivable on issues of shares	34	2,221
Debt security interest receivable	56,953	65,327
Derivative revenue receivable	2	5
Distributions receivable	31	15
Sales awaiting settlement	27,857	5,008
Withholding tax recoverable	27	0
Total debtors	84,904	72,576

10 Cash and bank balances

as at 30 June	2018 £'000	2017 £'000
Amounts held at futures clearing houses and collateral manager	7,582	6,229
Cash held as bank balances	20,982	3,501
Total cash and bank balances	28,564	9,730

11 Other creditors

as at 30 June	2018 £'000	2017 £'000
ACD's annual management charge payable	724	832
Administration charge payable	170	191
Amounts payable on cancellation of shares	8,455	5,692
Derivative expense payable	138	206
Expenses payable	43	63
Purchases awaiting settlement	12,284	17,862
Total other creditors	21,814	24,846

12 Contingent assets, liabilities and outstanding commitments

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

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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 01.07.17	Movements		Closing 30.06.18
		Issued	Cancelled	
Euro				
Class 'A' Accumulation	1,165,891	43,463	(333,375)	875,979
Class 'C' Accumulation	173,121	154,086	(142,593)	184,614
Sterling				
Class 'A' Income	733,359,260	14,549,106	(182,336,508)	565,571,858
Class 'A' Accumulation	664,216,712	6,267,629	(138,567,226)	531,917,115
Class 'I' Income	5,394,151,045	235,818,543	(462,615,985)	5,167,353,603
Class 'I' Accumulation	857,427,451	59,098,067	(124,013,419)	792,512,099
Class 'R' Income	3,633,768	5,629,940	(530,001)	8,733,707
Class 'R' Accumulation	1,496,999	10,937,186	(464,266)	11,969,919
Class 'X' Income	1,110,390,963	18,564,969	(133,257,418)	995,698,514
Class 'X' Accumulation	39,274,822	2,054,792	(12,224,594)	29,105,020

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %
Euro			
Class 'A'	3.25	n/a	1.25
Class 'C'	1.25	n/a	0.50
Sterling			
Class 'A'	nil	n/a	1.00
Class 'I'	nil	n/a	0.50
Class 'R'	nil	n/a	0.75
Class 'X'	nil	n/a	1.00

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 30.48% (2017: 33.43%) 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	Assets 2018 £'000	Liabilities 2018 £'000	Assets 2017 £'000	Liabilities 2017 £'000
Basis of valuation				
Level 1	134,287	(2,828)	234,346	0
Level 2	3,432,745	(13,269)	3,780,308	(3,269)
Level 3	0	0	0	0
	3,567,032	(16,097)	4,014,654	(3,269)

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

18 Risk management policies

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

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19 Market risk sensitivity and exposure

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

The VaR limit set during the financial year to 30 June 2018 was 11% (2017: 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 2018 and 30 June 2017.

for the year to 30 June	2018 % of VaR	2018 Utilisation of VaR ^[a] 11%	2017 % of VaR	2017 Utilisation of VaR ^[a] 11%
Lowest	2.37	21.54	2.94	26.76
Highest	3.12	28.33	3.70	33.64
Average	2.69	24.47	3.34	30.40

^[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	2018 £'000	2017 £'000
Investment grade securities	3,331,763	3,348,062
Below investment grade securities	142,829	139,496
Unrated securities	92,223	433,337
Other investments	(15,880)	90,490
Total	3,550,935	4,011,385

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 2018	Swaps £'000	Forward currency contracts £'000	Futures £'000
Bank of America Merrill Lynch	0	(416)	(2,813)
Barclays	0	22	0
BNP Paribas	0	(258)	0
Citigroup	0	(970)	0
Goldman Sachs	167	0	0
HSBC	0	(837)	0
J.P.Morgan	0	(365)	0
National Australia Bank	0	(61)	0
State Street Bank	0	(794)	0
UBS	0	(9,554)	0
Total	167	(13,233)	(2,813)

as at 30 June 2017	Swaps £'000	Forward currency contracts £'000	Futures £'000
Bank of America Merrill Lynch	(103)	2,184	978
Barclays	(148)	0	0
BNP Paribas	0	202	0
Citigroup	(2,096)	176	0
Credit Suisse	(132)	0	0
Goldman Sachs	0	0	0
HSBC	0	388	0
National Australia Bank	0	808	0
State Street Bank	0	234	0
UBS	0	126	0
Total	(2,479)	4,118	978

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 2018 and 30 June 2017 are disclosed in the table below.

for the year to 30 June	2018 ^[a] £'000	2018 ^[a] % ^[b]	2017 ^[a] £'000	2017 ^[a] % ^[b]
Lowest	794,752	20	911,206	22
Highest	1,237,455	33	1,474,624	31
Average	904,174	23	1,090,052	25

^[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. The prior period leverage disclosures have been restated to conform with the revisions to the current period leverage calculation.

^[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	01.07.17	30.09.17	02.10.17	30.11.17
Second interim	01.10.17	31.12.17	02.01.18	28.02.18
Third interim	01.01.18	31.03.18	03.04.18	31.05.18
Final	01.04.18	30.06.18	02.07.18	31.08.18

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22 Interest distribution tables (continued)

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

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

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

Euro Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
First interim	4.5574	5.7829	10.3403	11.4076
Second interim	4.8951	5.3573	10.2524	11.9360
Third interim	4.8046	5.5006	10.3052	11.3687
Final	6.2174	4.3025	10.5199	11.1601

Euro Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
First interim	9.7993	4.8510	14.6503	15.6736
Second interim	7.4183	7.2324	14.6507	16.3962
Third interim	4.2002	10.5406	14.7408	15.6701
Final	9.7102	5.3943	15.1045	15.7262

Sterling Class 'A' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	0.1401	0.2307	0.3708	0.3208
Second interim	0.1672	0.2037	0.3709	0.3292
Third interim	0.1286	0.2359	0.3645	0.3894
Final	0.1426	0.2318	0.3744	0.3993

Sterling Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	0.2041	0.2234	0.4275	0.3644
Second interim	0.2315	0.1960	0.4275	0.3796
Third interim	0.2076	0.2168	0.4244	0.4520
Final	0.2290	0.2099	0.4389	0.4599

Sterling Class 'I' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	0.1730	0.2001	0.3731	0.3212
Second interim	0.1868	0.1868	0.3736	0.3300
Third interim	0.1433	0.2246	0.3679	0.3907
Final	0.1667	0.2113	0.3780	0.4012

Sterling Class 'I' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	0.2978	0.2364	0.5342	0.4484
Second interim	0.2527	0.2846	0.5373	0.4656
Third interim	0.2237	0.3103	0.5340	0.5556
Final	0.2470	0.3060	0.5530	0.5714

Sterling Class 'R' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	0.7041	0.2906	0.9947	0.8576
Second interim	0.4830	0.5120	0.9950	0.8812
Third interim	0.3336	0.6460	0.9796	1.0425
Final	0.5416	0.4640	1.0056	1.0699

Sterling Class 'R' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	0.3484	0.5189	0.8673	0.7316
Second interim	0.3005	0.5699	0.8704	0.7600
Third interim	0.2655	0.6002	0.8657	0.9093
Final	0.5329	0.3620	0.8949	0.9416

Sterling Class 'X' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	0.1122	0.2583	0.3705	0.3208
Second interim	0.1090	0.2615	0.3705	0.3292
Third interim	0.1072	0.2573	0.3645	0.3890
Final	0.1159	0.2581	0.3740	0.3988

Sterling Class 'X' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	0.1952	0.2191	0.4143	0.3212
Second interim	0.1893	0.2256	0.4149	0.3408
Third interim	0.0660	0.3459	0.4119	0.4386
Final	0.2311	0.1948	0.4259	0.4464

M&G Corporate Bond Fund

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M&G Dividend Fund

Authorised Corporate Director's Report

Investment objective and policy

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 approach

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.

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.



The above number:

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

Investment review

As at 2 July 2018, for the year ended 30 June 2018

Distribution summary

Over the 12-month period in review, the fund distributed income of 2.85 pence per Sterling Class 'A' (Income) share, a decrease of 3.3% over the payment made in the same period last year. The payout represented a yield (distributed income as a percentage of the published share price on 2 July 2018) of 4.72% versus a yield of 3.68% for the FTSE All-Share Index, a comparative index.

We highlighted the lack of dividend growth among the UK's largest companies (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) in our previous reports. Very large companies, such as Royal Dutch Shell and HSBC, have struggled to increase their dividends (not including currency movements) in a meaningful way, as their underlying businesses showed little signs of growth.

Against this background, we are pleased that the majority of the fund's holdings continued to deliver healthy dividend growth, raising their dividends between 5% to 15%, in line with previous years, with the increases spread across different sectors. Publisher RELX, one of the fund's top holdings, boosted its dividend by 8% in sterling, while British American Tobacco reported a 15.2% increase and DS Smith, the packaging company, raised its half-year dividend by 6.5%.

However, not all of our holdings delivered dividend growth. Luxembourg-based satellite company SES and alternative lender Provident Financial both cut their dividends. Provident Financial was a particularly stark example as not only did it cut its dividend from a high level to zero, it also withdrew an already declared dividend. We held our nerve and took a hard look at the right price in light of the new information, and managed to sell our stake at what we viewed as fair value.

SES suffered a similar set-back in share price on a profit warning in October, which led to speculation of a dividend cut and a significant decline in the share price. Once again, we took the view that the market was very short-term focused and was not looking at the facts. We engaged actively with the company, and we have subsequently seen much improvement in the operational aspects of the business. At the lows, the stock was trading on a very cheap valuation, further indicating panic in the market. The company subsequently improved its sales trends, while regulatory news has shown that the company is sitting on an incredibly valuable spectrum that is vital for the US to roll out 5G (advanced mobile network). In a more optimistic scenario, this could be worth more than 50% of the current share price.

Essentra, a large holding for the fund, reiterated its commitment to holding its dividend. We have written a few times about the large potential for the company to get back on a path to recovery, which could, with some patience and nurturing, deliver a strong upside to profits over the coming years. The company has accomplished turnarounds in the past, and we are backing the new management team to do so again.

M&G Dividend Fund

Authorised Corporate Director's Report

Investment review

Distribution summary (continued)

As a trend, we saw fewer special dividends during the year, and this has held back the fund's income growth to a degree (however, Admiral Group, Jupiter Fund Management and 3i group did deliver special dividends). Against this specific backdrop, we were disappointed to see a reduction in the income level for the fund. However, the fund is still trading at a significant yield premium to the FTSE All-Share Index.

The challenges presented by the concentration of yield in the UK market have been well documented and the assessment of potential risks associated with individual high-yielding stocks remain of the utmost importance. We believe from our thorough company analysis that the fund's higher yield has been achieved with due consideration of its sustainability. However, by its nature, higher yield comes with a higher risk of dividend cuts. We continue, therefore, to be selective in the dividend streams we back, and remain sceptical about the dividend-paying capacity of certain high yielding stocks. With our core holdings, we endeavour to strike a sensible balance between long-term dividend progression and attractive valuations, in full recognition that the combination of a high yield and rising distribution is important to our investors. We remain committed to delivering on these twin income objectives.

The fund's distribution and distribution yield are shown in the 'Specific share class performance' tables in this report. The distribution is subject to changes in the market environment and there is no guarantee that the fund will increase the distribution in every single reporting period.

In prior years, special dividends formed a key component of the fund's income, but these dividends should be seen as special and not necessarily recurring. Currency moves can also have a significant effect upon income in sterling terms.

Performance against objective

Between 3 July 2017 (the start of the review period) and 2 July 2018, the fund delivered a negative total return (the combination of income and growth of capital) across its share classes, versus the fund's comparative index, the FTSE All-Share Index, which returned 7.1% over the same period. However, over three and five years and since launch, the fund achieved all three aspects of its objective by growing distributions, generating a yield higher than that of the FTSE All-Share Index and delivering a positive total return through the combination of income and capital growth.*

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

Performance review

In a challenging year for the UK market overall, we saw opposing forces at work: the impact of Brexit causing clear general disaffection with the UK market by investors at large; and strong performance from some of the bigger structural pillars of the index – 'household' names with more global exposure.

Two years on from the UK's vote to leave the European Union, the referendum result continues to cast a long shadow over the UK market and its currency. Uncertainty over the near future economic framework is holding back decision-making for domestic companies and households alike, causing the UK to post the poorest performance of all European Union developed countries in terms of gross domestic product (GDP) growth at 0.2% in the first quarter of 2018, according to the Office for National Statistics (ONS). Meanwhile, the forecast for global growth continues to hold firm in spite of a short-lived slowdown at the very beginning of 2018. With global growth expected at 3.1% (according to the World Bank) and some estimates reaching for 4% global GDP growth for 2018, the gap continues to widen between the UK and the rest of the world.

Internationally exposed UK companies have, therefore, benefited from the weakness in sterling (which makes their products or services cheaper to foreign buyers) and from a return to widespread global growth. In spite of this, we have seen very low investor confidence in the UK market. However, we firmly believe that the UK market's low valuation presents opportunities that have started to attract international corporate investors, as evidenced by the raft of merger and acquisition activity that swept the market over the period under review.

The trajectory of the FTSE All-Share Index, against which the fund's performance is measured, reflects the challenges we faced as investors. The index reached a year low in March and bounced back sharply to an all-time high in May. Against this backdrop, our performance remains highly disappointing. We will attempt to explain the dynamics that have affected it.

One major headwind we faced for the review period was sector allocation – i.e. the percentages of the fund invested in different industries. This was particularly stark in the oil and gas and mining sectors (both of which delivered very strong performance for the period), where our positions are significantly below those of the index.

Looking at oil and gas, the fund's largest detractor in the sector was Royal Dutch Shell, a stock we do not own as we think some of the company's fundamentals are unfavourable. As the company makes up nearly 8.5% of the FTSE All-Share Index and was up by close to 40% in the period, this had an obvious negative effect on relative performance.

The mining sector, meanwhile, was boosted by widespread global growth and the strong tide of demand surging from developed and emerging markets alike. We think that this sector tends to outperform at the beginning of a new economic growth cycle and subsequently overspends to increase supply as the cycle matures (hence damaging balance sheets and creating over-supply), before eventually underperforming. We have often struggled to identify mining companies with capital discipline that does not come undone when the cycle matures. We remain, however, very aware that the fund has significantly underperformed in the early stage of the Asian recovery as a result of our investment views as we always aim to assess as objectively as possible the long-term drivers and return prospects of our investible universe.

On the positive side, our holdings in integrated oil and gas company BP, together with an opportunistic purchase of shares in Canadian liquid gas supplier Methanex, offered some protection against the strong performance of Royal Dutch Shell (please see the stock-specific section below).

M&G Dividend Fund

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Investment review

Performance review (continued)

Our above-index position in industrials was also supportive. This is a sector that provides access to global growth, tending to benefit from growing economies once the economic cycle is under way. These companies have, to some extent, greater control of their destiny than other companies more closely correlated with economic cycles. Their performance is less driven by the vagaries in raw material prices, for example, and more a result of their order books and capital discipline. Because of this, these stocks are better aligned with the investment philosophy of the fund.

We tend to avoid 'momentum investing' (buying stocks just because they are going up) to focus on structural and operational advantages, which should deliver performance for the long-term and medium-term investor. In that sense, the fund's performance is always under pressure when markets are driven by momentum.

At a stock level, the fund's largest detractor was non-standard lender Provident Financial.

The well-publicised crash of the company took most seasoned investors by surprise – the regulator unexpectedly requested a drastic change in the way the company markets its products, hitting its ability to generate revenues; this led to a profit warning. We sold a large part of our position after the first profit warning. But as we, and the market, discovered that the company was under investigation from the FCA, a second profit warning sealed the underperformance, even on our reduced position. While this had originally been a very attractive investment, in hindsight we should have questioned the ability of management at the company to remain fully engaged with the heart of its business – for example, management had opted for new offices in the City of London's high-profile Gherkin building, while the main operations were located in Bradford. In our view, this 'disconnect' should have been a warning in itself, as it inevitably prevented the management from engaging with its operational troops and gaining the necessary deep understanding of the business's day-to-day challenges and execution risks. It has been a painful lesson, but we have come out of this experience with the strengthened conviction that no signal is too small to be ignored.

Swedish bank Nordea was another unexpected detractor in the financial sector. It suffered from delays and higher costs than anticipated as it continues to upgrade its IT system having operated, like most banks, inflexible legacy systems that were not meeting customer needs. Although the project has been subject to delays and cost overruns due to increased compliance requests, we remain positive on the stock, as costs are set to fall, while the company already offers a high dividend yield, and boasts a very strong balance sheet.

Satellite communications and broadcasting company SES was another key detractor, as management demonstrated poor execution and had to cut and re-base their dividend. We engaged repeatedly and rather forcefully at times with management, and feel encouraged by the fact that the new management team should engender more positive news flow in the future. After a few disappointing seasons, which saw the company miss earnings expectations repeatedly, the stock rose towards the end of the period under review in light of a raft of positive news. This included new contract signings and satellite launches, as increased consumer mobility continues to drive growth. In addition, the recent moves from the US Federal Communications Commission to free up C-Band spectrum for the 5G rollout in the US could be very valuable for the company.

Finally, we must mention our two tobacco holdings: Imperial Brands and British American Tobacco. We believe the tobacco sector is due for a rebound, as we feel that fears of a rapid decline in traditional tobacco sales are wildly exaggerated. Most of the market's anxiety is around the growing health concerns of consumers, heavier regulation (which in reality remains moderated by the large amount of taxes government derive from tobacco sales) and whether consumers will seamlessly adopt replacement products such as 'vaping' or alternative 'heated tobacco products'. Overall, we believe that traditional smoking will continue to dominate the market for many years to come. Furthermore, we believe that the tobacco players will benefit from commercialising alternative products in the long run. Today we are actually witnessing marginal growth in the total nicotine market, rather than declining volumes being compensated for by better pricing. We believe that both of our holdings are well placed to benefit from the recovery in sentiment we expect to see in the sector, and that their strong cashflow generation, combined with the currently low valuations, should offer significant upside.

Turning to positive contributors, Methanex, mentioned above, was an opportunistic investment in a leading global company; the stock was bought on a very attractive valuation at the bottom of its specific methanol cycle. It is currently offering high levels of cash generation and superior dividend growth thanks to improvements in its capital efficiency. We still consider the stock to be undervalued, in spite of its strong performance (up more than 60% over the period), as it is also supported by rising oil prices.

BP, mentioned above, also aided returns. We built the position in BP throughout the period, as we grew convinced that the company was ahead of the industry in adjusting costs and renewing its portfolio of assets. In this respect, the tragic and incredibly costly Macondo incident led the company to implement a much greater level of discipline before the 2016 oil price crash.

Other supportive holdings included gaming company GVC and specialist asset manager Intermediate Capital. GVC announced that cost-cutting linked to the integration of Ladbroke Coral was progressing ahead of expectations, pleasing investors. At the same time, the US market is opening up to online gambling, where we think GVC will have first-mover advantage. Intermediate Capital, meanwhile, has a long track record in managing alternative assets, producing exceptional returns for clients, and has now developed its brand into a European leader in the alternatives fund management space. It has been rapidly growing both its assets under management and its dividends.

Investment activities

We opened 13 new positions during the period under review, the most material being Tritax, Domino's Pizza, National Grid and Roche.

Tritax Big Box is a real estate company specialising in logistics warehousing, one of the few growing segments of the real estate market. The company offers a strong structural growth story thanks to its unique portfolio of very large 'mega warehouses' (also called 'mega boxes'), which are in growing demand as e-commerce sales continue to expand as a share of overall retail sales in the UK. As a consequence, the rents the company is able to achieve are higher than those achieved for regular, medium-sized, properties. The investment case is supported by the growth of online sales, as well as Tritax's list of quality tenants, including Amazon, DHL and Ocado, all of whom we anticipate will need further large-scale storage as they continue to grow.

M&G Dividend Fund

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Investment review

Investment activities (continued)

Domino's Pizza was one of the most interesting investment cases we have reviewed this year: although the company trades at a premium to the sector, we believe that it offers significant growth opportunities. We expect the company to double its sales over the next three to four years, and it can do this with much cheaper fit-out costs (ie opening new stores) than bigger players such as KFC or McDonald's, explaining the company's superior profitability.

National Grid is the only utility we now hold in the fund. We first invested in the company at the beginning 2018, as we felt the valuation had become highly attractive when investor concerns around politics and new regulation reached a climax. Since then, M&G has been proactively engaging with Ofgem and other stakeholders as it develops the new regulatory framework. We believe that regulatory concerns might be exaggerated and that National Grid's US division should continue to deliver very supportive performance. The company is also executing well in both of its UK divisions (gas and electricity) and we continue to expect returns superior to current market expectations in both segments.

Finally, we added a position in pharmaceutical company Roche, one of the key players in cancer treatments. The company boasts a strong catalogue of existing drugs, as well as a solid pipeline of new products that are showing promising results. This should help it to fend off the assault from generic drugs competing with its off-patent blockbusters. We felt that forecasts did not accurately reflect the company's prospects, making the shares appear undervalued. In terms of capital discipline, we remain confident that Roche will not attempt major acquisitions, instead focusing on its existing pipeline or smaller, bolt-on acquisitions where appropriate. This should help to protect its ability to maintain and grow its dividend.

To finance these purchases, we sold a total of 14 stocks during the period under review, including Dunelm Group on further concerns about the traditional retail model and about the company's execution abilities after witnessing unusual turnover in CEOs over the last few years. We also sold our positions in Ascential, GlaxoSmithKline, Golar LNG and Provident Financial, among others.

Outlook

In spite of the FTSE All-Share Index's strong rally between April and May 2018, international investors have remained disaffected towards the UK market. However, British companies have continued to deliver, overall, solid earnings growth, in spite of the confusing Brexit backdrop. Still, they are not being recognised, nor valued by the stockmarket. The undervaluation of UK company shares is so extreme at current levels that we do expect a re-rating (ie, for the market to rise strongly) – a move which should reward the patient investor. It is easy to mistake the large pillars of the FTSE for the actual breadth of the market. We feel that momentum has richly rewarded both a resource-heavy selection of 'mega caps' such as Royal Dutch Shell, BP, Rio Tinto or BHP Billiton, and a set of momentum-driven small and medium sized companies with lofty valuations.

Consequently, excluding stocks that were driven higher by the dual tailwinds of global recovery and international revenues (or rising commodity prices), we feel that opportunities should abound in the UK market. Recent merger and acquisition activity, which we mentioned earlier, is certainly a reliable indicator in this respect. Still, we remain very aware of the challenges British companies will face as the turmoil surrounding Brexit endures. Nearly two years from the vote, forecasts for economic growth continue to be revised down, at odds with the rest of the OECD and the world at large. Meanwhile, the Bank of England has warned that it will start to taper its support to financial markets as it prepares for a possible interest rate rise. Having said that, the stockmarket is not strictly a reflection of the domestic economy but an amalgam of companies from a variety of sectors with varying degrees of geographic diversity, which happen to be listed on the London Stock Exchange.

With this in mind, we remain focused on the analysis of company fundamentals and valuation, in the belief that these factors predominantly drive stockmarket returns over the long term. The UK continues to offer excellent opportunities for stockpickers, particularly outside the largest companies which are struggling to grow. Medium-sized companies remain a source of attractive opportunities, given their potential to deliver long-term growth for the benefit of shareholders. We always seek to invest in companies with greater control over their own destiny and world class opportunities and aspirations. The UK is also home to a multitude of global businesses that do not rely on the robustness of their home economy, and even among more domestically biased businesses there are attractive opportunities for growth. The importance of being selective just cannot be emphasised enough; yet we remain mindful of potential headwinds as mentioned above.

We remain committed to our dividend growth strategy and our conviction-based approach. We believe that the cash-generative nature of the fund's holdings, their ability to grow dividends over the long term and their attractive valuation stand us in good stead for the future. The fund's yield of 4.7% which we aim to grow over time, offers a favourable proposition for long-term investors. We appreciate your continued support during a challenging year and remain confident in the outlook for the companies which form our core holdings.

Phil Cliff

Fund manager

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

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

M&G Dividend Fund

Authorised Corporate Director's Report

Investments

Portfolio statement				
as at 30 June	2018	2018	2017	
Holding	£'000	%	%	
EQUITIES	1,216,668	101.01	102.10	
Oil & gas producers	83,664	6.95	3.28	
14,439,695 BP	83,664	6.95		
Oil equipment, services & distribution	5,090	0.42	2.78	
2,990,875 Prosafe	5,090	0.42		
Chemicals	28,053	2.33	1.82	
534,602 Methanex	28,053	2.33		
Construction & materials	3,098	0.26	0.99	
807,204 Polypipe	3,098	0.26		
Aerospace & defence	42,297	3.51	2.42	
6,523,288 BAE Systems	42,297	3.51		
General industrials	67,423	5.60	3.30	
8,589,640 DS Smith	45,044	3.74		
223,425 Siemens	22,379	1.86		
Industrial engineering	60,516	5.02	6.86	
1,880,907 IMI	21,292	1.77		
1,017,597 Kone	39,224	3.25		
Support services	81,358	6.76	6.95	
9,194,500 Essentra	44,244	3.68		
3,810,809 Howden Joinery Group	20,372	1.69		
5,313,151 IWG	16,742	1.39		
Beverages	20,655	1.72	1.62	
2,639,648 Britvic	20,655	1.72		
Food producers	6,302	0.52	0.00	
652,367 Hilton Food Group	6,302	0.52		
Household goods & home construction	26,064	2.16	1.34	
7,598,950 Countryside Properties	26,064	2.16		
Leisure goods	0	0.00	2.82	
Tobacco	128,073	10.63	10.18	
1,818,843 British American Tobacco	70,926	5.89		
2,011,168 Imperial Brands	57,147	4.74		
Healthcare equipment & services	24,624	2.04	2.19	
11,447,851 ConvaTec	24,624	2.04		
Pharmaceuticals & biotechnology	87,888	7.30	6.00	
1,199,294 AstraZeneca	63,371	5.26		
146,191 Roche Holding 'Genussscheine'	24,517	2.04		
General retailers	0	0.00	2.88	
Media	85,965	7.14	7.89	
2,450,000 RELX	39,849	3.31		
2,860,834 SES FDR (formerly SES Global)	40,298	3.35		
485,250 WPP	5,818	0.48		
Travel & leisure	85,341	7.09	2.08	
2,320,802 Compass Group	37,760	3.14		
4,158,152 Domino's Pizza	14,445	1.20		
3,146,820 GVC Holdings	33,136	2.75		
Electricity	0	0.00	1.37	
Gas, water & multi-utilities	16,879	1.40	0.00	
2,001,741 National Grid	16,879	1.40		
Banks	64,312	5.34	2.21	
719,999 AIB Group	2,979	0.25		
49,834,848 Lloyds Banking Group	31,391	2.61		
4,118,426 Nordea Bank	29,942	2.48		

Portfolio statement (continued)

as at 30 June	2018	2018	2017
Holding	£'000	%	%
Non-life insurance	80,390	6.67	5.48
1,356,288 Admiral Group	25,953	2.16	
1,121,283 Hiscox	17,010	1.41	
2,874,588 Sabre Insurance Group	7,761	0.64	
801,865 Sampo	29,666	2.46	
Life insurance	89,800	7.46	11.04
6,265,255 Aviva	31,614	2.63	
4,232,110 Phoenix Group	28,313	2.35	
1,974,984 Phoenix Group Holdings Rights 11 Jul 2018	2,977	0.25	
1,544,833 Prudential ^[a]	26,896	2.23	
Real estate investment trusts	42,084	3.49	5.02
520,391 NewRiver REIT	1,413	0.12	
13,815,609 Tritax Big Box REIT	21,456	1.78	
2,250,046 UNITE Group	19,215	1.59	
Financial services	60,732	5.04	7.30
639,628 3i Group	5,774	0.48	
2,697,728 Intermediate Capital Group	29,594	2.45	
5,669,115 Jupiter Fund Management	25,364	2.11	
Equity investment instruments	12,765	1.06	1.44
1,150,000 Honeycomb Investment Trust	12,765	1.06	
Software & computer services	13,295	1.10	2.84
994,727 Micro Focus	13,295	1.10	
Unlisted	0	0.00	0.00
377,518 Izodia ^[b]	0	0.00	
CURRENCY	(513)	(0.04)	0.08
Forward currency contracts	(513)	(0.04)	0.08
\$(35,795,075) Sold for £26,643,152 (expires 13.09.18)	(513)	(0.04)	
Portfolio of investments	1,216,155	100.97	102.18
CASH EQUIVALENTS	9,087	0.75	0.67
'AAA' rated money market funds ^[c]	9,087	0.75	0.67
9,086,998 Northern Trust Global Fund - Sterling	9,087	0.75	
Total portfolio (notes 2c & 2d on page 7)	1,225,242	101.72	102.85
Net other assets / (liabilities)	(20,763)	(1.72)	(2.85)
Net assets attributable to shareholders	1,204,479	100.00	100.00

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

^[a] Related party to the fund.

^[b] Suspended.

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

M&G Dividend Fund

Authorised Corporate Director's Report

Investments

Top ten portfolio transactions	
for the year to 30 June 2018	
Largest purchases	£'000
Lloyds Banking Group	44,594
BP	33,654
Nordea Bank	29,760
Siemens	29,174
Roche Holding 'Genussscheine'	27,228
Imperial Brands	21,900
Kone	20,507
AstraZeneca	16,645
National Grid	16,450
UNITE Group	16,115
Other purchases	209,104
Total purchases	465,131
Largest sales	£'000
Micro Focus	36,960
Prudential ^[a]	31,887
Golar LNG	30,074
Aviva	24,769
Spirax-Sarco Engineering	24,229
Hansteen Holdings REIT	22,942
Dunelm Group	22,660
Jupiter Fund Management	19,861
VolkerWessels	18,883
SSE	18,635
Other sales	254,237
Total sales	505,137

[a] Related party to the fund.

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

We show performance for these two share classes because:

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

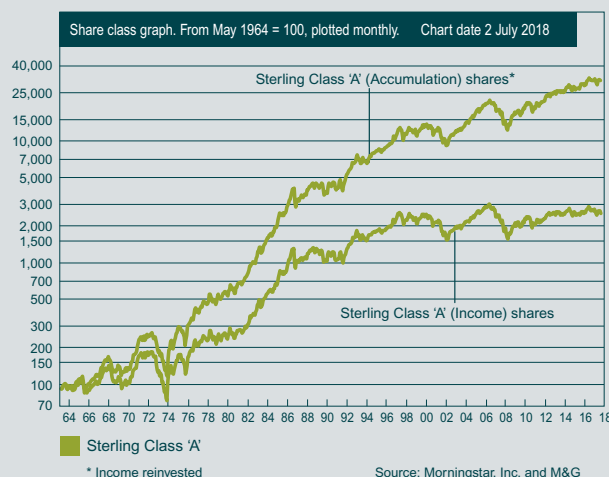
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 30 June	2018 £'000	2017 £'000	2016 £'000
Fund net asset value (NAV)	1,204,479	1,288,318	1,212,080

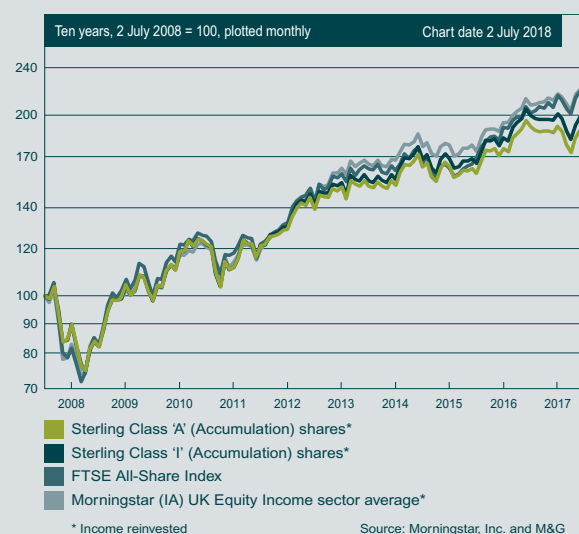
Performance since launch

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



Ten-year performance

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



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

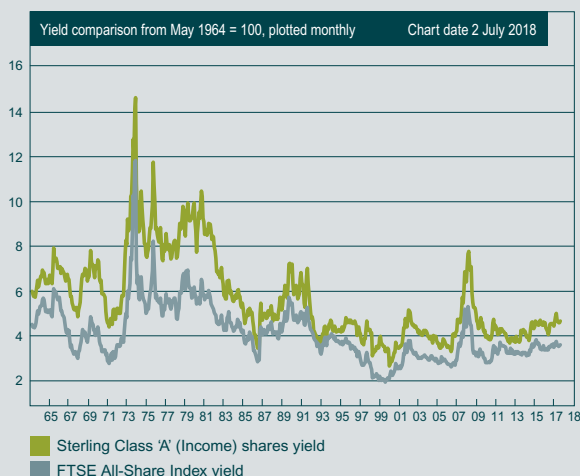
M&G Dividend Fund

Financial highlights

Fund performance

Historic yield

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

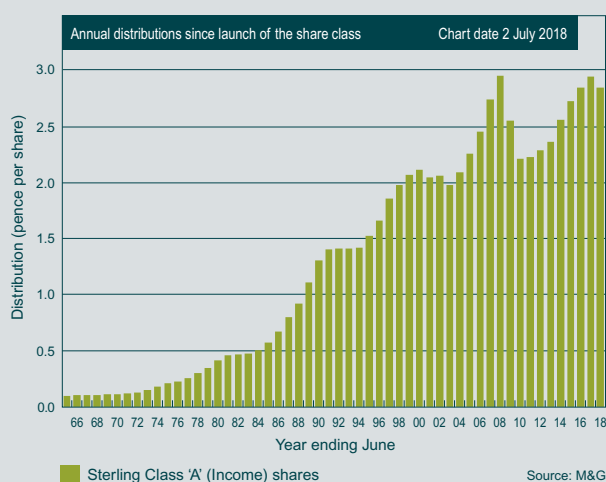


Source: Morningstar, Inc. and M&G

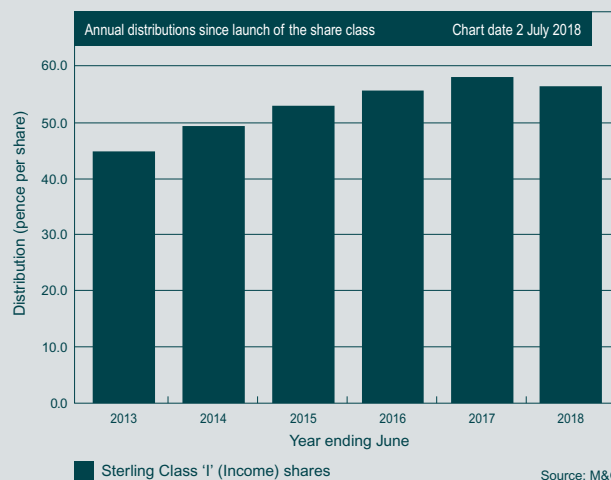
Historic yield: The historic yield reflects distributions declared over the past twelve months as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions.

Distribution since launch

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



Source: M&G



Source: M&G

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

Long-term performance by share class

	One year 03.07.17 % ^[a]	Three years 02.07.15 % p.a.	Five years 02.07.13 % p.a.	Since launch % p.a.
Sterling^[b]				
Class 'A'	-2.8	+3.8	+6.0	+11.0 ^[c]
Class 'C'	-1.3	+5.3	+7.6	+6.5 ^[d]
Class 'I'	-2.0	+4.5	+6.8	+8.0 ^[e]
Class 'R'	-2.3	+4.3	+6.5	+7.7 ^[e]
Class 'X'	-2.8	+3.8	+6.0	+7.4 ^[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.

M&G Dividend Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

for the year to 30 June	2018	2017	2016	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.04	0.04	0.05	0.04
Taxes	0.12	0.10	0.15	0.13
Costs before dilution adjustments	0.16	0.14	0.20	0.17
Dilution adjustments ^[c]	(0.03)	(0.02)	(0.03)	(0.03)
Total direct portfolio transaction costs	0.13	0.12	0.17	0.14
as at 30 June	2018	2017	2016	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.10	0.12	0.13	0.12

^[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 6 July 2018.

Sterling Class 'A' Income share performance

The share class was launched on 6 May 1964.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	65.01	56.52	61.14
Return before operating charges and after direct portfolio transaction costs	(0.04)	12.49	(0.79)
Operating charges	(1.05)	(1.05)	(0.99)
Return after operating charges	(1.09)	11.44	(1.78)
Distributions	(2.85)	(2.95)	(2.84)
Closing NAV	61.07	65.01	56.52
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.10	0.09	0.12
Dilution adjustments ^[a]	(0.02)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.08	0.08	0.10
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.13	0.12	0.17
Operating charges	1.68	1.66	1.66
Return after operating charges	-1.68	+20.24	-2.91
Historic yield ^[c]	4.60	4.55	4.91
Effect on yield of charges offset against capital	1.66	1.66	1.66

Other information

Closing NAV (£'000)	303,852	364,142	331,842
Closing NAV percentage of total fund NAV (%)	25.23	28.27	27.38
Number of shares	497,549,090	560,171,148	587,109,164
Highest share price (UK p)	65.92	69.22	62.94
Lowest share price (UK p)	57.44	57.24	53.65

Sterling Class 'A' Accumulation share performance

The share class was launched on 6 May 1964.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	714.80	594.58	612.62
Return before operating charges and after direct portfolio transaction costs	(0.34)	131.29	(8.10)
Operating charges	(11.63)	(11.07)	(9.94)
Return after operating charges	(11.97)	120.22	(18.04)
Distributions	(20.17)	(20.18)	(28.70)
Retained distributions	20.17	20.18	28.70
Closing NAV	702.83	714.80	594.58

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.07	0.93	1.23
Dilution adjustments ^[a]	(0.21)	(0.13)	(0.19)
Total direct portfolio transaction costs	0.86	0.80	1.04

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.13	0.12	0.17
Operating charges	1.68	1.66	1.66
Return after operating charges	-1.67	+20.22	-2.94
Historic yield ^[c]	2.83	2.83	4.72
Effect on yield of charges offset against capital	0.01	0.01	1.66

Other information

Closing NAV (£'000)	74,303	88,701	80,425
Closing NAV percentage of total fund NAV (%)	6.17	6.89	6.64
Number of shares	10,571,996	12,409,112	13,526,383
Highest share price (UK p)	724.97	736.85	630.43
Lowest share price (UK p)	639.57	601.50	544.66

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 Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	77.96	66.76	71.13
Return before operating charges and after direct portfolio transaction costs	(0.02)	14.83	(0.93)
Operating charges	(0.14)	(0.12)	(0.11)
Return after operating charges	(0.16)	14.71	(1.04)
Distributions	(3.45)	(3.51)	(3.33)
Closing NAV	74.35	77.96	66.76

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.12	0.10	0.14
Dilution adjustments ^[a]	(0.02)	(0.02)	(0.02)
Total direct portfolio transaction costs	0.10	0.08	0.12

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.13	0.12	0.17
Operating charges	0.18	0.16	0.16
Return after operating charges	-0.21	+22.03	-1.46
Historic yield ^[c]	4.57	4.52	4.88
Effect on yield of charges offset against capital	0.16	0.16	0.16

Other information

Closing NAV (£'000)	665,795	687,746	674,464
Closing NAV percentage of total fund NAV (%)	55.27	53.38	55.65
Number of shares	895,430,657	882,227,059	1,010,299,299
Highest share price (UK p)	79.12	82.90	73.32
Lowest share price (UK p)	69.68	67.62	62.99

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 Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	1,290.34	1,113.45	1,195.32
Return before operating charges and after direct portfolio transaction costs	(0.51)	246.53	(15.49)
Operating charges	(11.59)	(11.34)	(10.59)
Return after operating charges	(12.10)	235.19	(26.08)
Distributions	(56.80)	(58.30)	(55.79)
Closing NAV	1,221.44	1,290.34	1,113.45

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.93	1.74	2.39
Dilution adjustments ^[a]	(0.38)	(0.25)	(0.37)
Total direct portfolio transaction costs	1.55	1.49	2.02

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.13	0.12	0.17
Operating charges	0.93	0.91	0.91
Return after operating charges	-0.94	+21.12	-2.18
Historic yield ^[c]	4.59	4.53	4.89
Effect on yield of charges offset against capital	0.91	0.91	0.91

Other information

Closing NAV (£'000)	83,800	86,799	77,633
Closing NAV percentage of total fund NAV (%)	6.96	6.74	6.41
Number of shares	6,860,758	6,726,821	6,972,258
Highest share price (UK p)	1,309.05	1,373.16	1,230.91
Lowest share price (UK p)	1,146.68	1,127.65	1,053.70

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	1,608.51	1,327.98	1,358.02
Return before operating charges and after direct portfolio transaction costs	(0.55)	294.13	(17.92)
Operating charges	(14.53)	(13.60)	(12.12)
Return after operating charges	(15.08)	280.53	(30.04)
Distributions	(57.32)	(56.52)	(63.88)
Retained distributions	57.32	56.52	63.88
Closing NAV	1,593.43	1,608.51	1,327.98

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	2.42	2.09	2.74
Dilution adjustments ^[a]	(0.48)	(0.30)	(0.42)
Total direct portfolio transaction costs	1.94	1.79	2.32

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.13	0.12	0.17
Operating charges	0.93	0.91	0.91
Return after operating charges	-0.94	+21.12	-2.21
Historic yield ^[c]	3.55	3.52	4.70
Effect on yield of charges offset against capital	0.01	0.01	0.91

Other information

Closing NAV (£'000)	22,216	19,636	16,664
Closing NAV percentage of total fund NAV (%)	1.84	1.52	1.37
Number of shares	1,394,209	1,220,766	1,254,832
Highest share price (UK p)	1,632.10	1,657.16	1,398.07
Lowest share price (UK p)	1,447.45	1,343.61	1,213.02

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	127.45	110.26	118.67
Return before operating charges and after direct portfolio transaction costs	(0.06)	24.47	(1.54)
Operating charges	(1.45)	(1.52)	(1.34)
Return after operating charges	(1.51)	22.95	(2.88)
Distributions	(5.60)	(5.76)	(5.53)
Closing NAV	120.34	127.45	110.26

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.19	0.18	0.24
Dilution adjustments ^[a]	(0.04)	(0.03)	(0.04)
Total direct portfolio transaction costs	0.15	0.15	0.20

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.13	0.12	0.17
Operating charges	1.18	1.16	1.16
Return after operating charges	-1.18	20.81	-2.43
Historic yield ^[c]	4.59	4.54	4.90
Effect on yield of charges offset against capital	1.16	1.16	1.16

Other information

Closing NAV (£'000)	15,978	8,925	1,017
Closing NAV percentage of total fund NAV (%)	1.33	0.69	0.08
Number of shares	13,277,490	7,002,965	922,826
Highest share price (UK p)	129.28	135.66	122.18
Lowest share price (UK p)	113.04	111.66	104.44

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	158.85	131.47	134.79
Return before operating charges and after direct portfolio transaction costs	(0.07)	29.12	(1.79)
Operating charges	(1.81)	(1.74)	(1.53)
Return after operating charges	(1.88)	27.38	(3.32)
Distributions	(5.27)	(5.22)	(6.34)
Retained distributions	5.27	5.22	6.34
Closing NAV	156.97	158.85	131.47

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.24	0.21	0.27
Dilution adjustments ^[a]	(0.05)	(0.03)	(0.04)
Total direct portfolio transaction costs	0.19	0.18	0.23

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.13	0.12	0.17
Operating charges	1.18	1.16	1.16
Return after operating charges	-1.18	+20.83	-2.46
Historic yield ^[c]	3.31	3.29	4.71
Effect on yield of charges offset against capital	0.01	0.01	1.16

Other information

Closing NAV (£'000)	15,165	396	173
Closing NAV percentage of total fund NAV (%)	1.26	0.03	0.01
Number of shares	9,661,090	249,149	131,843
Highest share price (UK p)	161.16	163.69	138.74
Lowest share price (UK p)	142.68	133.01	120.21

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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 Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	65.30	56.78	61.43
Return before operating charges and after direct portfolio transaction costs	(0.03)	12.53	(0.80)
Operating charges	(1.06)	(1.05)	(0.99)
Return after operating charges	(1.09)	11.48	(1.79)
Distributions	(2.86)	(2.96)	(2.86)
Closing NAV	61.35	65.30	56.78
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.10	0.09	0.12
Dilution adjustments ^[a]	(0.02)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.08	0.08	0.10
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.13	0.12	0.17
Operating charges	1.68	1.66	1.66
Return after operating charges	-1.67	+20.22	-2.92
Historic yield ^[c]	4.60	4.55	4.91
Effect on yield of charges offset against capital	1.66	1.66	1.66
Other information			
Closing NAV (£'000)	19,977	27,807	26,226
Closing NAV percentage of total fund NAV (%)	1.66	2.16	2.16
Number of shares	32,562,207	42,580,816	46,187,806
Highest share price (UK p)	66.22	69.54	63.23
Lowest share price (UK p)	57.70	57.50	53.89

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	707.10	588.17	606.02
Return before operating charges and after direct portfolio transaction costs	(0.33)	129.89	(8.01)
Operating charges	(11.51)	(10.96)	(9.84)
Return after operating charges	(11.84)	118.93	(17.85)
Distributions	(19.95)	(19.97)	(28.39)
Retained distributions	19.95	19.97	28.39
Closing NAV	695.26	707.10	588.17
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.06	0.92	1.21
Dilution adjustments ^[a]	(0.21)	(0.13)	(0.19)
Total direct portfolio transaction costs	0.85	0.79	1.02
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.13	0.12	0.17
Operating charges	1.68	1.66	1.66
Return after operating charges	-1.67	+20.22	-2.95
Historic yield ^[c]	2.83	2.83	4.72
Effect on yield of charges offset against capital	0.01	0.01	1.66
Other information			
Closing NAV (£'000)	3,393	4,166	3,636
Closing NAV percentage of total fund NAV (%)	0.28	0.32	0.30
Number of shares	488,082	589,155	618,235
Highest share price (UK p)	717.16	728.91	623.63
Lowest share price (UK p)	632.68	595.02	538.79

^[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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Financial statements

Statement of total return

for the year to 30 June	Note	2018 £'000	2017 £'000
Income			
Net capital gains / (losses)	3	(58,486)	198,367
Revenue	5	58,268	61,112
Expenses	6	(9,665)	(10,132)
Net revenue / (expense) before taxation		48,603	50,980
Taxation	7	(707)	(701)
Net revenue / (expense) after taxation		47,896	50,279
Total return before distributions		(10,590)	248,646
Distributions	8	(55,822)	(58,715)
Change in net assets attributable to shareholders from investment activities		(66,412)	189,931

Statement of change in net assets attributable to shareholders

for the year to 30 June		2018 £'000	2017 £'000
Opening net assets attributable to shareholders		1,288,318	1,212,080
Amounts received on issue of shares	132,679		46,528
Value of in specie transfers received	0		9,067
Amounts paid on cancellation of shares	(154,372)		(173,160)
		(21,693)	(117,565)
Dilution adjustments		551	388
Change in net assets attributable to shareholders from investment activities (see above)		(66,412)	189,931
Retained distributions on Accumulation shares		3,529	3,356
Unclaimed distributions		186	128
Closing net assets attributable to shareholders		1,204,479	1,288,318

Balance sheet

as at 30 June	Note	2018 £'000	2017 £'000
Assets			
Fixed assets			
Investments		1,216,668	1,316,446
Current assets			
Debtors	9	14,540	4,853
Cash and bank balances	10	3,807	919
Cash equivalents		9,087	8,633
Total assets		1,244,102	1,330,851
Liabilities			
Investment liabilities		(513)	0
Creditors			
Distribution payable		(36,437)	(38,693)
Other creditors	11	(2,673)	(3,840)
Total liabilities		(39,623)	(42,533)
Net assets attributable to shareholders		1,204,479	1,288,318

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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

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	2018 £'000	2017 £'000
Non-derivative securities	(58,782)	197,363
Derivative contracts	1,452	1,227
Currency gains / (losses)	(1,150)	(217)
Transaction charges	(6)	(6)
Net capital gains / (losses)	(58,486)	198,367

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Notes to the financial statements

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 39.

for the year to 30 June	2018 £'000	% of transaction	2017 £'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	463,407		389,002	
Commissions	207	0.04	180	0.05
Taxes	1,517	0.33	1,294	0.33
Equities after transaction costs	465,131		390,476	
Other transaction types				
Corporate actions				
	0		8,888	
In specie				
In specie before transactions costs	0		9,022	
Taxes	0	0.00	45	0.50
In specie after transaction costs	0		9,067	
Total purchases after transaction costs	465,131		408,431	
b) Sales				
Equities				
Equities before transaction costs	505,365		509,384	
Commissions	(227)	0.04	(287)	0.06
Taxes	(1)	0.00	0	0.00
Total sales after transaction costs	505,137		509,097	
c) Direct portfolio transaction costs				
	2018 £'000	% of average NAV	2017 £'000	% of average NAV
Commissions paid				
Equities	434	0.04	467	0.04
Taxes paid				
Equities	1,518	0.12	1,339	0.10
Total taxes paid	1,518	0.12	1,339	0.10
Total direct portfolio transaction costs [a]	1,952	0.16	1,806	0.14
d) Indirect portfolio transaction costs				
		%		%
Portfolio dealing spread [b]		0.10		0.12

[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	2018 £'000	2017 £'000
Bank interest	2	1
Dividends from equity investments: non-taxable	53,951	54,164
Dividends from equity investments: taxable	3,257	3,541
Interest distributions	18	38
Stock dividends	1,040	3,079
Underwriting commission	0	289
Total revenue	58,268	61,112

6 Expenses

for the year to 30 June	2018 £'000	2017 £'000
Payable to the ACD or associate		
Annual management charge	7,597	8,059
Administration charge	1,888	1,946
	9,485	10,005
Payable to the Depositary or associate		
Depositary's charge (including VAT)	62	63
Other expenses		
Audit fee (including VAT)	9	9
Interest payable	83	29
Safe custody charge	26	26
	118	64
Total expenses	9,665	10,132

7 Taxation

for the year to 30 June	2018 £'000	2017 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	707	701
Deferred tax (note 7c)	0	0
Total taxation	707	701
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	48,603	50,980
Corporation tax at 20%	9,720	10,196
Effects of:		
Dividends from equity investments: non-taxable	(10,790)	(10,833)
Stock dividends not taxable	(208)	(616)
Current year expenses not utilised	1,278	1,253
Withholding tax	707	701
Total tax charge (note 7a)	707	701
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 £36,710,000 (2017: £35,432,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

for the year to 30 June	2018		2017	
Dividend distributions	Inc [a] £'000	Acc [b] £'000	Inc [a] £'000	Acc [b] £'000
Interim	14,599	748	14,905	848
Final	36,437	2,781	38,693	2,508
Total net distributions		54,565		56,954
Income deducted on cancellation of shares		2,324		2,522
Income received on issue of shares		(1,067)		(761)
Distributions		55,822		58,715
Net revenue / (expense) per statement of total return				
	47,896		50,279	
Expenses offset against capital				
	7,925		8,437	
Undistributed income brought forward				
	1		0	
Undistributed income carried forward				
	0		(1)	
Distributions	55,822		58,715	

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

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9 Debtors

as at 30 June	2018 £'000	2017 £'000
Amounts receivable on issues of shares	3,387	281
Distributions receivable	2	1
Dividends receivable	3,567	3,323
Sales awaiting settlement	6,105	0
Tax recoverable	193	192
Withholding tax recoverable	1,286	1,056
Total debtors	14,540	4,853

10 Cash and bank balances

as at 30 June	2018 £'000	2017 £'000
Cash held as bank balances	3,807	919
Total cash and bank balances	3,807	919

11 Other creditors

as at 30 June	2018 £'000	2017 £'000
ACD's annual management charge payable	219	257
Administration charge payable	56	61
Amounts payable on cancellation of shares	386	915
Expenses payable	16	18
Purchases awaiting settlement	1,996	2,589
Total other creditors	2,673	3,840

12 Contingent assets, liabilities and outstanding commitments

At the balance sheet date, the fund had a contingent liability of £10,230,000 (2017: £nil) in respect of 1,974,984 nil paid shares resulting from a rights issue whereby seven nil paid shares were issued for every 15 ordinary shares held. The nil paid shares may be exercised on 9 July 2018 at £5.18 per share.

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

13 Shares in issue

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

Share class	Opening 01.07.17	Movements		Closing 30.06.18
		Issued	Cancelled	
Sterling				
Class 'A' Income	560,171,148	10,020,068	(72,642,126)	497,549,090
Class 'A' Accumulation	12,409,112	49,585	(1,886,701)	10,571,996
Class 'C' Income	882,227,059	119,403,124	(106,199,526)	895,430,657
Class 'I' Income	6,726,821	595,776	(461,839)	6,860,758
Class 'I' Accumulation	1,220,766	361,180	(187,737)	1,394,209
Class 'R' Income	7,002,965	7,226,726	(952,201)	13,277,490
Class 'R' Accumulation	249,149	9,704,949	(293,008)	9,661,090
Class 'X' Income	42,580,816	593,017	(10,611,626)	32,562,207
Class 'X' Accumulation	589,155	4,972	(106,045)	488,082

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %
Sterling			
Class 'A'	nil	n/a	1.50
Class 'C'	nil	n/a	nil
Class 'I'	nil	n/a	0.75
Class 'R'	nil	n/a	1.00
Class 'X'	nil	n/a	1.50

15 Related parties

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

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

During the year, there were transactions in Prudential plc, a related party of M&G Securities Limited with a total value of £31,886,000 (2017: £51,512,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £26,896,000 (2017: £58,560,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 61.01% (2017: 58.33%) 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 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	Liabilities	Assets	Liabilities
Basis of valuation	2018	2018	2017	2017
	£'000	£'000	£'000	£'000
Level 1	1,216,668	0	1,315,456	0
Level 2	0	(513)	990	0
Level 3	0	0	0	0
	1,216,668	(513)	1,316,446	0

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

18 Risk management policies

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

19 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by £60,808,000 (2017: £65,822,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

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

21 Interest rate risk sensitivity and exposure

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

22 Credit risk

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

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 2018	Forward currency contracts £'000
State Street Bank	(513)
Total	(513)

as at 30 June 2017	Forward currency contracts £'000
State Street Bank	990
Total	990

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	01.07.17	31.12.17	02.01.18	28.02.18
Final	01.01.18	30.06.18	02.07.18	31.08.18

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

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

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

M&G Dividend Fund

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23 Dividend distribution tables (continued)

Sterling Class 'A' Income shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	0.4144	0.3861	0.8005	0.8005
Final	1.1634	0.8851	2.0485	2.1467

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	1.3985	2.6161	4.0146	4.8940
Final	9.5670	6.5837	16.1507	15.2882

Sterling Class 'C' Income shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	0.6546	0.3087	0.9633	0.9486
Final	1.6298	0.8533	2.4831	2.5613

Sterling Class 'I' Income shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	6.2964	9.6197	15.9161	15.7947
Final	14.2806	26.6007	40.8813	42.5040

Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	7.0730	6.8830	13.9560	14.5255
Final	22.0644	21.2975	43.3619	41.9897

Sterling Class 'R' Income shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	0.4739	1.0973	1.5712	1.5632
Final	1.4557	2.5749	4.0306	4.2017

Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	0.0514	1.1646	1.2160	1.3194
Final	1.4443	2.6063	4.0506	3.8974

Sterling Class 'X' Income shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	0.4625	0.3417	0.8042	0.8043
Final	1.1678	0.8901	2.0579	2.1566

Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	2.7154	1.2560	3.9714	4.8420
Final	7.9347	8.0420	15.9767	15.1237

M&G Dividend Fund

Financial statements and notes

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M&G Emerging Markets Bond Fund

Authorised Corporate Director's Report

Investment objective

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

Investment policy

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 approach

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.

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.



The above number:

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

Investment review

As at 2 July 2018, for the year ended 30 June 2018

Performance against objective

Between 3 July 2017 (the start of the review period) and 2 July 2018, the M&G Emerging Markets Bond Fund recorded negative total returns (the combination of income and growth of capital) across its different share classes, with the exception of its unhedged Swiss franc share classes. Over this review period, therefore, the fund delivered a mixed performance against its objective, which is to maximise total returns. Over three and five years and since launch, the fund delivered a positive total return across different share classes*.

The main segments of the emerging bond markets generally posted negative returns, which detracted from the fund's overall performance. This weakness stemmed from a variety of global investment themes that adversely affected sentiment towards emerging markets during the second half of the period. However, for the fund's Swiss franc share classes, the increase in value of the US dollar against the Swiss currency helped to provide some upside. This resulted from our maintenance of a sizeable exposure to the US dollar in the fund.

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

Investment performance

The backdrop of further interest rate rises by the US Federal Reserve (Fed) continued to be a key theme in global financial markets during the 12-month period to 30 June 2018. This largely reflected the strengthening US economy, as interest rates are often linked with economic growth rates. The Fed confirmed a 0.25 percentage point increase in rates in December 2017, which was followed by two more rises during the first half of 2018, each by 0.25 percentage points. The moves added to the gradual steps taken by the US central bank in recent years to lift rates.

Higher interest rates typically dampen sentiment towards bonds. Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. Bonds issued by companies are referred to as 'corporate

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Investment review

Investment performance (continued)

bonds', while those issued by governments are called 'government bonds'. When interest rates rise, the value of a bond's fixed interest payments decline, thus dampening its price. Given the importance of the US market, the effects of increased US rates can be felt internationally, including in the emerging markets.

A variety of other themes concerned investors in emerging markets as 2018 progressed. These included the introduction of trade tariffs by the US, which were met with retaliatory measures on US exports by other regions. The prospect of a harmful trade war developing between the US and China became a focal point. There were also renewed economic and political challenges in emerging countries such as Turkey and Argentina. Attention in Turkey focused on the country's debt levels and inflation, as well as elections held in the final month of the period. In Argentina, central bank policy mistakes were largely blamed for a sharp depreciation of the peso and the country's application for a loan from the IMF. On the other hand, more encouragingly, relations between the West and North Korea – which had become tense over the latter's recent weapons testing activity – improved.

In terms of the overall performance of emerging market bonds, while moderate gains were registered in the second half of 2017, their returns declined in the six-month period to 30 June 2018. Throughout this time, we continued to believe that a key performance contributor when investing in these assets is the right allocation of a fund between corporate bonds and government bonds, denominated in either local currencies or 'hard' currencies such as the US dollar and euro. We maintained a preference for investing in a diversified way across emerging market regions, with allocations to each of these different segments of the market.

During the first half of the review period, this positioning supported the fund's performance, as each of these segments of the emerging bond markets generated positive returns. However, in the six-month period to 30 June 2018, these gains were offset as the emerging market government and corporate bond sectors both declined. Against this backdrop, the fund recorded negative returns for the review period across its different share classes, with the exception of its unhedged Swiss franc share classes. For the latter, the increase in value of the US dollar (in which the fund held a sizeable exposure) against the Swiss franc helped to provide some upside.

Investment activities

Throughout the period, our preference remained to invest in a globally diversified portfolio of emerging market government and corporate bonds. Within this strategy, we kept a higher overall exposure to bonds denominated in US dollars than to local emerging market currencies. However, our main investment activities included increasing the fund's allocation to local currency-denominated bonds. In our view, the appeal of this segment of the market was helped by some emerging market currencies being undervalued, as well as by the higher yields that could be found in this area of the market.

Within this activity, we purchased ringgit-denominated government bonds in Malaysia. As an oil producer, Malaysia stands to benefit from the recent strength in oil prices, in our view. We also thought the ringgit was attractively valued relative to other Asian currencies, and felt the backdrop of interest rate increases in Malaysia was supportive for the ringgit's outlook. In other regions, we bought local currency government bonds in Russia and Argentina towards the end of the period. In our opinion, the price declines in these markets had been overdone amid a variety of adverse considerations, including sanctions by the West against Russia. While such factors remained relevant, we felt prices in these markets had dropped to levels that offered appealing value. In smaller markets, we added to some existing local currency positions, including in the Dominican Republic based on our favourable view of the country's improving economy.

We also continued to monitor hard currency-denominated government bonds for buying opportunities during the market's general weakness in the final months of the review period. Our purchases included adding to some holdings from oil-related issuers in the Sub-Saharan Africa region, such as in Angola and Gabon. We considered these were further examples of countries that should benefit from firmer oil prices. In contrast, we sold government bonds in Abu Dhabi after decent performance, while the fund's holdings in Romania and Cote d'Ivoire were reduced.

As well as government bonds, the fund's flexible approach allows us to invest in emerging market corporate bonds. We consider this freedom to be helpful for the fund's diversification, as well as providing further potential to enhance its performance. During the period, our activity in the corporate markets included buying newly issued bonds from Peruvian retail group InRetail. This added exposure to a country that we think has encouraging economic prospects. We also favoured maintaining an allocation to the important Brazilian market, and added a position in Brazil Foods that we felt offered appealing value. However, we reduced a holding in Marfig, a food supplier in Brazil with a big presence in beef production.

Outlook

Despite the recent declines in emerging bond markets, we believe that some key fundamental factors remain supportive towards their medium-to-longer term outlook. These include broad-based global economic growth activity, despite some signs of softer data recently, and a firmer market for commodity prices, notably for oil.

In addition, emerging market bonds continue to offer an attractive pick-up in yield versus their developed market counterparts, with interest rates remaining especially low in Europe and the UK. The huge diversity of both the emerging market government and corporate bond universes provides another consideration in favour of this asset class, in our view.

While attention continues to focus on US monetary policy, we believe the higher US interest rate environment is less challenging for many emerging economies than in previous cycles. This is partly due to their lower overall levels of US dollar-denominated debt. However, US rate increases may still cause headwinds for those emerging economies that are more dependent on US dollar funding.

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Investment review

Outlook (continued)

Other concerns in the emerging markets outlook include the possibility of trade tariffs becoming more widespread, as well as country-specific difficulties in Argentina and Turkey. However, when considering the opportunities, we would note that measures of creditworthiness have improved across emerging market bond issuers, helped by the decent global economic growth backdrop.

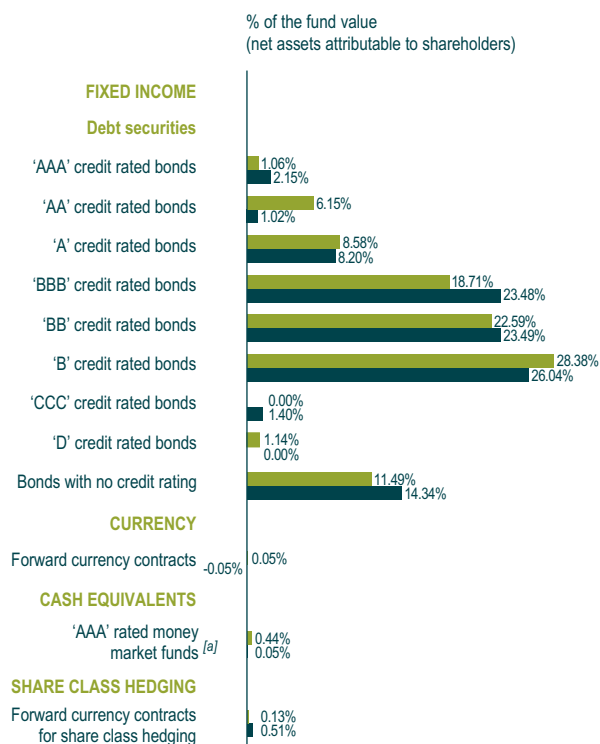
In our overall approach, we continue to believe that flexibility remains key for successfully investing in the emerging bond markets, with the freedom to hold those bonds and currencies that offer the best relative value and avoid countries or industries where the outlook is unfavourable.

Claudia Calich
Fund manager

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

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

Classification of investments



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

■ 30 June 2018
■ 30 June 2017

Source: M&G

M&G Emerging Markets Bond Fund

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Investments

Portfolio statement

as at 30 June Holding	2018 \$'000	2018 %	2017 %
FIXED INCOME	1,161,199	98.10	100.12
Debt securities	1,161,199	98.10	100.12
'AAA' credit rated bonds	12,600	1.06	2.15
INR500,000,000 European Bank for Reconstruction & Development 6% 2020	7,133	0.60	
INR400,000,000 International Finance 5.85% 2022	5,467	0.46	
'AA' credit rated bonds	72,822	6.15	1.02
\$11,000,000 Qatar (State of) 6.4% 2040	13,038	1.10	
\$59,000,000 US Treasury 3.625% 2019	59,784	5.05	
'A' credit rated bonds	101,583	8.58	8.20
CLP4,000,000,000 Chile (Republic of) 5.5% 2020	6,392	0.54	
ILS68,000,000 Israel (State of) 2.25% 2019	18,929	1.60	
RM93,000,000 Malaysia (Govt. of) 3.882% 2022	23,073	1.95	
MXN184,000,000 Mexico (United Mexican States) 10% 2024	10,466	0.88	
PEN55,500,000 Peru (Republic of) 8.2% 2026	20,166	1.70	
PLN50,000,000 Poland (Republic of) 2.5% 2026	12,750	1.08	
THB300,000,000 Thailand (Kingdom of) 1.2% IL 2021	9,807	0.83	
'BBB' credit rated bonds	221,493	18.71	23.48
\$5,100,000 Aeropuerto Internacional de Tocumen 5.625% 2036	5,361	0.45	
\$3,596,700 Aeropuerto Internacional de Tocumen 5.75% 2023	3,741	0.32	
COP49,029,000,000 Bogota Distrito Capital 9.75% 2028	18,140	1.53	
\$7,050,000 Gaz Capital 7.288% 2037	7,919	0.67	
IDR308,000,000,000 Indonesia (Republic of) 8.25% 2036	21,132	1.79	
KZT1,850,000,000 Kazakhstan (Republic of) 0% 2018	5,261	0.44	
KZT1,600,000,000 Kazakhstan (Republic of) 0% 2019	4,371	0.37	
£7,350,000 Mexico (United Mexican States) 5.625% 2114	9,793	0.83	
MXN135,000,000 Mexico (United Mexican States) 8% 2047	7,102	0.60	
\$11,500,000 Morocco (Kingdom of) 5.5% 2042	11,629	0.98	
INR1,400,000,000 National Highways 7.3% 2022	19,830	1.68	
PHP690,000,000 Philippines (Republic of) 6.25% 2036	13,655	1.15	
\$10,000,000 Portugal (Republic of) 5.125% 2024	10,344	0.87	
RUB2,145,000,000 Russia (Federation of) 8.15% 2027	35,362	2.99	
\$7,900,000 Southern Gas Corridor 6.875% 2026	8,535	0.72	
THB333,000,000 Thailand (Kingdom of) 1.25% IL 2028	9,838	0.83	
UYU125,000,000 Uruguay (Republic of) 4.375% 2028	7,191	0.61	
UYU301,359,000 Uruguay (Republic of) 8.5% 2028	8,297	0.70	
UYU240,290,000 Uruguay (Republic of) 9.875% 2022	7,564	0.64	
\$7,000,000 Vanke Real Estate (Hong Kong) 3.975% 2027	6,428	0.54	
'BB' credit rated bonds	267,401	22.59	23.49
\$7,000,000 ABJA Investment 5.45% 2028	5,930	0.50	
\$11,000,000 Bahamas (Commonwealth of) 6% 2028	11,037	0.93	
\$9,000,000 Bolivia (Plurinational State of) 4.5% 2028	7,802	0.66	
BRL91,500,000 Brazil (Federal Republic of) 10% 2025	22,247	1.88	
\$7,200,000 BRF 3.950% 2023	6,295	0.53	
\$6,250,000 C&W Senior Financing Designated 6.875% 2027	6,021	0.51	
\$6,000,000 Croatia (Republic of) 6% 2024	6,438	0.54	
KZT3,783,000,000 Development Bank of Kazakhstan 9.5% 2020	11,187	0.95	
DOP37,000,000 Dominican Republic 10.4% 2019	759	0.06	

Portfolio statement (continued)

as at 30 June Holding	2018 \$'000	2018 %	2017 %
'BB' credit rated bonds (continued)			
DOP275,000,000 Dominican Republic 10.5% 2023	5,835	0.49	
DOP220,900,000 Dominican Republic 15% 2019	4,672	0.39	
DOP146,900,000 Dominican Republic 15.95% 2021	3,520	0.30	
DOP75,000,000 Dominican Republic 16.95% 2022	1,876	0.16	
\$8,000,000 Dominican Republic 7.45% 2044	8,382	0.71	
DOP130,250,000 Dominican Republic 8.9% 2023	2,680	0.23	
\$7,000,000 Grupo Kuo SAB de 5.75% 2027	6,434	0.54	
\$3,950,000 Grupo Unicomer 7.875% 2024	4,116	0.35	
\$11,500,000 Guatemala (Republic of) 4.5% 2026	10,965	0.93	
\$12,800,000 Honduras (Republic of) 7.5% 2024	13,640	1.15	
\$6,000,000 Hunt Oil (Peru) 6.375% 2028	6,052	0.51	
\$8,539,000 Inretail Pharma 5.375% 2023	8,633	0.73	
€9,750,000 Macedonia (Govt. of) 5.625% 2023	12,882	1.09	
\$8,100,000 MAF Global Securities 5.5% Perp.	7,717	0.65	
\$5,000,000 MAF Global Securities Var. Rate Perp. (6.375%)	4,804	0.41	
\$8,572,000 Oman (Salutante of) 5.625% 2028	8,071	0.68	
\$8,572,000 Oman (Salutante of) 6.75% 2048	7,763	0.66	
\$7,000,000 Paraguay (Republic of) 6.1% 2044	7,227	0.61	
\$7,333,000 Perusahaan Listrik Negara 4.125% 2027	6,747	0.57	
\$8,500,000 Petrobras Global Finance 5.75% 2029	7,425	0.63	
\$7,044,000 Petrobras Global Finance 7.375% 2027	7,011	0.59	
\$6,700,000 Rede D'or Finance 4.95% 2028	5,921	0.50	
ZAR328,000,000 South Africa (Republic of) 8.75% 2048	21,542	1.82	
TL55,000,000 Turkey (Republic of) 11% 2027	8,989	0.76	
\$7,200,000 Veon 4.95% 2024	6,781	0.57	
'B' credit rated bonds	335,833	28.38	26.04
€7,500,000 Albania (Republic of) 5.75% 2020	9,560	0.81	
\$10,571,000 Angola (Republic of) 9.375% 2048	10,653	0.90	
\$8,600,000 Angola (Republic of) 9.5% 2025	9,360	0.79	
ARS22,171,532 Argentina (Republic of) 21.2% 2018	760	0.06	
€13,623,427 Argentina (Republic of) 7.82% 2033	15,810	1.34	
ARS140,625,000 Argentina (Republic of) FRN 2020	5,160	0.44	
ARS150,000,000 Argentina (Republic of) 21.2% 2018	5,591	0.47	
ARS150,000,000 Argentina (Republic of) 24.72% 2018	5,436	0.46	
\$8,324,000 Buenos Aires (Province of) 7.875% 2027	7,283	0.62	
\$7,000,000 Cameroon (Republic of) 9.5% 2025	7,357	0.62	
\$12,000,000 Córdoba (Province of) 7.125% 2027	9,933	0.84	
\$7,937,000 Ecuador (Republic of) 7.875% 2028	6,647	0.56	
\$10,900,000 Ecuador (Republic of) 8.75% 2023	10,192	0.86	
\$5,000,000 Ecuador (Republic of) 8.875% 2027	4,427	0.37	
EGP75,000,000 Egypt (Arab Republic of) 0% 2018 (10 Jul)	4,175	0.35	
EGP117,450,000 Egypt (Arab Republic of) 0% 2018 (30 Sep)	6,168	0.52	
€10,000,000 Egypt (Arab Republic of) 5.625% 2030	10,479	0.89	
EGP95,125,000 Egypt (Arab Republic of) 0% 2019	4,611	0.39	
\$11,700,000 Ethiopia 6.625% 2024	11,407	0.96	
\$9,000,000 Ghana (Republic of) 10.75% 2030	10,903	0.92	
\$8,500,000 Jamaica (Govt. of) 8% 2039	9,520	0.80	
\$6,000,000 Jordan (Kingdom of) 7.375% 2047	5,499	0.46	
\$12,000,000 JSC Georgia Capital 6.125% 2024	11,238	0.95	
\$8,500,000 Kernel 8.75% 2022	8,353	0.71	
\$5,951,000 MARB BondCo 6.875% 2025	5,639	0.48	
\$6,000,000 MHP 7.75% 2024	6,016	0.51	
\$4,767,000 Nigeria (Federal Republic of) 6.5% 2027	4,433	0.37	
NGN3,040,178,000 Nigeria (Federal Republic of) 0.01% 2018	8,313	0.70	

M&G Emerging Markets Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 30 June Holding	2018 \$'000	2018 %	2017 %
'B' credit rated bonds (continued)			
NGN2,729,000,000 Nigeria (Federal Republic of) 1% 2018	7,494	0.63	
NGN3,000,000,000 Nigeria (Federal Republic of) 0.01% 2019	7,735	0.65	
\$11,200,000 Pakistan (Islamic Republic of) 7.875% 2036	9,255	0.78	
\$15,535,000 Rwanda (Republic of) 6.625% 2023	15,416	1.30	
€8,358,000 Senegal (Republic of) 4.75% 2028	9,072	0.77	
\$8,650,000 Senegal (Republic of) 6.25% 2033	7,672	0.65	
\$7,000,000 Sri Lanka (Republic of) 5.75% 2023	6,712	0.57	
\$10,200,000 Sri Lanka (Republic of) 6.85% 2025	9,871	0.83	
\$7,867,000 Tajiki (Republic of) 7.125% 2027	6,975	0.59	
\$6,698,000 Ukraine (Republic of) 7.375% 2032	5,747	0.49	
\$12,100,000 Ukraine (Republic of) 7.75% 2022	11,813	1.00	
\$5,500,000 VTR Finance 6.875% 2024	5,534	0.47	
\$6,500,000 Yingde Gases Investment 6.25% 2023	6,096	0.52	
\$6,100,000 YPF Sociedad Anónima 8.5% 2025	5,756	0.49	
\$6,500,000 Zambia (Republic of) 8.5% 2024	5,762	0.49	
'CCC' credit rated bonds	0	0.00	1.40
'D' credit rated bonds	13,540	1.14	0.00
\$23,000,000 PDVSA 5.375% 2027	5,223	0.44	
\$23,000,000 Venezuela (Republic of) 7% 2038	6,150	0.52	
\$8,000,000 Venezuela (Republic of) 9.25% 2028	2,167	0.18	
Bonds with no credit rating	135,927	11.49	14.34
\$4,000,000 Armenia (Republic of) 7.15% 2025	4,179	0.35	
\$5,350,000 Armenia (Republic of) 7.15% 2025	5,589	0.47	
€7,500,000 Central Bank Tunisia 5.625% 2024	8,536	0.72	
€9,514,000 Côte d'Ivoire (Republic of) 5.25% 2030	10,599	0.90	
€8,649,000 Côte d'Ivoire (Republic of) 6.625% 2048	9,464	0.80	
\$6,667,000 Dar Al-Arkan Sukuk 6.875% 2023	6,290	0.53	
\$16,900,000 Debt and Asset Trading 1% 2025	11,632	0.98	
\$5,350,000 DP World 6.85% 2037	6,098	0.52	
\$10,375,000 Gabonese (Republic of) 6.95% 2025	9,393	0.79	
\$6,500,000 GTLK Europe DAC 5.125% 2024	6,137	0.52	
\$6,900,000 Liquid Telecom Finance 8.5% 2022	6,870	0.58	
\$6,000,000 Oil & Gas Holdings 7.5% 2027	5,324	0.45	
\$7,000,000 Petroleos de Venezuela 9.75% 2035	1,644	0.14	
\$11,593,000 Royal Capital 5.875% Perp.	10,900	0.92	
\$6,000,000 SSB No.1 Var. Rate 2025 (9.625%)	6,008	0.51	
\$5,902,231 Tanzania (United Republic of) FRN 2020	5,980	0.51	
\$10,000,000 TC Ziraat Bankasi 5.125% 2023	8,868	0.75	
\$5,600,000 Trust F/1401 5.250% 2026	5,444	0.46	
\$7,900,000 Yapı ve Kredi Bankası 5.85% 2024	6,972	0.59	
CURRENCY	630	0.05	(0.05)
Forward currency contracts	630	0.05	(0.05)
€(82,876,712) Sold for \$97,003,048 (expires 25.07.18)	378	0.03	
£(2,800,000) Sold for \$3,722,197 (expires 25.07.18)	40	0.00	
UAH270,000,000 Bought for \$9,981,516 (expires 25.07.18)	182	0.02	
UAH135,000,000 Bought for \$4,990,758 (expires 22.08.18)	30	0.00	
UAH135,000,000 Bought for \$4,963,235 (expires 19.09.18)	0	0.00	
Portfolio of investments	1,161,829	98.15	100.07

Portfolio statement (continued)

as at 30 June Holding	2018 \$'000	2018 %	2017 %
CASH EQUIVALENTS	5,135	0.44	0.05
'AAA' rated money market funds ^[a]	5,135	0.44	0.05
5,135,000 Northern Trust Global Fund - US dollar	5,135	0.44	
SHARE CLASS HEDGING	1,536	0.13	0.51
Forward currency contracts for share class hedging	1,536	0.13	0.51
€364,448,987 Bought for \$422,837,033 (expires 25.07.18)	2,069	0.18	
€(16,126,012) Sold for \$18,691,014 (expires 25.07.18)	(110)	(0.01)	
£97,619,633 Bought for \$128,866,809 (expires 25.07.18)	(473)	(0.04)	
£(18,172,700) Sold for \$23,950,473 (expires 25.07.18)	49	0.00	
CHF793,362 Bought for \$798,709 (expires 25.07.18)	1	0.00	
CHF(11,581) Sold for \$11,640 (expires 25.07.18)	0	0.00	
Total portfolio (notes 2c & 2d on page 7)	1,168,500	98.72	100.63
Net other assets / (liabilities)	15,143	1.28	(0.63)
Net assets attributable to shareholders	1,183,643	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 show the performance for two of the fund's share classes – Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

We show performance for these two share classes because:

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

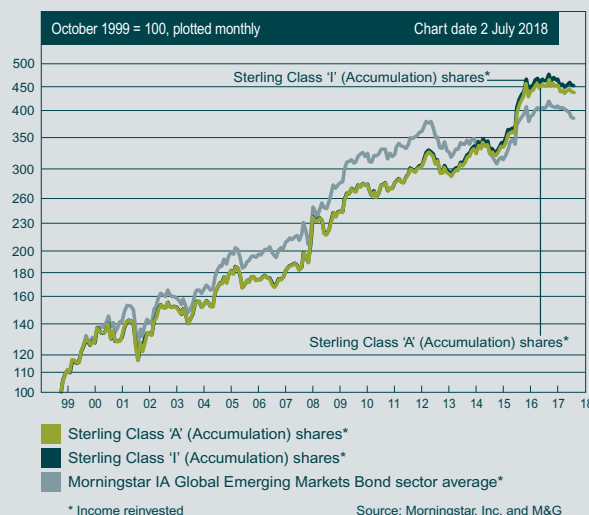
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 30 June	2018 \$'000	2017 \$'000	2016 \$'000
Fund net asset value (NAV)	1,183,643	523,208	225,690

Performance since launch

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



The fund's Sterling Class 'I' (Accumulation) shares were launched on 19 April 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

M&G Emerging Markets Bond Fund

Financial highlights

Fund performance

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

Long-term performance by share class				
	One year 03.07.17 % ^[a]	Three years 02.07.15 % p.a.	Five years 02.07.13 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A'	-3.9	+2.9	+7.0	+6.7 ^[c]
Class 'A-H'	-4.2	+2.8	n/a	+1.7 ^[d]
Class 'B'	-4.3	+2.3	n/a	+6.8 ^[e]
Class 'B-H'	-4.7	n/a	n/a	+3.3 ^[f]
Class 'C'	-3.2	+3.5	+7.6	+7.2 ^[c]
Class 'C-H'	-3.5	+3.3	n/a	+2.2 ^[d]
Sterling ^[g]				
Class 'A'	-3.2	+10.2	+7.1	+8.4 ^[h]
Class 'I'	-2.5	+10.8	+7.6	+7.8 ^[c]
Class 'I-H'	-2.6	n/a	n/a	+4.1 ^[i]
Class 'R'	-2.9	+10.5	+7.3	+6.7 ^[j]
Class 'X'	-3.2	+10.2	+7.1	+8.1 ^[k]
Swiss franc ^[b]				
Class 'A'	+1.6	+6.2	n/a	+5.9 ^[e]
Class 'A-H'	-4.5	n/a	n/a	+2.3 ^[i]
Class 'C'	+2.2	+6.8	n/a	+6.5 ^[e]
Class 'C-H'	-3.9	n/a	n/a	+2.9 ^[i]
US dollar ^[b]				
Class 'A'	-1.6	+4.6	+4.6	+4.6 ^[c]
Class 'C'	-1.0	+5.2	+5.2	+5.2 ^[c]

^[a] Absolute basis.

^[b] Price to price with gross income reinvested.

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

^[d] 10 November 2014, the launch date of the share class.

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

^[f] 11 September 2015, the launch date of the share class.

^[g] Price to price with income reinvested.

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

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

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

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

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

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

M&G Emerging Markets Bond Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs				
for the year to 30 June	2018	2017	2016	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.80	0.65	0.80	0.75

^[a] Average of first three columns.

Specific share class performance

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

Euro Class 'A' Income share performance

The share class was launched on 12 July 2013.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,276.15	1,259.58	1,239.75
Return before operating charges and after direct portfolio transaction costs	(26.91)	114.62	97.85
Operating charges	(17.76)	(19.37)	(17.91)
Return after operating charges	(44.67)	95.25	79.94
Distributions	(74.38)	(78.68)	(60.11)
Closing NAV	1,157.10	1,276.15	1,259.58
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.44	1.44	1.44
Return after operating charges	-3.50	+7.56	+6.45
Distribution yield ^[c]	6.59	6.66	4.59
Effect on yield of charges offset against capital	1.40	1.40	0.00
Other information			
Closing NAV (\$'000)	22,967	16,157	4,982
Closing NAV percentage of total fund NAV (%)	1.94	3.09	2.21
Number of shares	1,705,124	1,110,158	354,898
Highest share price (Euro ¢)	1,300.88	1,390.41	1,314.17
Lowest share price (Euro ¢)	1,185.67	1,276.61	1,156.11

M&G Emerging Markets Bond Fund

Financial highlights

Specific share class performance

Euro Class 'A' Accumulation share performance

The share class was launched on 19 April 2012.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,539.01	1,431.23	1,342.93
Return before operating charges and after direct portfolio transaction costs	(33.83)	130.32	107.73
Operating charges	(21.72)	(22.54)	(19.43)
Return after operating charges	(55.55)	107.78	88.30
Distributions	(69.54)	(69.34)	(65.77)
Retained distributions	69.54	69.34	65.77
Closing NAV	1,483.46	1,539.01	1,431.23

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.44	1.44	1.45
Return after operating charges	-3.61	+7.53	+6.58
Distribution yield	5.18	5.26	4.58
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	74,901	61,484	10,627
Closing NAV percentage of total fund NAV (%)	6.33	11.75	4.71
Number of shares	4,337,543	3,503,064	666,181
Highest share price (Euro ¢)	1,568.68	1,625.71	1,444.60
Lowest share price (Euro ¢)	1,471.36	1,450.05	1,267.53

Euro Class 'A-H' Income share performance

The share class was launched on 10 November 2014.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	943.68	927.01	924.35
Return before operating charges and after direct portfolio transaction costs	(23.78)	86.69	60.13
Operating charges	(13.56)	(13.98)	(13.48)
Return after operating charges	(37.34)	72.71	46.65
Distributions	(55.84)	(56.04)	(43.99)
Closing NAV	850.50	943.68	927.01

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.46	1.46	1.46
Return after operating charges	-3.96	+7.84	+5.05
Distribution yield ^[c]	6.57	6.54	4.62
Effect on yield of charges offset against capital	1.42	1.42	0.00

Other information

Closing NAV (\$'000)	11,557	2,008	854
Closing NAV percentage of total fund NAV (%)	0.98	0.38	0.38
Number of shares	1,167,333	186,595	82,630
Highest share price (Euro ¢)	979.47	984.95	956.52
Lowest share price (Euro ¢)	876.38	913.41	861.67

Euro Class 'A-H' Accumulation share performance

The share class was launched on 10 November 2014.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,104.43	1,022.27	970.39
Return before operating charges and after direct portfolio transaction costs	(29.72)	97.56	66.49
Operating charges	(16.44)	(15.40)	(14.61)
Return after operating charges	(46.16)	82.16	51.88
Distributions	(50.46)	(47.89)	(46.83)
Retained distributions	50.46	47.89	46.83
Closing NAV	1,058.27	1,104.43	1,022.27

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.46	1.46	1.45
Return after operating charges	-4.18	+8.04	+5.35
Distribution yield	5.15	5.13	4.62
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	69,922	20,783	4,128
Closing NAV percentage of total fund NAV (%)	5.91	3.97	1.83
Number of shares	5,676,009	1,650,000	362,325
Highest share price (Euro ¢)	1,164.13	1,118.44	1,030.35
Lowest share price (Euro ¢)	1,055.19	1,016.30	927.51

Euro Class 'B' Income share performance

The share class was launched on 11 September 2015.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,046.58	1,038.16	1,000.00
Return before operating charges and after direct portfolio transaction costs	(22.08)	94.76	98.43
Operating charges	(19.59)	(21.64)	(15.75)
Return after operating charges	(41.67)	73.12	82.68
Distributions	(60.84)	(64.70)	(44.52)
Closing NAV	944.07	1,046.58	1,038.16

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.94	1.95	1.95
Return after operating charges	-3.98	+7.04	+8.27
Distribution yield ^[c]	6.59	6.67	4.10
Effect on yield of charges offset against capital	1.90	1.90	0.00

Other information

Closing NAV (\$'000)	3,473	2,418	127
Closing NAV percentage of total fund NAV (%)	0.29	0.46	0.06
Number of shares	316,053	202,551	11,000
Highest share price (Euro ¢)	1,064.88	1,141.50	1,081.20
Lowest share price (Euro ¢)	969.21	1,052.12	952.40

M&G Emerging Markets Bond Fund

Financial highlights

Specific share class performance

Euro Class 'B' Accumulation share performance

The share class was launched on 26 July 2013.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,433.36	1,339.52	1,263.21
Return before operating charges and after direct portfolio transaction costs	(31.34)	122.13	101.05
Operating charges	(27.24)	(28.29)	(24.74)
Return after operating charges	(58.58)	93.84	76.31
Distributions	(57.50)	(57.59)	(55.39)
Retained distributions	57.50	57.59	55.39
Closing NAV	1,374.78	1,433.36	1,339.52

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.94	1.95	1.94
Return after operating charges	-4.09	+7.01	+6.04
Distribution yield	4.68	4.76	4.10
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	13,013	10,843	2,323
Closing NAV percentage of total fund NAV (%)	1.10	2.07	1.03
Number of shares	813,161	663,282	155,563
Highest share price (Euro ¢)	1,458.41	1,515.82	1,352.25
Lowest share price (Euro ¢)	1,366.06	1,357.21	1,191.32

Euro Class 'B-H' Income share performance

The share class was launched on 11 September 2015.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,030.89	1,017.65	1,000.00
Return before operating charges and after direct portfolio transaction costs	(25.61)	95.34	76.82
Operating charges	(20.13)	(20.82)	(15.64)
Return after operating charges	(45.74)	74.52	61.18
Distributions	(60.89)	(61.28)	(43.53)
Closing NAV	924.26	1,030.89	1,017.65

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.95	2.00	1.96
Return after operating charges	-4.44	+7.32	+6.12
Distribution yield ^[c]	6.58	6.54	4.12
Effect on yield of charges offset against capital	1.92	1.92	0.00

Other information

Closing NAV (\$'000)	6,528	2,414	34
Closing NAV percentage of total fund NAV (%)	0.55	0.46	0.02
Number of shares	606,736	205,296	3,005
Highest share price (Euro ¢)	1,068.50	1,076.12	1,047.45
Lowest share price (Euro ¢)	952.54	999.95	945.59

Euro Class 'B-H' Accumulation share performance

The share class was launched on 11 September 2015.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,142.87	1,063.05	1,000.00
Return before operating charges and after direct portfolio transaction costs	(30.74)	101.67	78.96
Operating charges	(22.73)	(21.85)	(15.91)
Return after operating charges	(53.47)	79.82	63.05
Distributions	(46.31)	(44.14)	(43.99)
Retained distributions	46.31	44.14	43.99
Closing NAV	1,089.40	1,142.87	1,063.05

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.96	1.97	1.96
Return after operating charges	-4.68	+7.51	+6.31
Distribution yield	4.65	4.63	4.12
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	10,105	2,048	60
Closing NAV percentage of total fund NAV (%)	0.85	0.39	0.03
Number of shares	796,895	157,111	5,078
Highest share price (Euro ¢)	1,200.91	1,157.48	1,071.45
Lowest share price (Euro ¢)	1,086.44	1,054.64	967.26

Euro Class 'C' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,344.79	1,318.90	1,298.04
Return before operating charges and after direct portfolio transaction costs	(28.73)	120.14	102.34
Operating charges	(9.85)	(11.30)	(12.12)
Return after operating charges	(38.58)	108.84	90.22
Distributions	(78.75)	(82.95)	(69.36)
Closing NAV	1,227.46	1,344.79	1,318.90

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.79	0.81*	0.94
Return after operating charges	-2.87	+8.25	+6.95
Distribution yield ^[c]	6.60	6.67	5.08
Effect on yield of charges offset against capital	0.75	0.75	0.00

Other information

Closing NAV (\$'000)	1,234	22	21
Closing NAV percentage of total fund NAV (%)	0.10	0.00	0.01
Number of shares	86,392	1,434	1,434
Highest share price (Euro ¢)	1,374.14	1,463.16	1,378.56
Lowest share price (Euro ¢)	1,254.67	1,336.88	1,211.25

* As the annual management charge has been discounted during the period, 0.78% is a more reliable estimate of the operating charges for the period to 30.06.17.

M&G Emerging Markets Bond Fund

Financial highlights

Specific share class performance

Euro Class 'C' Accumulation share performance

The share class was launched on 19 April 2012.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,582.14	1,462.29	1,365.07
Return before operating charges and after direct portfolio transaction costs	(34.88)	132.77	110.20
Operating charges	(12.27)	(12.92)	(12.98)
Return after operating charges	(47.15)	119.85	97.22
Distributions	(81.98)	(80.78)	(74.06)
Retained distributions	81.98	80.78	74.06
Closing NAV	1,534.99	1,582.14	1,462.29
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.79	0.80	0.94
Return after operating charges	-2.98	+8.20	+7.12
Distribution yield	5.84	5.87	5.08
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	72,132	51,564	4,125
Closing NAV percentage of total fund NAV (%)	6.09	9.86	1.83
Number of shares	4,036,942	2,857,779	253,108
Highest share price (Euro ¢)	1,616.42	1,668.92	1,475.88
Lowest share price (Euro ¢)	1,518.84	1,481.60	1,289.37

Euro Class 'C-H' Income share performance

The share class was launched on 10 November 2014.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	946.21	923.51	921.44
Return before operating charges and after direct portfolio transaction costs	(23.99)	86.46	59.57
Operating charges	(7.75)	(7.52)	(8.67)
Return after operating charges	(31.74)	78.94	50.90
Distributions	(56.26)	(56.24)	(48.83)
Closing NAV	858.21	946.21	923.51
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.81	0.83*	0.95
Return after operating charges	-3.35	+8.55	+5.52
Distribution yield ^[c]	6.57	6.55	5.14
Effect on yield of charges offset against capital	0.77	0.77	0.00
Other information			
Closing NAV (\$'000)	14,017	279	10
Closing NAV percentage of total fund NAV (%)	1.18	0.05	0.00
Number of shares	1,403,092	25,896	1,000
Highest share price (Euro ¢)	985.16	987.18	955.43
Lowest share price (Euro ¢)	884.13	912.82	859.17

* As the annual management charge has been discounted during the period, 0.80% is a more reliable estimate of the operating charges for the period to 30.06.17.

Euro Class 'C-H' Accumulation share performance

The share class was launched on 10 November 2014.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,116.73	1,027.37	971.09
Return before operating charges and after direct portfolio transaction costs	(30.16)	98.42	65.73
Operating charges	(9.25)	(9.06)	(9.45)
Return after operating charges	(39.41)	89.36	56.28
Distributions	(58.56)	(54.82)	(51.88)
Retained distributions	58.56	54.82	51.88
Closing NAV	1,077.32	1,116.73	1,027.37
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.81	0.83*	0.96
Return after operating charges	-3.53	+8.70	+5.80
Distribution yield	5.80	5.74	5.12
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	292,789	82,780	4,299
Closing NAV percentage of total fund NAV (%)	24.74	15.82	1.90
Number of shares	23,347,427	6,499,831	375,402
Highest share price (Euro ¢)	1,181.82	1,130.50	1,035.66
Lowest share price (Euro ¢)	1,074.00	1,023.89	931.35

* As the annual management charge has been discounted during the period, 0.82% is a more reliable estimate of the operating charges for the period to 30.06.17.

Sterling Class 'A' Income share performance

The share class was launched on 1 October 2002.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	98.68	91.59	77.62
Return before operating charges and after direct portfolio transaction costs	(1.27)	14.58	19.30
Operating charges	(1.39)	(1.45)	(1.17)
Return after operating charges	(2.66)	13.13	18.13
Distributions	(5.80)	(6.04)	(4.16)
Closing NAV	90.22	98.68	91.59
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.43	1.44	1.44
Return after operating charges	-2.70	+14.34	+23.36
Distribution yield ^[c]	6.59	6.66	4.59
Effect on yield of charges offset against capital	1.40	1.40	0.00
Other information			
Closing NAV (\$'000)	2,900	4,399	3,114
Closing NAV percentage of total fund NAV (%)	0.25	0.84	1.38
Number of shares	2,446,112	3,434,988	2,520,881
Highest share price (UK p)	102.42	106.26	95.08
Lowest share price (UK p)	91.42	94.15	74.87

M&G Emerging Markets Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	221.99	194.94	158.96
Return before operating charges and after direct portfolio transaction costs	(3.10)	31.12	40.11
Operating charges	(3.16)	(3.13)	(2.41)
Return after operating charges	(6.26)	27.99	37.70
Distributions	(10.12)	(9.95)	(8.58)
Retained distributions	10.12	9.01	6.86
Closing NAV	215.73	221.99	194.94
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.43	1.44	1.44
Return after operating charges	-2.82	+14.36	+23.72
Distribution yield	5.18	5.27	4.59
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	3,257	3,387	2,342
Closing NAV percentage of total fund NAV (%)	0.28	0.65	1.04
Number of shares	1,149,090	1,175,620	890,630
Highest share price (UK p)	230.38	229.28	198.50
Lowest share price (UK p)	211.61	200.31	153.28

Sterling Class 'I' Income share performance

The share class was launched on 19 April 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	133.08	122.73	104.02
Return before operating charges and after direct portfolio transaction costs	(1.74)	19.57	25.89
Operating charges	(1.03)	(1.10)	(1.03)
Return after operating charges	(2.77)	18.47	24.86
Distributions	(7.85)	(8.12)	(6.15)
Closing NAV	122.46	133.08	122.73
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.79	0.81*	0.94
Return after operating charges	-2.08	+15.05	+23.90
Distribution yield ^[c]	6.59	6.66	5.08
Effect on yield of charges offset against capital	0.75	0.75	0.00
Other information			
Closing NAV (\$'000)	120,174	73,978	32,244
Closing NAV percentage of total fund NAV (%)	10.14	14.14	14.29
Number of shares	74,689,403	42,832,068	19,477,416
Highest share price (UK p)	138.27	142.65	127.65
Lowest share price (UK p)	123.92	126.17	100.39

* As the annual management charge has been discounted during the period, 0.79% is a more reliable estimate of the operating charges for the period to 30.06.17.

Sterling Class 'I' Accumulation share performance

The share class was launched on 19 April 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	162.75	142.11	115.43
Return before operating charges and after direct portfolio transaction costs	(2.29)	22.71	29.22
Operating charges	(1.27)	(1.29)	(1.16)
Return after operating charges	(3.56)	21.42	28.06
Distributions	(8.51)	(8.26)	(6.89)
Retained distributions	8.51	7.48	5.51
Closing NAV	159.19	162.75	142.11
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.79	0.81*	0.94
Return after operating charges	-2.19	+15.07	+24.31
Distribution yield	5.84	5.87	5.08
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	188,425	133,202	41,633
Closing NAV percentage of total fund NAV (%)	15.92	25.46	18.45
Number of shares	90,080,597	63,063,127	21,719,701
Highest share price (UK p)	169.09	168.06	144.71
Lowest share price (UK p)	155.95	146.03	111.38

* As the annual management charge has been discounted during the period, 0.79% is a more reliable estimate of the operating charges for the period to 30.06.17.

Sterling Class 'I-H' Income share performance

The share class was launched on 24 July 2015.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	104.06	100.35	100.00
Return before operating charges and after direct portfolio transaction costs	(1.59)	10.80	6.60
Operating charges	(0.85)	(0.88)	(0.88)
Return after operating charges	(2.44)	9.92	5.72
Distributions	(6.22)	(6.21)	(5.37)
Closing NAV	95.40	104.06	100.35
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.81	0.82*	0.96
Return after operating charges	-2.34	+9.89	+5.72
Distribution yield ^[c]	6.67	6.56	5.34
Effect on yield of charges offset against capital	0.77	0.77	0.00
Other information			
Closing NAV (\$'000)	42,591	8,354	27
Closing NAV percentage of total fund NAV (%)	3.60	1.60	0.01
Number of shares	33,978,254	6,185,809	20,000
Highest share price (UK p)	108.87	108.60	103.33
Lowest share price (UK p)	98.22	100.04	92.57

* As the annual management charge has been discounted during the period, 0.83% is a more reliable estimate of the operating charges for the period to 30.06.17.

M&G Emerging Markets Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'I-H' Accumulation share performance

The share class was launched on 24 July 2015.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	114.88	104.83	100.00
Return before operating charges and after direct portfolio transaction costs	(2.01)	11.49	6.81
Operating charges	(0.96)	(0.91)	(0.89)
Return after operating charges	(2.97)	10.58	5.92
Distributions	(6.06)	(5.71)	(5.43)
Retained distributions	6.06	5.18	4.34
Closing NAV	111.91	114.88	104.83
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.81	0.82	0.96
Return after operating charges	-2.59	+10.09	+5.92
Distribution yield	5.89	5.78	5.34
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	60,640	984	28
Closing NAV percentage of total fund NAV (%)	5.12	0.19	0.01
Number of shares	41,238,190	659,831	20,000
Highest share price (UK p)	122.22	116.25	105.65
Lowest share price (UK p)	111.53	104.94	94.65

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	124.34	115.11	97.55
Return before operating charges and after direct portfolio transaction costs	(1.64)	18.34	24.27
Operating charges	(1.44)	(1.51)	(1.22)
Return after operating charges	(3.08)	16.83	23.05
Distributions	(7.32)	(7.60)	(5.49)
Closing NAV	113.94	124.34	115.11
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.19	1.19	1.19
Return after operating charges	-2.48	+14.62	+23.63
Distribution yield ^[c]	6.59	6.66	4.84
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (\$'000)	845	137	134
Closing NAV percentage of total fund NAV (%)	0.07	0.03	0.06
Number of shares	564,280	84,847	86,453
Highest share price (UK p)	129.10	133.65	119.61
Lowest share price (UK p)	115.41	118.33	94.12

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	150.09	131.44	106.96
Return before operating charges and after direct portfolio transaction costs	(2.07)	21.06	27.05
Operating charges	(1.78)	(1.73)	(1.35)
Return after operating charges	(3.85)	19.33	25.70
Distributions	(7.24)	(7.12)	(6.10)
Retained distributions	7.24	6.44	4.88
Closing NAV	146.24	150.09	131.44
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	1.19	1.18	1.19
Return after operating charges	-2.57	+14.71	+24.03
Distribution yield	5.43	5.53	4.84
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	2,154	19	30
Closing NAV percentage of total fund NAV (%)	0.18	0.00	0.01
Number of shares	1,120,772	9,971	17,000
Highest share price (UK p)	155.83	155.00	133.85
Lowest share price (UK p)	143.37	135.07	103.17

Sterling Class 'X' Income share performance

The share class was launched on 15 October 1999.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	97.23	90.24	76.48
Return before operating charges and after direct portfolio transaction costs	(1.26)	14.37	19.01
Operating charges	(1.37)	(1.43)	(1.16)
Return after operating charges	(2.63)	12.94	17.85
Distributions	(5.72)	(5.95)	(4.09)
Closing NAV	88.88	97.23	90.24
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.43	1.44	1.44
Return after operating charges	-2.70	+14.34	+23.34
Distribution yield ^[c]	6.59	6.66	4.59
Effect on yield of charges offset against capital	1.40	1.40	0.00
Other information			
Closing NAV (\$'000)	7,459	10,426	9,281
Closing NAV percentage of total fund NAV (%)	0.63	1.99	4.11
Number of shares	6,387,180	8,262,050	7,624,722
Highest share price (UK p)	100.92	104.69	93.68
Lowest share price (UK p)	90.07	92.77	73.77

M&G Emerging Markets Bond Fund

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 Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	222.49	195.39	159.32
Return before operating charges and after direct portfolio transaction costs	(3.10)	31.15	40.22
Operating charges	(3.17)	(3.10)	(2.43)
Return after operating charges	(6.27)	28.05	37.79
Distributions	(10.14)	(9.97)	(8.61)
Retained distributions	10.14	9.02	6.89
Closing NAV	216.22	222.49	195.39
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.44	1.43	1.44
Return after operating charges	-2.82	+14.36	+23.72
Distribution yield	5.18	5.27	4.59
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	6,309	5,402	91,898
Closing NAV percentage of total fund NAV (%)	0.53	1.03	40.72
Number of shares	2,220,614	1,870,725	34,870,263
Highest share price (UK p)	230.90	229.81	198.97
Lowest share price (UK p)	212.08	200.78	153.67

Swiss franc Class 'A' Accumulation share performance

The share class was launched on 26 July 2013.

for the year to 30 June Change in NAV per share	2018 Swiss ¢	2017 Swiss ¢	2016 Swiss ¢
Opening NAV	1,296.33	1,199.02	1,075.65
Return before operating charges and after direct portfolio transaction costs	44.88	115.93	139.78
Operating charges	(19.40)	(18.62)	(16.41)
Return after operating charges	25.48	97.31	123.37
Distributions	(62.29)	(57.90)	(55.03)
Retained distributions	62.29	57.90	55.03
Closing NAV	1,321.81	1,296.33	1,199.02
Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.44	1.45	1.44
Return after operating charges	+1.97	+8.12	+11.47
Distribution yield	5.18	5.26	4.59
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	671	552	177
Closing NAV percentage of total fund NAV (%)	0.06	0.11	0.08
Number of shares	50,425	40,847	14,434
Highest share price (Swiss ¢)	1,408.80	1,350.30	1,209.43
Lowest share price (Swiss ¢)	1,296.12	1,210.97	1,057.02

Swiss franc Class 'A-H' Accumulation share performance

The share class was launched on 24 July 2015.

for the year to 30 June Change in NAV per share	2018 Swiss ¢	2017 Swiss ¢	2016 Swiss ¢
Opening NAV	1,114.19	1,036.22	1,000.00
Return before operating charges and after direct portfolio transaction costs	(33.73)	93.71	49.65
Operating charges	(16.50)	(15.74)	(13.43)
Return after operating charges	(50.23)	77.97	36.22
Distributions	(50.98)	(48.45)	(47.50)
Retained distributions	50.98	48.45	47.50
Closing NAV	1,063.96	1,114.19	1,036.22
Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.45	1.46	1.46
Return after operating charges	-4.51	+7.52	+3.62
Distribution yield	5.15	5.15	4.64
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	705	253	32
Closing NAV percentage of total fund NAV (%)	0.06	0.05	0.01
Number of shares	65,828	21,750	3,000
Highest share price (Swiss ¢)	1,172.13	1,128.53	1,044.42
Lowest share price (Swiss ¢)	1,061.05	1,027.83	942.88

Swiss franc Class 'C' Accumulation share performance

The share class was launched on 26 July 2013.

for the year to 30 June Change in NAV per share	2018 Swiss ¢	2017 Swiss ¢	2016 Swiss ¢
Opening NAV	1,323.85	1,216.85	1,086.06
Return before operating charges and after direct portfolio transaction costs	45.71	117.61	141.63
Operating charges	(10.91)	(10.61)	(10.84)
Return after operating charges	34.80	107.00	130.79
Distributions	(72.94)	(67.05)	(61.57)
Retained distributions	72.94	67.05	61.57
Closing NAV	1,358.65	1,323.85	1,216.85
Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.79	0.81*	0.94
Return after operating charges	+2.63	+8.79	+12.04
Distribution yield	5.84	5.86	5.08
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	191	61	55
Closing NAV percentage of total fund NAV (%)	0.02	0.01	0.02
Number of shares	13,966	4,400	4,400
Highest share price (Swiss ¢)	1,443.66	1,377.73	1,227.39
Lowest share price (Swiss ¢)	1,323.81	1,229.05	1,068.18

* As the annual management charge has been discounted during the period, 0.79% is a more reliable estimate of the operating charges for the period to 30.06.17.

M&G Emerging Markets Bond Fund

Financial highlights

Specific share class performance

Swiss franc Class 'C-H' Accumulation share performance

The share class was launched on 24 July 2015.

for the year to 30 June Change in NAV per share	2018 Swiss ¢	2017 Swiss ¢	2016 Swiss ¢
Opening NAV	1,126.83	1,041.13	1,000.00
Return before operating charges and after direct portfolio transaction costs	(34.66)	94.83	50.01
Operating charges	(9.23)	(9.13)	(8.88)
Return after operating charges	(43.89)	85.70	41.13
Distributions	(59.13)	(55.44)	(52.53)
Retained distributions	59.13	55.44	52.53
Closing NAV	1,082.94	1,126.83	1,041.13
Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.80	0.85*	0.96
Return after operating charges	-3.89	+8.23	+4.11
Distribution yield	5.80	5.75	5.14
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	83	56	115
Closing NAV percentage of total fund NAV (%)	0.01	0.01	0.05
Number of shares	7,636	4,734	10,747
Highest share price (Swiss ¢)	1,189.87	1,140.99	1,049.37
Lowest share price (Swiss ¢)	1,079.79	1,035.16	945.28

* As the annual management charge has been discounted during the period, 0.81% is a more reliable estimate of the operating charges for the period to 30.06.17.

US dollar Class 'A' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,147.32	1,106.69	1,092.72
Return before operating charges and after direct portfolio transaction costs	0.39	125.33	81.90
Operating charges	(16.63)	(16.54)	(15.70)
Return after operating charges	(16.24)	108.79	66.20
Distributions	(69.24)	(68.16)	(52.23)
Closing NAV	1,061.84	1,147.32	1,106.69
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.44	1.44	1.44
Return after operating charges	-1.42	+9.83	+6.06
Distribution yield ^[c]	6.59	6.66	4.59
Effect on yield of charges offset against capital	1.40	1.40	0.00
Other information			
Closing NAV (\$'000)	1,644	823	327
Closing NAV percentage of total fund NAV (%)	0.14	0.16	0.14
Number of shares	154,796	71,706	29,550
Highest share price (US ¢)	1,205.01	1,197.01	1,142.21
Lowest share price (US ¢)	1,092.76	1,100.93	1,022.37

US dollar Class 'A' Accumulation share performance

The share class was launched on 19 April 2012.

for the year to 30 June Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,336.66	1,216.19	1,143.30
Return before operating charges and after direct portfolio transaction costs	(1.84)	138.94	89.58
Operating charges	(19.76)	(18.47)	(16.69)
Return after operating charges	(21.60)	120.47	72.89
Distributions	(62.53)	(58.10)	(55.33)
Retained distributions	62.53	58.10	55.33
Closing NAV	1,315.06	1,336.66	1,216.19
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.44	1.44	1.44
Return after operating charges	-1.62	+9.91	+6.38
Distribution yield	5.18	5.27	4.59
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	18,196	13,349	7,637
Closing NAV percentage of total fund NAV (%)	1.54	2.55	3.38
Number of shares	1,383,678	998,719	627,984
Highest share price (US ¢)	1,428.76	1,352.09	1,224.31
Lowest share price (US ¢)	1,310.01	1,217.09	1,095.80

US dollar Class 'C' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,171.00	1,122.39	1,108.12
Return before operating charges and after direct portfolio transaction costs	0.16	127.48	83.51
Operating charges	(9.36)	(9.53)	(10.45)
Return after operating charges	(9.20)	117.95	73.06
Distributions	(70.90)	(69.34)	(58.79)
Closing NAV	1,090.90	1,171.00	1,122.39
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.78	0.81*	0.94
Return after operating charges	-0.79	+10.51	+6.59
Distribution yield ^[c]	6.59	6.66	5.08
Effect on yield of charges offset against capital	0.75	0.75	0.00
Other information			
Closing NAV (\$'000)	8,286	8,973	3,812
Closing NAV percentage of total fund NAV (%)	0.70	1.72	1.69
Number of shares	759,594	766,299	339,654
Highest share price (US ¢)	1,233.87	1,221.33	1,161.30
Lowest share price (US ¢)	1,122.39	1,120.04	1,037.16

* As the annual management charge has been discounted during the period, 0.79% is a more reliable estimate of the operating charges for the period to 30.06.17.

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Specific share class performance

US dollar Class 'C' Accumulation share performance

The share class was launched on 19 April 2012.

for the year to 30 June	2018	2017	2016
Change in NAV per share	US ¢	US ¢	US ¢
Opening NAV	1,375.54	1,242.33	1,163.58
Return before operating charges and after direct portfolio transaction costs	(2.17)	143.93	89.83
Operating charges	(11.20)	(10.72)	(11.08)
Return after operating charges	(13.37)	133.21	78.75
Distributions	(73.79)	(67.76)	(62.26)
Retained distributions	73.79	67.76	62.26
Closing NAV	1,362.17	1,375.54	1,242.33
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.79	0.81*	0.94
Return after operating charges	-0.97	+10.72	+6.77
Distribution yield ^[c]	5.84	5.87	5.08
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	126,475	6,053	1,214
Closing NAV percentage of total fund NAV (%)	10.69	1.16	0.54
Number of shares	9,284,817	440,025	97,706
Highest share price (US ¢)	1,475.85	1,391.08	1,252.15
Lowest share price (US ¢)	1,356.67	1,247.85	1,118.24

* As the annual management charge has been discounted during the period, 0.79% is a more reliable estimate of the operating charges for the period to 30.06.17.

^[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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Financial statements

Statement of total return					
for the year to 30 June	Note	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Income					
Net capital gains / (losses)	3		(117,055)		21,571
Revenue	5	58,030		25,239	
Expenses	6	(9,532)		(4,606)	
Net revenue / (expense) before taxation		48,498		20,633	
Taxation	7	(298)		(133)	
Net revenue / (expense) after taxation		48,200		20,500	
Total return before distributions		(68,855)		42,071	
Distributions	8	(50,047)		(21,346)	
Change in net assets attributable to shareholders from investment activities		(118,902)		20,725	

Statement of change in net assets attributable to shareholders					
for the year to 30 June		2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Opening net assets attributable to shareholders		523,208		225,690	
Amounts received on issue of shares		926,448		454,935	
Amounts paid on cancellation of shares		(194,758)		(195,981)	
		731,690		258,954	
Dilution adjustments		2,584		1,657	
Change in net assets attributable to shareholders from investment activities (see above)		(118,902)		20,725	
Retained distributions on Accumulation shares		45,063		16,182	
Closing net assets attributable to shareholders		1,183,643		523,208	

Balance sheet			
as at 30 June	Note	2018 \$'000	2017 \$'000
Assets			
Fixed assets			
Investments		1,163,948	527,186
Current assets			
Debtors	9	28,621	18,311
Cash and bank balances	10	532	755
Cash equivalents		5,135	280
Total assets		1,198,236	546,532
Liabilities			
Investment liabilities		(583)	(969)
Creditors			
Bank overdrafts		0	(2,048)
Distribution payable		(8,078)	(4,077)
Other creditors	11	(5,932)	(16,230)
Total liabilities		(14,593)	(23,324)
Net assets attributable to shareholders		1,183,643	523,208

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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

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

3 Net capital gains / (losses)

for the year to 30 June	2018 \$'000	2017 \$'000
Non-derivative securities	(99,709)	17,294
Derivative contracts	(16,444)	4,255
Currency gains / (losses)	(892)	32
Transaction charges	(10)	(10)
Net capital gains / (losses)	(117,055)	21,571

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on pages 55 and 56.

for the year to 30 June	2018 \$'000	2017 \$'000
a) Purchases		
Debt securities ^[a]	1,287,234	765,005
b) Sales		
Debt securities ^[a]	543,483	462,025
Other transaction types		
Corporate actions	5,034	10,309
Total sales	548,517	472,334
c) Direct portfolio transaction costs	%	%
There were no direct portfolio transaction costs		
d) Indirect portfolio transaction costs	%	%
Portfolio dealing spread ^[b]	0.80	0.65

^[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	2018 \$'000	2017 \$'000
Bank interest	33	19
Derivative revenue	(594)	75
Interest distributions	164	56
Interest on debt securities	58,427	25,089
Total revenue	58,030	25,239

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6 Expenses

for the year to 30 June	2018 \$'000	2017 \$'000
Payable to the ACD or associate		
Annual management charge	7,370	3,797
Administration charge	1,459	618
Share class hedging charge	68	12
	8,897	4,427
Payable to the Depositary or associate		
Depositary's charge (including VAT)	59	30
Other expenses		
Audit fee (including VAT)	15	14
Interest payable	294	23
Legal fees	1	0
Safe custody charge	266	112
	576	149
Total expenses	9,532	4,606

7 Taxation

for the year to 30 June	2018 \$'000	2017 \$'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	298	133
Deferred tax (note 7c)	0	0
Total taxation	298	133
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	48,498	20,633
Corporation tax at 20%	9,700	4,127
Effects of:		
Interest distributions	(9,700)	(4,127)
Withholding tax	298	133
Total tax charge (note 7a)	298	133
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	0	0

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

Interest distributions have been made in respect of all distributions during the current and preceding periods. Income tax at 20% was accounted for on shareholders' behalf to HM Revenue & Customs up to 31 December 2016.

8 Distributions

	2018		2017	
for the year to 30 June	Inc ^[a] \$'000	Acc ^[b] \$'000	Inc ^[a] \$'000	Acc ^[b] \$'000
Interest distributions				
Interim	5,664	19,492	1,989	6,148
Final	8,078	25,571	4,077	10,034
Total net distributions		58,805		22,248
Income tax deducted at source		0		1,124
Interest distributions		58,805		23,372
Income deducted on cancellation of shares		3,506		2,923
Income received on issue of shares		(12,264)		(4,949)
Distributions		50,047		21,346
Net revenue / (expense) per statement of total return		48,200		20,500
Expenses offset against capital		1,847		846
Distributions		50,047		21,346

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

9 Debtors

as at 30 June	2018 \$'000	2017 \$'000
Amounts receivable on issues of shares	3,477	5,262
Currency deals outstanding	3,527	3,522
Debt security interest receivable	21,602	9,525
Distributions receivable	15	2
Total debtors	28,621	18,311

10 Cash and bank balances

as at 30 June	2018 \$'000	2017 \$'000
Cash held as bank balances	532	755
Total cash and bank balances	532	755

11 Other creditors

as at 30 June	2018 \$'000	2017 \$'000
ACD's annual management charge payable	273	127
Administration charge payable	54	23
Amounts payable on cancellation of shares	2,002	173
Currency deals outstanding	3,527	3,526
Expenses payable	73	59
Purchases awaiting settlement	0	12,321
Share class hedging charge payable	3	1
Total other creditors	5,932	16,230

12 Contingent assets, liabilities and outstanding commitments

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

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Notes to the financial statements

13 Shares in issue

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

Share class	Opening 01.07.17	Movements		Closing 30.06.18
		Issued	Cancelled	
Euro				
Class 'A' Income	1,110,158	697,018	(102,052)	1,705,124
Class 'A' Accumulation	3,503,064	1,688,820	(854,341)	4,337,543
Class 'A-H' Income	186,595	1,061,439	(80,701)	1,167,333
Class 'A-H' Accumulation	1,650,000	5,309,944	(1,283,935)	5,676,009
Class 'B' Income	202,551	153,596	(40,094)	316,053
Class 'B' Accumulation	663,282	352,809	(202,930)	813,161
Class 'B-H' Income	205,296	428,204	(26,764)	606,736
Class 'B-H' Accumulation	157,111	721,717	(81,933)	796,895
Class 'C' Income	1,434	96,578	(11,620)	86,392
Class 'C' Accumulation	2,857,779	2,392,447	(1,213,284)	4,036,942
Class 'C-H' Income	25,896	1,391,210	(14,014)	1,403,092
Class 'C-H' Accumulation	6,499,831	20,656,661	(3,809,065)	23,347,427
Sterling				
Class 'A' Income	3,434,988	1,090,580	(2,079,456)	2,446,112
Class 'A' Accumulation	1,175,620	457,141	(483,671)	1,149,090
Class 'I' Income	42,832,068	34,591,040	(2,733,705)	74,689,403
Class 'I' Accumulation	63,063,127	43,040,254	(16,022,784)	90,080,597
Class 'I-H' Income	6,185,809	27,999,301	(206,856)	33,978,254
Class 'I-H' Accumulation	659,831	56,340,002	(15,761,643)	41,238,190
Class 'R' Income	84,847	619,279	(139,846)	564,280
Class 'R' Accumulation	9,971	1,223,402	(112,601)	1,120,772
Class 'X' Income	8,262,050	374,770	(2,249,640)	6,387,180
Class 'X' Accumulation	1,870,725	813,900	(464,011)	2,220,614
Swiss franc				
Class 'A' Accumulation	40,847	14,791	(5,213)	50,425
Class 'A-H' Accumulation	21,750	45,078	(1,000)	65,828
Class 'C' Accumulation	4,400	9,566	0	13,966
Class 'C-H' Accumulation	4,734	2,902	0	7,636
US dollar				
Class 'A' Income	71,706	94,525	(11,435)	154,796
Class 'A' Accumulation	998,719	729,635	(344,676)	1,383,678
Class 'C' Income	766,299	156,219	(162,924)	759,594
Class 'C' Accumulation	440,025	9,342,387	(497,595)	9,284,817

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %	Share class hedging charge %
Euro				
Class 'A'	4.00	n/a	1.25	n/a
Class 'A-H'	4.00	n/a	1.25	[a]
Class 'B'	nil	n/a	1.75	n/a
Class 'B-H'	1.25	n/a	1.75	[a]
Class 'C'	1.25	n/a	0.60	n/a
Class 'C-H'	1.25	n/a	0.60	[a]
Sterling				
Class 'A'	nil	n/a	1.25	n/a
Class 'I'	nil	n/a	0.60	n/a
Class 'I-H'	nil	n/a	0.60	[a]
Class 'R'	nil	n/a	1.00	n/a
Class 'X'	nil	n/a	1.25	n/a
Swiss franc				
Class 'A'	4.00	n/a	1.25	n/a
Class 'A-H'	4.00	n/a	1.25	[a]
Class 'C'	1.25	n/a	0.60	n/a
Class 'C-H'	1.25	n/a	0.60	[a]
US dollar				
Class 'A'	4.00	n/a	1.25	n/a
Class 'C'	1.25	n/a	0.60	n/a

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

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 0.01% (2017: 0.45%) of the fund's shares.

16 Events after the balance sheet date

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

M&G Emerging Markets Bond Fund

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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	Liabilities	Assets	Liabilities
Basis of valuation	2018	2018	2017	2017
	\$'000	\$'000	\$'000	\$'000
Level 1	83,326	0	5,360	0
Level 2	1,080,622	(583)	521,826	(969)
Level 3	0	0	0	0
	1,163,948	(583)	527,186	(969)

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

18 Risk management policies

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

19 Market risk sensitivity and exposure

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

The VaR limit set during the financial year to 30 June 2018 was 20% (2017: 20%).

The lowest, highest and average VaR, as well as utilisation of VaR with reference to the limit above, are calculated during the financial years ended 30 June 2018 and 30 June 2017.

	2018	2018	2017	2017
for the year to 30 June	% of VaR	Utilisation of VaR [a]	% of VaR	Utilisation of VaR [a]
		20%		20%
Lowest	3.29	16.47	4.56	22.79
Highest	5.62	28.08	11.67	58.35
Average	4.00	19.99	6.07	30.35

[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.

	2018	2017
as at 30 June	\$'000	\$'000
Investment grade securities	408,498	182,380
Below investment grade securities	616,774	266,453
Unrated securities	135,927	75,025
Other investments	2,166	2,359
Total	1,163,365	526,217

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.

	Forward
as at 30 June 2018	currency
	contracts
	\$'000
Citigroup	212
Goldman Sachs	40
J.P.Morgan	378
State Street Bank	1,536
Total	2,166

	Forward
as at 30 June 2017	currency
	contracts
	\$'000
Citigroup	(1)
State Street Bank	2,072
UBS	288
Total	2,359

M&G Emerging Markets Bond Fund

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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 2018 and 30 June 2017 are disclosed in the table below.

for the year to 30 June	2018 ^[a] \$'000	2018 ^[a] % ^[b]	2017 ^[a] \$'000	2017 ^[a] % ^[b]
Lowest	28,199	3	23,999	7
Highest	329,459	27	98,433	42
Average	67,694	7	47,033	13

^[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. The prior period leverage disclosures have been restated to conform with the revisions to the current period leverage calculation.

^[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 53.

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	01.07.17	31.12.17	02.01.18	28.02.18
Final	01.01.18	30.06.18	02.07.18	31.08.18

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

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

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

Euro Class 'A' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	€	€	€	€
Interim	15.7621	20.2881	36.0502	38.6253
Final	21.4853	16.8433	38.3286	40.0558

Euro Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	€	€	€	€
Interim	15.9403	17.2723	33.2126	32.9798
Final	16.5078	19.8186	36.3264	36.3651

Euro Class 'A-H' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	€	€	€	€
Interim	12.7098	14.7186	27.4284	26.9661
Final	10.2478	18.1649	28.4127	29.0768

Euro Class 'A-H' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	€	€	€	€
Interim	10.4900	13.9160	24.4060	22.3536
Final	14.9283	11.1228	26.0511	25.5321

Euro Class 'B' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	€	€	€	€
Interim	10.4654	19.0616	29.5270	31.8162
Final	14.3997	16.9159	31.3156	32.8885

M&G Emerging Markets Bond Fund

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23 Interest distribution tables (continued)

Euro Class 'B' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
Interim	12.1271	15.3677	27.4948	27.1640
Final	14.5753	15.4314	30.0067	30.4296

Euro Class 'B-H' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
Interim	13.4143	16.5441	29.9584	29.4978
Final	16.2133	14.7164	30.9297	31.7865

Euro Class 'B-H' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
Interim	6.6100	15.8027	22.4127	20.4270
Final	12.5302	11.3716	23.9018	23.7176

Euro Class 'C' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
Interim	38.1643	0.0000	38.1643	40.6194
Final	14.7166	25.8672	40.5838	42.3306

Euro Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
Interim	24.0125	15.0813	39.0938	38.4819
Final	20.6461	22.2368	42.8829	42.3029

Euro Class 'C-H' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
Interim	5.0449	22.5817	27.6266	27.0340
Final	14.6636	13.9694	28.6330	29.2052

Euro Class 'C-H' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
Interim	7.9319	20.3741	28.3060	25.6021
Final	16.7160	13.5406	30.2566	29.2169

Sterling Class 'A' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	1.4667	1.3482	2.8149	2.3620
Final	1.6357	1.3524	2.9881	3.0883

Sterling Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	2.6607	2.1770	4.8377	3.7788
Final	2.7940	2.4887	5.2827	5.2303

Sterling Class 'I' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	1.4361	2.3658	3.8019	3.1652
Final	2.1635	1.8854	4.0489	4.1588

Sterling Class 'I' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	2.0618	1.9985	4.0603	3.1392
Final	2.1781	2.2691	4.4472	4.3388

Sterling Class 'I-H' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	1.1440	1.9036	3.0476	2.3716
Final	2.1585	1.0128	3.1713	3.2484

Sterling Class 'I-H' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	1.6638	1.2626	2.9264	2.1248
Final	1.2416	1.8906	3.1322	3.0525

Sterling Class 'R' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	0.9020	2.6456	3.5476	2.9692
Final	1.7823	1.9893	3.7716	3.8878

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23 Interest distribution tables (continued)

Sterling Class 'R' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	0.5444	2.9166	3.4610	2.7148
Final	1.8955	1.8802	3.7757	3.7221

Sterling Class 'X' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	1.4481	1.3255	2.7736	2.3276
Final	1.6530	1.2912	2.9442	3.0427

Sterling Class 'X' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	2.9793	1.8686	4.8479	3.7888
Final	2.6500	2.6447	5.2947	5.2330

Swiss franc Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	€	€	€	€
Interim	5.6717	24.2512	29.9229	27.2752
Final	11.9016	20.4641	32.3657	30.6324

Swiss franc Class 'A-H' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	€	€	€	€
Interim	6.0506	18.7688	24.8194	22.5626
Final	13.1787	12.9868	26.1655	25.8872

Swiss franc Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	€	€	€	€
Interim	13.6135	21.3696	34.9831	31.6402
Final	37.9540	0.0000	37.9540	35.4054

Swiss franc Class 'C-H' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	€	€	€	€
Interim	28.7393	0.0000	28.7393	25.8278
Final	26.0701	4.3186	30.3887	29.6152

US dollar Class 'A' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	€	€	€	€
Interim	18.1655	15.9052	34.0707	32.1505
Final	12.1427	23.0304	35.1731	36.0089

US dollar Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	€	€	€	€
Interim	14.2606	16.0633	30.3239	26.5175
Final	17.2054	14.9993	32.2047	31.5824

US dollar Class 'C' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	€	€	€	€
Interim	20.7989	14.0325	34.8314	32.6467
Final	11.5638	24.5068	36.0706	36.6921

US dollar Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	€	€	€	€
Interim	19.2489	16.4805	35.7294	30.9854
Final	23.9283	14.1276	38.0559	36.7775

M&G Emerging Markets Bond Fund

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M&G European Corporate Bond Fund

Authorised Corporate Director's Report

Investment objective

The fund aims to provide income and capital growth.

Investment policy

At least 70% of the fund is invested in 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 approach

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.

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 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.



The above number:

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

Investment review

As at 2 July 2018, for the year ended 30 June 2018

Performance against objective

Between 3 July 2017 (the start of the review period) and 2 July 2018, the M&G European Corporate Bond Fund delivered modest positive total returns (the combination of income and growth of capital) across many, but not all, of its share classes.*

The M&G European Corporate Bond Fund invests mainly in high-quality corporate bonds denominated in any European currency, with the aim of providing income and capital growth.

Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'. Investment grade corporate bonds refer to fixed income securities issued by a company with a medium or high credit rating from a recognised credit rating agency. They are considered to be at lower risk of non-repayment than those issued by companies with lower credit ratings (known as high yield bonds). The performance of investment grade corporate bond markets can be influenced by the performance of government bonds.

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

Investment performance

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

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

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Investment review

Investment performance (continued)

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

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

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

But after a broadly positive end to 2017 and a strong January 2018 for financial markets, many areas of the global bond market weakened, as investors reacted to the prospect of higher inflation and interest rates. By March, weakness in global stockmarkets, caused mainly by the prospect of a trade war between the US and China and the US imposition of sanctions on Russia, had started to spill over into corporate bond markets. While April proved somewhat calmer, Italian political turmoil, combined with ongoing trade tensions between the US and China, caused further volatility into May and June.

The more challenging conditions from the start of 2018 led to muted returns across the bond market over the 12-month review period as a whole. European corporate bonds outperformed those denominated in sterling and US dollars over the 12 months, delivering modest positive returns overall, although they lost ground during the second half of the period.

The fund's performance was driven by its sizeable exposure to European investment grade corporate bonds (fixed income securities issued by a company with a medium or high credit rating from a recognised credit rating agency, which are considered to be at lower risk from default than those issued by companies with lower credit ratings) and to asset-backed securities (bonds whose income payments are derived from a specified group of underlying pooled assets). The fund's holdings in bonds issued by financials aided performance in the first half of the review period, but then detracted in the latter stages, as these underperformed bonds issued by companies from other sectors.

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'. 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 moved it between around 0.7 years to 0.9 years short of a comparable index, ending the reporting period at around 0.8 years short.

Having added to the fund's holdings in financials in the months preceding the review period, we retained a significant exposure to this sector throughout the review period. Earlier in the period, we generally preferred bank bonds from lower down the capital structure, as we believed these bonds provide a good trade-off in terms of the potential risk and reward offered. After a period of sustained outperformance by these bank bonds, we partially sold some of these positions to slightly reduce risk.

We are still cautious about prospects for the UK economy and are concerned that investment will likely be deferred in the face of Brexit uncertainty. As a result, we scaled back the fund's exposure to UK banks and insurers – for example Aviva, Lloyds, Nationwide and Royal Bank of Scotland – in the early part of the review period.

We added some peripheral eurozone government debt from governments such as Spain, which looked attractively valued compared to similarly rated European corporate bonds. We also increased exposure to companies from the eurozone's periphery – particularly from Italy and Spain – as these looked attractive in both absolute and relative terms. These positions generally aided the fund's performance, although in the latter stages they suffered as Italian political uncertainty affected the prices of such bonds.

Outlook

From a macroeconomic perspective, we believe the global economic recovery remains on track. While recent economic data have been slightly weaker than expected in some cases, this is coming off a high base, and so far we see little evidence that this will be the start of a new downward trend. In the US, consumer confidence is at its highest level since the financial crisis, while a healthy labour market is expected to drive further wage growth over the coming months. Various key economic indicators look especially encouraging, with the recent surge in the number of people changing jobs strongly indicative of a future rise in wages.

Europe is also an improving economic story, in our view: its growth outlook has brightened and, while we saw significant market reaction to Italian political uncertainty in May, overall political risk has receded. Meanwhile, eurozone inflation has finally begun to creep up. However, challenges remain – unlike in the US, for example, unemployment levels are still relatively high. As the European Central Bank slowly continues to reduce the amount of support it provides to bond markets, this may have an impact on bond prices.

While the current period of economic growth may appear long compared to historic standards, we believe we are witnessing an unusually elongated economic cycle, and so this slow and steady expansion is likely to persist.

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Investment review

Outlook (continued)

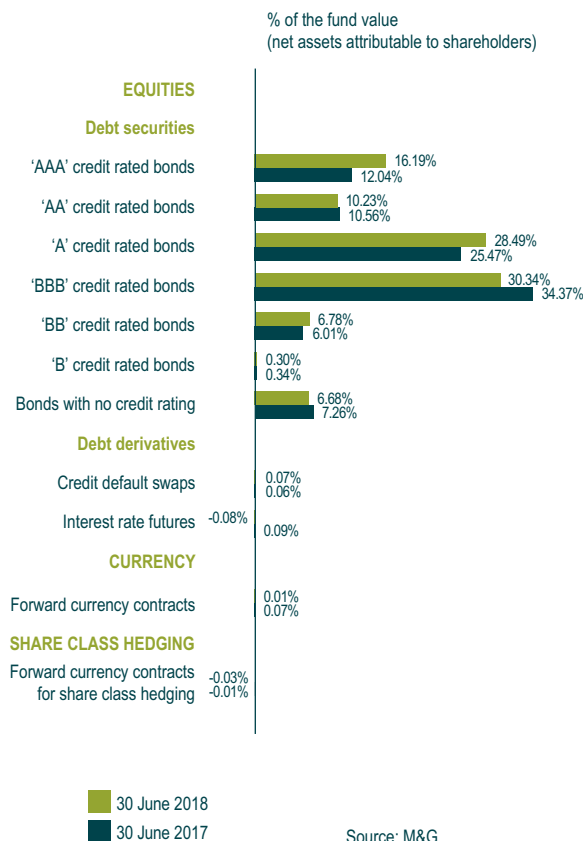
After the bond market sell-off in the latter stages of the reporting period, we believe that European corporate bonds now look more attractively valued, with valuations back to levels last seen in early 2017 or better. However, core European government bonds continue to look expensive.

Stefan Isaacs
Fund manager

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

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

Classification of investments



M&G European Corporate Bond Fund

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Investments

Portfolio statement				
as at 30 June	2018	2018	2017	
Holding	€'000	%	%	
FIXED INCOME	1,680,396	99.00	96.20	
Debt securities	1,680,633	99.01	96.05	
'AAA' credit rated bonds	274,911	16.19	12.04	
£5,243,119 Dukinfield FRN 2052	5,993	0.35		
€8,000,000 Germany (Federal Republic of) 0% 2021	8,131	0.48		
€20,600,000 Germany (Federal Republic of) 0% 2022	20,960	1.23		
€4,388,859 Germany (Federal Republic of) 0% 2023	4,450	0.26		
€15,000,000 Germany (Federal Republic of) 0.5% 2028	15,269	0.90		
€2,800,000 Germany (Federal Republic of) 1% 2024	2,993	0.18		
€3,000,000 Germany (Federal Republic of) 1.5% 2022	3,242	0.19		
€30,000,000 Germany (Federal Republic of) 1.75% IL 2020	35,824	2.11		
€3,700,000 Germany (Federal Republic of) 2.25% 2021	4,030	0.24		
€33,500,000 Germany (Federal Republic of) 3.75% 2019	34,251	2.02		
€2,400,000 Germany (Federal Republic of) 4.75% 2040	4,298	0.25		
€3,200,000 Germany (Federal Republic of) 5.5% 2031	5,162	0.30		
€10,136,000 Harvest CLO VIII FRN 2031	10,121	0.60		
£5,663,320 Hawksmoor Mortgages FRN 2053	6,443	0.38		
€5,000,000 Johnson & Johnson 0.25% 2022	5,035	0.30		
€23,000,000 Johnson & Johnson 0.65% 2024	23,242	1.37		
€10,000,000 KFW 0.125% 2024	9,959	0.59		
€10,000,000 Microsoft 2.125% 2021	10,677	0.63		
€1,750,000 Microsoft 2.625% 2033	2,051	0.12		
€5,000,000 Microsoft 3.125% 2028	6,029	0.35		
\$5,000,000 Microsoft 3.5% 2035	4,151	0.24		
€40,000,000 Netherlands (Kingdom of) 0.75% 2027	41,380	2.44		
€1,744,158 Paragon Mortgages No.11 FRN 2041	1,691	0.10		
£1,599,271 THRONES FRN 2049	1,808	0.11		
£2,293,332 Trinity Square FRN 2051	2,616	0.15		
€5,000,000 Wellcome Trust 1.125% 2027	5,105	0.30		
'AA' credit rated bonds	173,633	10.23	10.56	
€3,000,000 3M Company 0.95% 2023	3,097	0.18		
€8,421,000 Apple 0.875% 2025	8,502	0.50		
€5,000,000 Apple 1% 2022	5,179	0.31		
€10,000,000 Apple 1.625% 2026	10,529	0.62		
€2,500,000 Apple 2% 2027	2,702	0.16		
€4,361,621 AyT Hipotecario Mixto FRN 2041	4,281	0.25		
€9,000,000 Bankia 4.125% 2036	11,813	0.70		
€25,000,000 Berkshire Hathaway Finance 1.125% 2027	24,788	1.46		
€3,963,000 Deutsche Bahn Finance 1.5% 2032	4,049	0.24		
€1,700,000 Euroclear Investments 1.5% 2030	1,696	0.10		
€5,725,000 Fingrid 3.5% 2024	6,631	0.39		
€4,000,000 France (Govt of) 0% 2022	4,049	0.24		
€12,000,000 France (Govt of) 0.25% 2026	11,848	0.70		
€1,500,000 Nestlé Finance International 1.5% 2019	1,527	0.09		
€7,000,000 Nestlé Finance International 1.75% 2022	7,473	0.44		

Portfolio statement (continued)

as at 30 June	2018	2018	2017
Holding	€'000	%	%
'AA' credit rated bonds (continued)			
€3,652,000 Nestlé Finance International 2.125% 2021	3,903	0.23	
€14,815,000 Novartis Finance 0.125% 2023	14,608	0.86	
€3,000,000 Novartis Finance 0.75% 2021	3,071	0.18	
€6,000,000 Novartis Finance 1.625% 2026	6,331	0.37	
€447,759 Paragon Mortgages No.13 FRN 2039	432	0.03	
€2,500,000 Procter & Gamble 2% 2022	2,688	0.16	
€5,000,000 Roche Finance Europe 0.875% 2025	5,094	0.30	
€5,300,000 Sanofi 0% 2020	5,314	0.31	
€5,000,000 Svenska Handelsbanken 2.625% 2022	5,468	0.32	
€11,000,000 Walmart (formerly Wal-Mart Stores) 4.875% 2029	15,132	0.89	
£3,000,000 Warwick Finance Residential Mortgage FRN 2049	3,428	0.20	
'A' credit rated bonds	483,971	28.49	25.47
€10,000,000 Airbus Group 0.875% 2026	9,869	0.58	
€10,000,000 Allianz Finance II Var. Rate 2041 (5.75%)	11,278	0.66	
€5,000,000 Allianz Var. Rate Perp. (4.75%)	5,559	0.33	
€5,000,000 América Móvil 4.125% 2019	5,270	0.31	
€2,500,000 Amgen 1.25% 2022	2,581	0.15	
€3,125,000 Anheuser-Busch InBev 1.15% 2027	3,086	0.18	
€3,000,000 Anheuser-Busch InBev 2.7% 2026	3,358	0.20	
€4,176,000 Anheuser-Busch InBev 2.75% 2036	4,376	0.26	
€11,500,000 Aon 2.875% 2026	12,424	0.73	
€12,000,000 Banco Bilbao Vizcaya Argentaria Var. Rate Perp. (7%)	12,262	0.72	
€3,000,000 Banco Santander Var. Rate Perp. (6.75%)	3,217	0.19	
€5,000,000 Banco Santander Var. Rate Perp. (6.25%)	5,079	0.30	
€14,000,000 Bank of America 0.75% 2023	13,929	0.82	
€4,375,000 Bank of America 1.375% 2021	4,524	0.27	
€7,000,000 Bank of America 2.375% 2024	7,526	0.44	
€2,600,000 Belfius Bank Var. Rate 2028 (1.625%)	2,537	0.15	
€2,185,000 BNP Paribas 1.5% 2025	2,176	0.13	
€9,278,000 BNP Paribas FRN 2024	9,207	0.54	
€1,938,000 BP Capital Markets 1.117% 2024	1,974	0.12	
€3,000,000 CEZ 4.5% 2020	3,259	0.19	
€2,500,000 CEZ 4.875% 2025	3,083	0.18	
€2,530,000 Chubb 1.55% 2028	2,505	0.15	
€4,052,000 CK Hutchison Europe Finance 18 1.25% 2025	4,027	0.24	
€19,048,000 Coca-Cola 1.125% 2027	19,064	1.12	
€7,000,000 DAA Finance 1.554% 2028	7,062	0.42	
€5,000,000 EDF 4% 2025	5,987	0.35	
€2,500,000 EDF 4.125% 2027	3,038	0.18	
€3,664,000 ELM Var. Rate Perp. (2.6%)	3,640	0.21	
€650,210 EMAC De (2006-1) FRN 2048	649	0.04	
€5,000,000 ENGIE Var. Rate 2020 (1.375%)	5,129	0.30	
€11,000,000 ENGIE 5.95% 2111	18,505	1.09	
€4,946,162 GAMMA - Sociedade de Titularização de Créditos FRN 2060	4,814	0.28	
€2,500,000 GE Capital European Funding 0.8% 2022	2,538	0.15	
€14,643,000 General Electric Capital 1.25% 2023	14,990	0.88	
€5,000,000 Honeywell International 0.65% 2020	5,052	0.30	
€3,000,000 Honeywell International 1.3% 2023	3,111	0.18	
€3,000,000 HSBC Holdings 0.875% 2024	2,961	0.17	
€5,000,000 HSBC Holdings 1.5% 2022	5,153	0.30	
€2,475,000 HSBC Holdings 4.75% Perp.	2,441	0.14	

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Portfolio statement (continued)				
as at 30 June Holding	2018 €'000	2018 %	2017 %	
'A' credit rated bonds (continued)				
€10,000,000 HSBC Holdings FRN 2023	9,929	0.58		
€5,000,000 Hutchison Whampoa 1.375% 2021	5,170	0.30		
€4,333,000 JPMorgan Chase 0.625% 2024	4,262	0.25		
€6,000,000 JPMorgan Chase 1.375% 2021	6,209	0.37		
€10,925,000 JPMorgan Chase 1.5% 2026	11,096	0.65		
€6,857,000 JPMorgan Chase 2.875% 2028	7,769	0.46		
€2,439,000 JPMorgan Chase Var. Rate 2028 (1.638%)	2,451	0.14		
€3,200,000 Klépierre 1.375% 2027	3,201	0.19		
\$5,000,000 Legrande France 8.5% 2025	5,320	0.31		
£3,913,000 Lloyds Bank 4.875% 2027	5,451	0.32		
€2,240,340 Magellan Mortgages No.3 FRN 2058	2,154	0.13		
€2,534,510 Magellan Mortgages No.4 FRN 2059	2,435	0.14		
\$5,437,120 Mitchells & Butlers Finance FRN 2030	4,298	0.25		
€3,958,000 Prologis 3% 2022	4,297	0.25		
€1,677,000 Prologis 3.375% 2024	1,892	0.11		
€1,500,000 Prologis International Funding II 1.876% 2025	1,559	0.09		
€5,000,000 Rabobank 4% 2022	5,671	0.33		
€2,000,000 Rabobank Var. Rate Perp. (5.5%)	2,136	0.13		
€2,000,000 Rabobank Var. Rate Perp. (6.625%)	2,248	0.13		
€1,800,000 Réseau de Transport d'Électricité 1% 2026	1,777	0.11		
€4,357,000 Richemont International 1% 2026	4,368	0.26		
£8,032,601 RMAC 2006-Ns4 FRN 2044	8,773	0.52		
€5,000,000 Scentre Management 1.5% 2020	5,127	0.30		
€2,400,000 SCOR 3.875% Perp.	2,544	0.15		
€16,548,000 Shell International Finance 1% 2022	17,037	1.00		
€11,840,152 Silverback Finance 3.1261% 2037	12,283	0.72		
€3,500,000 Société Générale 4% 2023	3,880	0.23		
€2,865,000 Statkraft 2.5% 2022	3,126	0.19		
€3,400,000 Sumitomo Mitsui Banking 2.75% 2023	3,749	0.22		
€5,500,000 Thales Group 0.75% 2023	5,540	0.33		
€2,500,000 Total Capital International 0.25% 2023	2,483	0.15		
€12,400,000 Total Capital International 1.375% 2025	12,911	0.76		
€14,333,000 Total Var. Rate Perp. (2.25%)	14,623	0.86		
€18,000,000 Total Var. Rate Perp. (3.369%)	18,509	1.09		
€8,098,000 UBS 1.25% 2020	8,049	0.48		
€6,230,000 Vier Gas Transport 3.125% 2023	7,036	0.42		
€4,773,000 Wells Fargo 1% 2027	4,563	0.27		
€2,338,000 Wells Fargo 1.625% 2025	2,401	0.14		
€12,000,000 Wells Fargo 2.25% 2023	12,834	0.76		
€7,000,000 Wells Fargo 2.625% 2022	7,570	0.45		
'BBB' credit rated bonds				
	514,719	30.34	34.37	
€8,000,000 AG Insurance 3.5% 2047	7,785	0.46		
€1,500,000 Allergan Funding 2.125% 2029	1,462	0.09		
€5,000,000 Alstria office REIT 1.5% 2027	4,773	0.28		
€3,000,000 Altea 2.25% 2024	3,016	0.18		
€4,184,000 América Móvil Var. Rate 2073 (6.375%)	4,814	0.28		
€2,169,000 American International Group 1.875% 2027	2,144	0.13		
€13,250,000 American International Group Var. Rate 2067 (4.875%)	12,389	0.73		
€980,000 Anglo American Capital 1.625% 2025	965	0.06		

Portfolio statement (continued)

as at 30 June Holding	2018 €'000	2018 %	2017 %
'BBB' credit rated bonds (continued)			
€4,170,000 Arion Bank 0.75% 2020	4,198	0.25	
€4,372,000 Arion Bank 1% 2023	4,319	0.25	
€6,667,000 AT&T 3.375% 2034	7,103	0.42	
€13,000,000 AT&T 3.55% 2032	14,318	0.84	
€2,900,000 Aroundtown 1.875% 2026	2,872	0.17	
€4,364,000 Australia (Commonwealth of) Var. Rate 2029 (1.936%)	4,269	0.25	
€3,000,000 Aviva Var. Rate 2043 (6.125%)	3,545	0.21	
€4,000,000 Aviva Var. Rate 2045 (3.375%)	4,066	0.24	
€5,043,000 AXA Var. Rate 2043 (5.125%)	5,756	0.34	
€3,571,000 AXA Var. Rate 2049 (3.25%)	3,413	0.20	
€2,400,000 Banco Santander 2.125% 2028	2,209	0.13	
€10,000,000 Banco Santander 2.5% 2025	9,930	0.59	
€3,000,000 Barclays Bank 6.625% 2022	3,536	0.21	
£5,000,000 BAT International Finance 2.25% 2052	4,261	0.25	
€3,000,000 BAT International Finance 2.75% 2025	3,278	0.19	
£3,000,000 BAT International Finance 7.25% 2024	4,242	0.25	
€4,115,000 BAT Netherlands Finance 3.125% 2029	4,532	0.27	
€2,500,000 Becton Dickinson 1.9% 2026	2,484	0.15	
€3,194,000 Beni Stabili 2.375% 2028	3,162	0.19	
€1,000,000 BNP Paribas 4.875% Perp.	1,012	0.06	
€5,266,000 BNP Paribas Var. Rate 2026 (2.875%)	5,483	0.32	
€2,500,000 BPCE 1.375% 2026	2,434	0.14	
€2,500,000 BPCE 2.75% 2027	2,620	0.15	
€3,621,000 Channel Link Enterprises Finance 1.761% IL 2050	3,698	0.22	
€12,000,000 Citigroup 1.5% 2028	11,789	0.69	
€9,000,000 Citigroup 1.75% 2025	9,315	0.55	
€13,000,000 Coentreprise de Transport d'Électricité 1.5% 2028	12,975	0.76	
€2,500,000 Commerzbank 1.875% 2028	2,500	0.15	
€1,395,000 Commerzbank 4% 2026	1,476	0.09	
€6,200,000 Crédit Agricole 1.875% 2026	6,266	0.37	
\$6,000,000 Crédit Agricole 4.125% 2027	4,984	0.29	
£3,750,000 Credit Suisse Group Funding 3% 2022	4,376	0.26	
€4,000,000 Credit Suisse Var. Rate 2025 (5.75%)	4,358	0.26	
€5,000,000 Deutsche Telekom International Finance 0.25% 2021	5,019	0.30	
€9,100,000 Deutsche Telekom International Finance 5.375% 2021	10,555	0.62	
\$10,000,000 Deutsche Telekom International Finance 8.75% 2030	11,421	0.67	
€1,545,000 ELM 3.375% 2047	1,545	0.09	
€2,200,000 ELM Var. Rate Perp. (4.5%)	2,309	0.14	
€7,000,000 Eni 3.75% 2025	8,137	0.48	
€1,778,000 Esselunga 1.875% 2027	1,746	0.10	
€1,971,000 Fastighets AB Balder 1.875% 2026	1,930	0.11	
€5,000,000 FCE Bank 1.134% 2022	5,055	0.30	
€1,636,000 FCE Bank 1.615% 2023	1,668	0.10	
€3,000,000 Ford Motor Credit 1.355% 2025	2,933	0.17	
€2,625,000 Global Switch Holdings 2.25% 2027	2,653	0.16	
€7,674,000 Goldman Sachs Group 1.25% 2025	7,622	0.45	
€3,000,000 Goldman Sachs Group 1.375% 2022	3,092	0.18	
€5,714,000 Goldman Sachs Group 1.625% 2026	5,731	0.34	
€13,000,000 Goldman Sachs Group FRN 2023	12,827	0.76	
€2,952,000 Holcim Finance (Luxembourg) 1.75% 2029	2,772	0.16	

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Portfolio statement (continued)

as at 30 June Holding		2018 €'000	2018 %	2017 %
	‘BBB’ credit rated bonds (continued)			
€1,782,000	Imperial Brands Finance 1.375% 2025	1,773	0.10	
€5,000,000	ING Groep 3.625% 2026	5,357	0.31	
€4,100,000	ING Groep Var. Rate 2030 (2%)	4,021	0.24	
€13,000,000	Intesa Sanpaolo 2% 2021	13,354	0.79	
€6,000,000	Intesa Sanpaolo Var. Rate Perp. (4.75%)	5,909	0.35	
€8,000,000	Italy (Republic of) 0.95% 2023	7,723	0.46	
€6,000,000	Johnson Controls 1.375% 2025	6,078	0.36	
€4,500,000	KBC Groep 0.75% 2022	4,503	0.27	
€1,000,000	Kraft Heinz Foods 2% 2023	1,051	0.06	
€6,000,000	Kraft Heinz Foods 2.25% 2028	6,050	0.36	
£1,067,000	LafargeHolcim Sterling Finance (Netherlands) 3% 2032	1,141	0.07	
€1,980,000	Liberty Mutual Group 2.75% 2026	2,110	0.12	
€10,000,000	Lloyds Banking Group FRN 2024	9,917	0.58	
€3,000,000	McDonald's 2% 2023	3,202	0.19	
€2,500,000	Merlin Properties 1.875% 2026	2,441	0.14	
£2,000,000	Mitchells & Butlers Finance FRN 2033	1,932	0.11	
€4,125,000	Morgan Stanley 1% 2022	4,183	0.25	
€7,857,000	Morgan Stanley 1.375% 2026	7,711	0.45	
€7,500,000	Morgan Stanley 1.75% 2025	7,709	0.45	
€4,765,000	NET4GAS S.R.O. 2.5% 2021	5,058	0.30	
€7,000,000	Nielsen Norman Group Var. Rate Perp. (4.5%)	7,218	0.42	
€6,205,000	Orange Var. Rate Perp. (5%)	6,732	0.40	
€9,455,000	Origin Energy Finance 2.5% 2020	9,963	0.59	
€4,324,000	Santander UK FRN 2024	4,296	0.25	
€934,000	Smiths Group 2% 2027	948	0.06	
€1,000,000	Thermo Fisher Scientific 1.45% 2027	989	0.06	
€1,470,000	Thermo Fisher Scientific 2.875% 2037	1,509	0.09	
\$2,500,000	Time Warner Cable 7.3% 2038	2,406	0.14	
€1,111,000	Transmission Finance 1.5% 2023	1,155	0.07	
€22,000,000	UBS Var. Rate 2026 (4.75%)	23,636	1.39	
€4,885,000	Unicredit Var. Rate Perp. (5.375%)	4,363	0.26	
€3,500,000	Uniqia Insurance Var. Rate 2043 (6.875%)	4,067	0.24	
€1,800,000	Urenco Finance 2.5% 2021	1,910	0.11	
€10,000,000	Verizon Communications 0.875% 2025	9,819	0.58	
€5,000,000	Verizon Communications 2.875% 2038	4,906	0.29	
\$8,117,000	Verizon Communications 4.272% 2036	6,390	0.38	
\$2,999,000	Vodafone Group 3.75% 2024	2,550	0.15	
€3,390,000	Vodafone Group 1.125% 2025	3,340	0.20	
€4,714,000	Vodafone Group 2.2% 2026	4,977	0.29	
€5,000,000	Volkswagen Financial Services 0.75% 2021	5,031	0.30	
€1,000,000	Volkswagen International Finance 1.625% 2030	927	0.05	
€4,000,000	Volkswagen Leasing GMBH 2.625% 2024	4,288	0.25	
€1,800,000	Vonovia Finance 1.5% 2028	1,731	0.10	
€7,000,000	WPC Eurobond 2.25% 2024 (formerly W.P.Carey Eurobond 2.25% 2024)	7,284	0.43	
€2,373,000	WPC Eurobond 2.125% 2027 (formerly W.P.Carey Eurobond 2.125% 2027)	2,363	0.14	
€1,500,000	Zimmer Biomet 2.425% 2026	1,556	0.09	

Portfolio statement (continued)

as at 30 June Holding		2018 €'000	2018 %	2017 %
	'BB' credit rated bonds	115,032	6.78	6.01
€2,500,000	ABN AMRO Bank Var. Rate Perp. (5.75%)	2,643	0.15	
£600,000	Bank of Scotland Var. Rate Perp. (7.281%)	803	0.05	
€2,000,000	Barclays Var. Rate 2028 (2%)	1,911	0.11	
€1,818,000	Bayer Var. Rate 2075 (2.375%)	1,810	0.11	
€5,885,000	Bayer Var. Rate 2075 (3%)	6,047	0.36	
€5,000,000	CaixaBank Var. Rate Perp. (5.25%)	4,574	0.27	
€3,000,000	Casino Guichard Perrachon 3.248% 2024	2,986	0.17	
€1,500,000	Crédit Agricole Var. Rate Perp. (6.5%)	1,615	0.09	
€6,800,000	EDF Var. Rate Perp. (4.125%)	7,110	0.42	
€5,000,000	Intesa Sanpaolo 2.855% 2025	4,817	0.28	
€9,300,000	Intesa Sanpaolo 3.928% 2026	9,395	0.55	
€2,000,000	Intesa Sanpaolo Var. Rate Perp. (7.75%)	2,154	0.13	
€10,000,000	KBC Groep Var. Rate Perp. (5.625%)	10,169	0.60	
€5,000,000	KPN Var. Rate Perp. (6.125%)	5,050	0.30	
€2,500,000	Lloyds Banking Group Var. Rate Perp. (6.375%)	2,659	0.16	
€800,000	National Westminster Bank Var. Rate Perp. (6.625%)	792	0.05	
€11,950,000	Société Générale Var. Rate Perp. (9.375%)	13,130	0.77	
€3,500,000	Solvay Finance Var. Rate Perp. (5.425%)	3,887	0.23	
€1,190,000	Stora Enso 2.5% 2027	1,208	0.07	
€1,250,000	Telecom Italia 7.75% 2033	1,718	0.10	
€1,800,000	Telefónica (Europe) 4.2% Var. Rate Perp. (4.2%)	1,855	0.11	
€4,600,000	Telefónica Europe Var. Rate 2099 (3%)	4,302	0.25	
€3,000,000	Teva Pharmaceutical Finance 1.125% 2024	2,536	0.15	
€5,956,000	Teva Pharmaceutical Finance 1.25% 2023	5,397	0.32	
€5,000,000	UBS Var. Rate Perp. (5.75%)	5,386	0.32	
€1,000,000	Unicredit 6.95% 2022	1,154	0.07	
£5,000,000	Virgin Media Secured Finance 6.25% 2029	5,893	0.35	
€4,860,000	Wind Tre FRN 2024	4,031	0.24	
	'B' credit rated bonds	5,025	0.30	0.34
£3,279,000	Barclays Var. Rate Perp. (5.875%)	3,516	0.21	
€1,500,000	Royal Bank of Scotland 5.5% Perp.	1,509	0.09	
	Bonds with no credit rating	113,342	6.68	7.26
€7,500,000	ALME Loan Funding II FRN 2030	7,520	0.44	
€15,519,000	Arbour CIO IV DAC FRN 2030	15,558	0.92	
€5,213,000	ASML 1.625% 2027	5,372	0.32	
€1,400,000	Assicurazioni Generali Var. Rate 2042 (7.75%)	1,633	0.10	
€2,732,000	Assicurazioni Generali Var. Rate 2047 (5.5%)	2,893	0.17	
€9,524,000	ATON 3.875% 2018	9,536	0.56	
€3,587,000	Avoca CIO XIII DAC FRN 2030	3,592	0.20	
€5,000,000	Barings 2017-I FRN 2030	5,014	0.30	
€2,300,000	Bureau Veritas 1.125% 2023	2,322	0.14	
€1,351,000	Eurofins Scientific 2.125% 2024	1,329	0.08	
€1,400,000	Eurogrid 1.625% 2023	1,467	0.09	
€1,230,000	EWE 5.25% 2021	1,416	0.08	
€5,800,000	Groupe Bruxelles Lambert 1.375% 2024	5,795	0.34	
€3,800,000	Iliad 1.875% 2025	3,672	0.22	
€4,000,000	Lagardère 1.625% 2024	3,921	0.23	

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Portfolio statement (continued)				
as at 30 June	2018	2018	2017	
Holding	€'000	%	%	
Bonds with no credit rating (continued)				
€2,700,000 Lehman Brothers Holdings Var. Rate 2040 (0%) ^[a]	0	0.00		
€6,567,000 Oak Hill FRN 2030	6,577	0.39		
€3,500,000 SEB 1.5% 2024	3,500	0.21		
€3,233,000 SELP Finance 1.25% 2023	3,230	0.19		
€1,645,000 SELP Finance 1.5% 2025	1,618	0.09		
€1,450,000 Suez 5.5% 2024 (Formerly Suez Environnement 5.5% 2024)	1,847	0.11		
€1,200,000 Suez (formerly Suez Environnement) Var. Rate Perp. (2.875%)	1,188	0.07		
€1,300,000 Telefónica (Germany) 1.75% 2025	1,295	0.08		
€12,000,000 Telefónica (Germany) 2.375% 2021	12,603	0.74		
€3,400,000 Telefónica (Germany) 4.339% 2021	3,821	0.22		
€6,400,000 Vilmorin & Cie 2.375% 2021	6,623	0.39		
Debt derivatives	(237)	(0.01)	0.15	
Credit default swaps	1,130	0.07	0.06	
€(5,000,000) BP Jun 2023	108	0.00		
€(10,000,000) Glencore Finance Europe Dec 2022	1,480	0.09		
€(10,000,000) Heathrow Funding Dec 2022	110	0.00		
€(2,000,000) Markit iTraxx Europe Series 26 5 Year Dec 2021	37	0.00		
€(86,000,000) Markit iTraxx Europe Series 27 10 Year Jun 2027	(145)	(0.00)		
€100,000,000 Markit iTraxx Europe Series 27 5 Year Jun 2022	(1,872)	(0.11)		
€(60,000,000) Markit iTraxx Europe Snr Fin Series 28 5 Year Dec 2022	543	0.04		
€22,500,000 Markit iTraxx Europe Sub Fin Series 28 5 Year Dec 2022	633	0.03		
€(10,000,000) Repsol Mar 2021	175	0.01		
€(5,000,000) Telefónica Mar 2021	60	0.01		
€(10,000,000) Volkswagen Jun 2023	1	0.00		
Interest rate futures	(1,367)	(0.08)	0.09	
(564) 10 Year US Treasury Note Sep 2018	(29)	0.00		
435 Euro Bobl Sep 2018	42	0.00		
(105) Euro Bono Sep 2018	(242)	(0.02)		
(117) Euro Bund Sep 2018	(42)	0.00		
(284) Euro Buxl Sep 2018	(705)	(0.04)		
(202) UK Long Gilt Bond Sep 2018	(391)	(0.02)		
CURRENCY	163	0.01	0.07	
Forward currency contracts	163	0.01	0.07	
£(54,268,658) Sold for €61,592,569 (expires 25.07.18)	372	0.02		
\$(49,577,806) Sold for €42,314,338 (expires 25.07.18)	(209)	(0.01)		
Portfolio of investments	1,680,559	99.01	96.27	

Portfolio statement (continued)

as at 30 June	2018	2018	2017
Holding	€'000	%	%
SHARE CLASS HEDGING	(553)	(0.03)	(0.01)
Forward currency contracts for share class hedging	(553)	(0.03)	(0.01)
CHF3,875,209 Bought for €3,362,588 (expires 25.07.18)	(11)	0.00	
£53,521,077 Bought for €60,894,406 (expires 25.07.18)	(517)	(0.03)	
\$5,977,949 Bought for €5,152,584 (expires 25.07.18)	(25)	0.00	
\$(161,543) Sold for €138,575 (expires 25.07.18)	0	0.00	
Total portfolio (notes 2c & 2d on page 7)	1,680,006	98.98	96.26
Net other assets / (liabilities)	17,349	1.02	3.74
Net assets attributable to shareholders	1,697,355	100.00	100.00

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

^[a] Defaulted bond.

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

We show performance for these two share classes because:

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

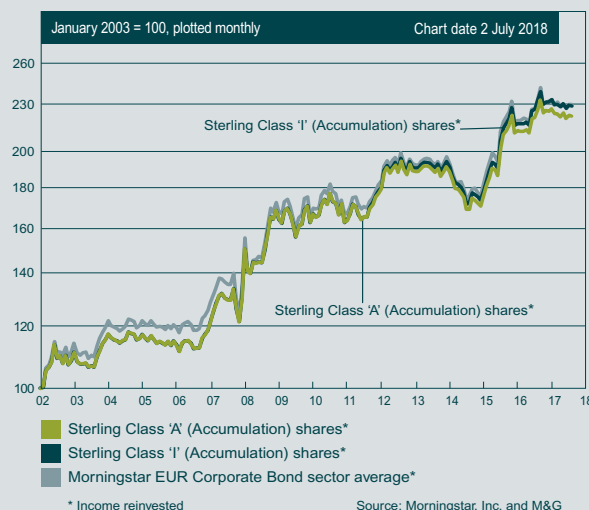
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 30 June	2018 €'000	2017 €'000	2016 €'000
Fund net asset value (NAV)	1,697,355	1,947,876	2,613,614

Performance since launch

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



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

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

Long-term performance by share class

	One year 03.07.17 % [a]	Three years 02.07.15 % p.a.	Five years 02.07.13 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	-0.1	+1.9	+2.9	+3.8 [c]
Class 'C'	+0.4	+2.4	+3.4	+4.5 [c]
Sterling [d]				
Class 'A'	+0.7	+9.5	+3.2	+5.3 [c]
Class 'I'	+1.2	+10.0	+3.7	+5.5 [e]
Class 'I-H'	n/a	n/a	n/a	-0.3 [f]
Class 'R'	+0.9	+9.8	+3.5	+5.3 [e]
Class 'X'	+0.7	+9.4	+3.1	+5.2 [c]
Swiss franc [b]				
Class 'A-H'	-0.5	+1.4	+2.3	+2.6 [g]
Class 'C-H'	-0.0	+1.9	+2.8	+3.1 [g]
US dollar [b]				
Class 'A-H'	+2.3	+3.6	n/a	+3.0 [h]
Class 'C-H'	+2.9	+4.1	n/a	+3.5 [h]

[a] Absolute basis.

[b] Price to price with gross income reinvested.

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

[d] Price to price with income reinvested.

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

[f] 23 February 2018, the launch date of the share class. Not annualised.

[g] 28 September 2012, the launch date of the share class.

[h] 8 August 2014, the launch date of the share class.

M&G European Corporate Bond Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Share class hedging:** Charge paid to M&G for currency hedging services to minimise exchange rate risk for the share class.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.

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

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

as at 30 June	2018	2017	2016	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.45	0.49	0.69	0.54

[a] Average of first three columns.

M&G European 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' Income share performance

The share class was launched on 12 July 2013.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,648.51	1,641.34	1,616.63
Return before operating charges and after direct portfolio transaction costs	26.26	65.53	68.97
Operating charges	(19.18)	(19.30)	(18.89)
Return after operating charges	7.08	46.23	50.08
Distributions	(35.20)	(39.06)	(25.37)
Closing NAV	1,620.39	1,648.51	1,641.34
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.02	0.04	0.06
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.04	0.06
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.16	1.16	1.16
Return after operating charges	+0.43	+2.82	+3.10
Distribution yield ^[c]	2.07	2.15	1.26
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (€'000)	63,150	61,925	49,730
Closing NAV percentage of total fund NAV (%)	3.72	3.18	1.90
Number of shares	3,897,206	3,756,411	3,029,832
Highest share price (Euro ¢)	1,684.94	1,695.33	1,660.70
Lowest share price (Euro ¢)	1,627.01	1,641.38	1,582.27

Euro Class 'A' Accumulation share performance

The share class was launched on 13 January 2003.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,778.94	1,730.02	1,677.73
Return before operating charges and after direct portfolio transaction costs	28.17	69.41	72.01
Operating charges	(20.89)	(20.49)	(19.72)
Return after operating charges	7.28	48.92	52.29
Distributions	(17.58)	(21.17)	(26.46)
Retained distributions	17.58	21.17	26.46
Closing NAV	1,786.22	1,778.94	1,730.02
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.02	0.04	0.07
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.04	0.07
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.16	1.16	1.16
Return after operating charges	+0.41	+2.83	+3.12
Distribution yield	0.92	1.00	1.26
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	892,537	1,043,611	1,538,271
Closing NAV percentage of total fund NAV (%)	52.58	53.57	58.86
Number of shares	49,968,002	58,664,612	88,916,333
Highest share price (Euro ¢)	1,828.12	1,797.72	1,743.80
Lowest share price (Euro ¢)	1,777.35	1,739.45	1,655.10

Euro Class 'C' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,845.62	1,828.33	1,800.83
Return before operating charges and after direct portfolio transaction costs	29.32	73.16	76.84
Operating charges	(12.24)	(12.26)	(11.97)
Return after operating charges	17.08	60.90	64.87
Distributions	(39.50)	(43.61)	(37.37)
Closing NAV	1,823.20	1,845.62	1,828.33
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.02	0.04	0.07
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.04	0.07
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.66	0.66	0.66
Return after operating charges	+0.93	+3.33	+3.60
Distribution yield ^[c]	2.07	2.14	1.76
Effect on yield of charges offset against capital	0.65	0.65	0.00
Other information			
Closing NAV (€'000)	12,432	7,320	10,054
Closing NAV percentage of total fund NAV (%)	0.73	0.38	0.39
Number of shares	681,861	396,648	549,906
Highest share price (Euro ¢)	1,889.75	1,890.29	1,851.78
Lowest share price (Euro ¢)	1,830.22	1,832.87	1,763.63

M&G European Corporate Bond Fund

Financial highlights

Specific share class performance

Euro Class 'C' Accumulation share performance

The share class was launched on 13 January 2003.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,969.95	1,906.43	1,839.44
Return before operating charges and after direct portfolio transaction costs	31.12	76.40	79.28
Operating charges	(13.20)	(12.88)	(12.29)
Return after operating charges	17.92	63.52	66.99
Distributions	(29.50)	(33.16)	(38.41)
Retained distributions	29.50	33.16	38.41
Closing NAV	1,987.87	1,969.95	1,906.43

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.03	0.04	0.07
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.03	0.04	0.07

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.66	0.66	0.66
Return after operating charges	+0.91	+3.33	+3.64
Distribution yield	1.42	1.49	1.76
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	543,856	663,444	790,278
Closing NAV percentage of total fund NAV (%)	32.04	34.05	30.24
Number of shares	27,358,743	33,678,325	41,453,258
Highest share price (Euro ¢)	2,027.99	1,990.47	1,920.86
Lowest share price (Euro ¢)	1,968.46	1,916.77	1,820.17

Sterling Class 'A' Income share performance

The share class was launched on 13 January 2003.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	78.14	73.16	62.04
Return before operating charges and after direct portfolio transaction costs	1.90	7.71	12.94
Operating charges	(0.92)	(0.90)	(0.76)
Return after operating charges	0.98	6.81	12.18
Distributions	(1.68)	(1.83)	(1.06)
Closing NAV	77.44	78.14	73.16

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

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.16	1.16	1.16
Return after operating charges	+1.25	+9.31	+19.63
Distribution yield ^[c]	2.07	2.14	1.26
Effect on yield of charges offset against capital	1.15	1.15	0.00

Other information

Closing NAV (€'000)	662	731	809
Closing NAV percentage of total fund NAV (%)	0.04	0.04	0.03
Number of shares	757,368	821,998	913,973
Highest share price (UK p)	83.89	81.19	74.34
Lowest share price (UK p)	76.59	74.16	61.47

Sterling Class 'A' Accumulation share performance

The share class was launched on 13 January 2003.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	110.24	100.94	84.54
Return before operating charges and after direct portfolio transaction costs	2.67	10.68	17.73
Operating charges	(1.31)	(1.24)	(1.04)
Return after operating charges	1.36	9.44	16.69
Distributions	(1.09)	(1.30)	(1.45)
Retained distributions	1.09	1.16	1.16
Closing NAV	111.60	110.24	100.94

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

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.16	1.16	1.16
Return after operating charges	+1.23	+9.35	+19.74
Distribution yield	0.92	1.00	1.26
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	51,650	51,566	81,255
Closing NAV percentage of total fund NAV (%)	3.04	2.65	3.11
Number of shares	41,001,496	41,102,044	66,514,023
Highest share price (UK p)	118.35	112.64	102.25
Lowest share price (UK p)	109.79	102.94	83.77

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	1,228.81	1,144.69	970.79
Return before operating charges and after direct portfolio transaction costs	29.74	120.77	202.59
Operating charges	(8.26)	(8.01)	(6.79)
Return after operating charges	21.48	112.76	195.80
Distributions	(26.43)	(28.64)	(21.90)
Closing NAV	1,223.86	1,228.81	1,144.69

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.03	0.04
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.03	0.04

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.66	0.66	0.66
Return after operating charges	+1.75	+9.85	+20.17
Distribution yield ^[c]	2.07	2.14	1.76
Effect on yield of charges offset against capital	0.65	0.65	0.00

Other information

Closing NAV (€'000)	3,411	16,496	22,170
Closing NAV percentage of total fund NAV (%)	0.20	0.85	0.85
Number of shares	246,954	1,179,640	1,600,435
Highest share price (UK p)	1,320.32	1,272.18	1,164.35
Lowest share price (UK p)	1,209.20	1,163.17	962.12

M&G European Corporate Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	1,354.69	1,234.89	1,030.10
Return before operating charges and after direct portfolio transaction costs	32.70	130.84	216.74
Operating charges	(9.15)	(8.68)	(7.27)
Return after operating charges	23.55	122.16	209.47
Distributions	(20.39)	(22.51)	(23.40)
Retained distributions	20.39	20.15	18.72
Closing NAV	1,378.24	1,354.69	1,234.89
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.03	0.04
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.03	0.04
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.66	0.66	0.66
Return after operating charges	+1.74	+9.89	+20.33
Distribution yield	1.42	1.49	1.76
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	26,325	16,011	14,297
Closing NAV percentage of total fund NAV (%)	1.55	0.82	0.55
Number of shares	1,692,136	1,038,578	956,684
Highest share price (UK p)	1,455.52	1,379.48	1,250.89
Lowest share price (UK p)	1,354.42	1,261.56	1,020.85

Sterling Class 'I-H' Income share performance

The share class was launched on 23 February 2018.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	100.00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	(0.05)	n/a	n/a
Operating charges	(0.24)	n/a	n/a
Return after operating charges	(0.29)	n/a	n/a
Distributions	(1.04)	n/a	n/a
Closing NAV	98.67	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	0.68	n/a	n/a
Return after operating charges	-0.29	n/a	n/a
Distribution yield ^[c]	1.42	n/a	n/a
Effect on yield of charges offset against capital	0.67	n/a	n/a
Other information			
Closing NAV (€'000)	59,907	n/a	n/a
Closing NAV percentage of total fund NAV (%)	3.53	n/a	n/a
Number of shares	53,785,024	n/a	n/a
Highest share price (UK p)	100.37	n/a	n/a
Lowest share price (UK p)	98.99	n/a	n/a

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	122.58	114.48	97.08
Return before operating charges and after direct portfolio transaction costs	2.97	12.05	20.27
Operating charges	(1.13)	(1.10)	(0.94)
Return after operating charges	1.84	10.95	19.33
Distributions	(2.63)	(2.85)	(1.93)
Closing NAV	121.79	122.58	114.48
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.91	0.91	0.91
Return after operating charges	+1.50	+9.56	+19.91
Distribution yield ^[c]	2.07	2.14	1.51
Effect on yield of charges offset against capital	0.90	0.90	0.00
Other information			
Closing NAV (€'000)	134	44	52
Closing NAV percentage of total fund NAV (%)	0.01	0.00	0.00
Number of shares	97,201	31,201	37,585
Highest share price (UK p)	131.66	127.14	116.39
Lowest share price (UK p)	120.39	116.19	96.21

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	134.23	122.64	102.51
Return before operating charges and after direct portfolio transaction costs	3.23	12.98	21.54
Operating charges	(1.24)	(1.19)	(1.00)
Return after operating charges	1.99	11.79	20.54
Distributions	(1.68)	(1.90)	(2.04)
Retained distributions	1.68	1.70	1.63
Closing NAV	136.22	134.23	122.64
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.91	0.91	0.91
Return after operating charges	+1.48	+9.61	+20.04
Distribution yield	1.17	1.24	1.51
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	486	72	53
Closing NAV percentage of total fund NAV (%)	0.03	0.00	0.00
Number of shares	316,345	47,000	36,000
Highest share price (UK p)	144.16	136.92	124.23
Lowest share price (UK p)	133.94	125.17	101.58

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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 Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	77.94	73.05	61.95
Return before operating charges and after direct portfolio transaction costs	1.88	7.70	12.92
Operating charges	(0.92)	(0.99)	(0.93)
Return after operating charges	0.96	6.71	11.99
Distributions	(1.67)	(1.82)	(0.89)
Closing NAV	77.23	77.94	73.05
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.16	1.28*	1.41
Return after operating charges	+1.23	+9.19	+19.35
Distribution yield ^[c]	2.07	2.14	1.02
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (€'000)	755	1,121	1,354
Closing NAV percentage of total fund NAV (%)	0.04	0.06	0.05
Number of shares	865,777	1,263,973	1,531,909
Highest share price (UK p)	83.67	81.02	74.20
Lowest share price (UK p)	76.39	73.98	61.38

* As the annual management charge has been discounted during the period, 1.16% is a more reliable estimate of the operating charges for the period to 30.06.17.

Sterling Class 'X' Accumulation share performance

The share class was launched on 13 January 2003.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	107.80	98.80	82.92
Return before operating charges and after direct portfolio transaction costs	2.62	10.45	17.36
Operating charges	(1.28)	(1.33)	(1.24)
Return after operating charges	1.34	9.12	16.12
Distributions	(1.07)	(1.15)	(1.20)
Retained distributions	1.07	1.03	0.96
Closing NAV	109.14	107.80	98.80
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.16	1.27*	1.41
Return after operating charges	+1.24	+9.23	+19.44
Distribution yield	0.92	0.77	1.01
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	33,765	68,340	52,020
Closing NAV percentage of total fund NAV (%)	1.99	3.50	1.99
Number of shares	27,409,825	55,704,735	43,505,203
Highest share price (UK p)	115.74	110.19	100.09
Lowest share price (UK p)	107.36	100.66	82.16

* As the annual management charge has been discounted during the period, 1.16% is a more reliable estimate of the operating charges for the period to 30.06.17.

Swiss franc Class 'A-H' Accumulation share performance

The share class was launched on 28 September 2012.

for the year to 30 June Change in NAV per share	2018 Swiss ¢	2017 Swiss ¢	2016 Swiss ¢
Opening NAV	1,160.41	1,134.46	1,108.65
Return before operating charges and after direct portfolio transaction costs	13.89	39.49	38.97
Operating charges	(13.83)	(13.54)	(13.16)
Return after operating charges	0.06	25.95	25.81
Distributions	(11.34)	(13.56)	(17.14)
Retained distributions	11.34	13.56	17.14
Closing NAV	1,160.47	1,160.41	1,134.46
Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.02	0.03	0.04
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.03	0.04
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.18	1.18	1.18
Return after operating charges	+0.01	+2.29	+2.33
Distribution yield	0.90	0.98	1.24
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	2,660	3,495	23,264
Closing NAV percentage of total fund NAV (%)	0.16	0.18	0.89
Number of shares	265,102	329,288	2,230,266
Highest share price (Swiss ¢)	1,191.02	1,172.82	1,143.55
Lowest share price (Swiss ¢)	1,159.15	1,138.83	1,087.30

Swiss franc Class 'C-H' Accumulation share performance

The share class was launched on 28 September 2012.

for the year to 30 June Change in NAV per share	2018 Swiss ¢	2017 Swiss ¢	2016 Swiss ¢
Opening NAV	1,189.05	1,156.44	1,123.91
Return before operating charges and after direct portfolio transaction costs	13.45	40.64	40.25
Operating charges	(8.23)	(8.03)	(7.72)
Return after operating charges	5.22	32.61	32.53
Distributions	(17.73)	(19.81)	(23.25)
Retained distributions	17.73	19.81	23.25
Closing NAV	1,194.27	1,189.05	1,156.44
Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.02	0.03	0.04
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.03	0.04
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.68	0.68	0.68
Return after operating charges	+0.44	+2.82	+2.89
Distribution yield	1.40	1.48	1.75
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	681	9,187	9,147
Closing NAV percentage of total fund NAV (%)	0.04	0.47	0.35
Number of shares	65,930	844,811	860,245
Highest share price (Swiss ¢)	1,222.94	1,201.59	1,165.38
Lowest share price (Swiss ¢)	1,188.00	1,162.30	1,106.23

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Specific share class performance

US dollar Class 'A-H' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,032.42	1,010.48	987.12
Return before operating charges and after direct portfolio transaction costs	41.47	58.37	50.52
Operating charges	(12.15)	(12.15)	(11.71)
Return after operating charges	29.32	46.22	38.81
Distributions	(22.51)	(24.28)	(15.45)
Closing NAV	1,039.23	1,032.42	1,010.48

Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.01	0.02	0.04
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.02	0.04

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.18	1.18	1.18
Return after operating charges	+2.84	+4.57	+3.93
Distribution yield ^[c]	2.08	2.18	1.23
Effect on yield of charges offset against capital	1.17	1.17	0.00

Other information

Closing NAV (€'000)	342	112	121
Closing NAV percentage of total fund NAV (%)	0.02	0.01	0.00
Number of shares	38,258	12,385	13,385
Highest share price (US ¢)	1,063.30	1,048.51	1,021.70
Lowest share price (US ¢)	1,031.91	1,016.09	968.99

US dollar Class 'A-H' Accumulation share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,090.91	1,042.98	1,002.87
Return before operating charges and after direct portfolio transaction costs	43.83	60.58	52.13
Operating charges	(13.16)	(12.65)	(12.02)
Return after operating charges	30.67	47.93	40.11
Distributions	(10.78)	(12.64)	(15.78)
Retained distributions	10.78	12.64	15.78
Closing NAV	1,121.58	1,090.91	1,042.98

Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.01	0.02	0.04
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.02	0.04

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.18	1.18	1.18
Return after operating charges	+2.81	+4.60	+4.00
Distribution yield	0.90	1.00	1.23
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	3,004	3,604	5,680
Closing NAV percentage of total fund NAV (%)	0.18	0.19	0.22
Number of shares	311,733	376,804	607,054
Highest share price (US ¢)	1,130.35	1,101.55	1,050.49
Lowest share price (US ¢)	1,090.37	1,048.77	992.65

US dollar Class 'C-H' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,037.17	1,010.01	986.63
Return before operating charges and after direct portfolio transaction costs	42.09	58.53	50.56
Operating charges	(7.15)	(7.02)	(6.72)
Return after operating charges	34.94	51.51	43.84
Distributions	(22.61)	(24.35)	(20.46)
Closing NAV	1,049.50	1,037.17	1,010.01

Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.01	0.02	0.04
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.02	0.04

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.68	0.68	0.68
Return after operating charges	+3.37	+5.10	+4.44
Distribution yield ^[c]	2.08	2.19	1.74
Effect on yield of charges offset against capital	0.67	0.67	0.00

Other information

Closing NAV (€'000)	110	111	110
Closing NAV percentage of total fund NAV (%)	0.01	0.01	0.00
Number of shares	12,179	12,179	12,179
Highest share price (US ¢)	1,070.73	1,053.21	1,022.29
Lowest share price (US ¢)	1,036.81	1,015.73	969.74

US dollar Class 'C-H' Accumulation share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,107.10	1,053.97	1,008.18
Return before operating charges and after direct portfolio transaction costs	45.15	60.45	52.88
Operating charges	(7.71)	(7.32)	(7.09)
Return after operating charges	37.44	53.13	45.79
Distributions	(16.77)	(18.32)	(21.01)
Retained distributions	16.77	18.32	21.01
Closing NAV	1,144.54	1,107.10	1,053.97

Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.02	0.02	0.04
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.02	0.04

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.68	0.68	0.68
Return after operating charges	+3.38	+5.04	+4.54
Distribution yield	1.40	1.51	1.74
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	1,488	686	14,949
Closing NAV percentage of total fund NAV (%)	0.09	0.04	0.57
Number of shares	151,383	70,714	1,580,824
Highest share price (US ¢)	1,152.71	1,118.06	1,061.32
Lowest share price (US ¢)	1,106.92	1,059.90	1,001.28

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

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

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

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Statement of total return					
for the year to 30 June	Note	2018 €'000	2017 €'000	2018 €'000	2017 €'000
Income					
Net capital gains / (losses)	3		(10,245)		35,621
Revenue	5	41,355		56,316	
Expenses	6	(18,610)		(23,181)	
Interest payable		(376)		(204)	
Net revenue / (expense) before taxation		22,369		32,931	
Taxation	7	(5)		(2)	
Net revenue / (expense) after taxation		22,364		32,929	
Total return before distributions		12,119		68,550	
Distributions	8	(23,346)		(33,910)	
Change in net assets attributable to shareholders from investment activities		(11,227)		34,640	

Statement of change in net assets attributable to shareholders				
for the year to 30 June		2018 €'000	2017 €'000	2018 €'000
Opening net assets attributable to shareholders		1,947,876	2,613,614	
Amounts received on issue of shares	247,247		488,953	
Amounts paid on cancellation of shares	(508,217)		(1,222,283)	
		(260,970)	(733,330)	
Dilution adjustments		995	3,089	
Change in net assets attributable to shareholders from investment activities (see above)		(11,227)	34,640	
Retained distributions on Accumulation shares		20,681	29,863	
Closing net assets attributable to shareholders		1,697,355	1,947,876	

Balance sheet			
as at 30 June	Note	2018 €'000	2017 €'000
Assets			
Fixed assets			
Investments		1,684,194	1,877,974
Current assets			
Debtors	9	20,582	39,928
Cash and bank balances	10	11,636	65,853
Total assets		1,716,412	1,983,755
Liabilities			
Investment liabilities		(4,188)	(2,936)
Creditors			
Distribution payable		(759)	(500)
Other creditors	11	(14,110)	(32,443)
Total liabilities		(19,057)	(35,879)
Net assets attributable to shareholders		1,697,355	1,947,876

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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

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

3 Net capital gains / (losses)

for the year to 30 June	2018 €'000	2017 €'000
Non-derivative securities	(9,714)	13,792
Derivative contracts	1,121	24,333
Currency gains / (losses)	(1,642)	(2,491)
Transaction charges	(10)	(13)
Net capital gains / (losses)	(10,245)	35,621

4 Portfolio transactions and associated costs

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

for the year to 30 June	2018 €'000	2017 €'000		
a) Purchases				
Debt securities ^[a]	526,763	770,844		
b) Sales				
Debt securities ^[a]	697,288	1,404,715		
Other transaction types				
Corporate actions	6,227	13,553		
Total sales	703,515	1,418,268		
c) Direct portfolio transaction costs	2018 €'000	% of average NAV	2017 €'000	% of average NAV
Commissions paid				
Derivatives	26	0.00	53	0.00
Total direct portfolio transaction costs	26	0.00	53	0.00
d) Indirect portfolio transaction costs		%		%
Portfolio dealing spread ^[b]		0.45		0.49

^[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	2018 €'000	2017 €'000
Bank interest	5	15
Derivative revenue	315	(2,489)
Interest on debt securities	41,035	58,790
Total revenue	41,355	56,316

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6 Expenses

for the year to 30 June	2018 €'000	2017 €'000
Payable to the ACD or associate		
Annual management charge	15,541	19,398
Administration charge	2,874	3,550
Share class hedging charge	6	6
	18,421	22,954
Payable to the Depositary or associate		
Depositary's charge (including VAT)	85	99
Other expenses		
Audit fee (including VAT)	12	11
Safe custody charge	92	117
	104	128
Total expenses	18,610	23,181

7 Taxation

for the year to 30 June	2018 €'000	2017 €'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	5	2
Deferred tax (note 7c)	0	0
Total taxation	5	2
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	22,369	32,931
Corporation tax at 20%	4,474	6,586
Effects of:		
Interest distributions	(4,474)	(6,586)
Withholding tax	5	2
Total tax charge (note 7a)	5	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 in the current financial year (2017: same).

Interest distributions have been made in respect of all distributions during the current and preceding periods. Income tax at 20% was accounted for on shareholders' behalf to HM Revenue & Customs up to 31 December 2016.

8 Distributions

	2018		2017	
for the year to 30 June	Inc ^[a] €'000	Acc ^[b] €'000	Inc ^[a] €'000	Acc ^[b] €'000
Interest distributions				
First interim	510	5,769	560	9,239
Second interim	449	5,637	623	8,823
Third interim	689	4,845	638	5,874
Final	759	4,430	500	5,927
Total net distributions		23,088		32,184
Income tax deducted at source		0		270
Interest distributions		23,088		32,454
Income deducted on cancellation of shares		821		2,436
Income received on issue of shares		(563)		(980)
Distributions		23,346		33,910
Net revenue / (expense) per statement of total return		22,364		32,929
Expenses offset against capital		982		981
Distributions		23,346		33,910

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

9 Debtors

as at 30 June	2018 €'000	2017 €'000
Amounts receivable on issues of shares	2,734	5,917
Currency deals outstanding	0	11,716
Debt security interest receivable	17,474	22,162
Derivative revenue receivable	306	65
Withholding tax recoverable	68	68
Total debtors	20,582	39,928

10 Cash and bank balances

as at 30 June	2018 €'000	2017 €'000
Amounts held at futures clearing houses and collateral manager	5,947	4,438
Cash held as bank balances	5,689	61,415
Total cash and bank balances	11,636	65,853

11 Other creditors

as at 30 June	2018 €'000	2017 €'000
ACD's annual management charge payable	419	485
Administration charge payable	78	89
Amounts payable on cancellation of shares	11,875	12,461
Currency deals outstanding	0	11,708
Derivative expense payable	412	247
Expenses payable	31	40
Purchases awaiting settlement	1,295	7,413
Total other creditors	14,110	32,443

12 Contingent assets, liabilities and outstanding commitments

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

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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 01.07.17	Movements		Closing 30.06.18
		Issued	Cancelled	
Euro				
Class 'A' Income	3,756,411	1,255,196	(1,114,401)	3,897,206
Class 'A' Accumulation	58,664,612	3,824,862	(12,521,472)	49,968,002
Class 'C' Income	396,648	376,400	(91,187)	681,861
Class 'C' Accumulation	33,678,325	3,085,171	(9,404,753)	27,358,743
Sterling				
Class 'A' Income	821,998	408,553	(473,183)	757,368
Class 'A' Accumulation	41,102,044	6,344,375	(6,444,923)	41,001,496
Class 'I' Income	1,179,640	82,548	(1,015,234)	246,954
Class 'I' Accumulation	1,038,578	755,829	(102,271)	1,692,136
Class 'H' Income	0	53,785,024	0	53,785,024
Class 'R' Income	31,201	81,296	(15,296)	97,201
Class 'R' Accumulation	47,000	324,800	(55,455)	316,345
Class 'X' Income	1,263,973	32,380	(430,576)	865,777
Class 'X' Accumulation	55,704,735	3,005,431	(31,300,341)	27,409,825
Swiss franc				
Class 'A-H' Accumulation	329,288	2,000	(66,186)	265,102
Class 'C-H' Accumulation	844,811	32,242	(811,123)	65,930
US dollar				
Class 'A-H' Income	12,385	36,499	(10,626)	38,258
Class 'A-H' Accumulation	376,804	73,592	(138,663)	311,733
Class 'C-H' Income	12,179	0	0	12,179
Class 'C-H' Accumulation	70,714	156,322	(75,653)	151,383

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %	Share class hedging charge %
Euro				
Class 'A'	3.25	n/a	1.00	n/a
Class 'C'	1.25	n/a	0.50	n/a
Sterling				
Class 'A'	nil	n/a	1.00	n/a
Class 'I'	nil	n/a	0.50	n/a
Class 'H'	nil	n/a	0.50	[a]
Class 'R'	nil	n/a	0.75	n/a
Class 'X'	nil	n/a	1.00	n/a
Swiss franc				
Class 'A-H'	3.25	n/a	1.00	[a]
Class 'C-H'	1.25	n/a	0.50	[a]
US dollar				
Class 'A-H'	3.25	n/a	1.00	[a]
Class 'C-H'	1.25	n/a	0.50	[a]

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

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 28.15% (2017: 39.75%) 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 2018	Liabilities 2018	Assets 2017	Liabilities 2017
	€'000	€'000	€'000	€'000
Level 1	162,272	(1,409)	151,352	(504)
Level 2	1,521,922	(2,779)	1,726,622	(2,432)
Level 3	0	0	0	0
	1,684,194	(4,188)	1,877,974	(2,936)

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

M&G European Corporate Bond Fund

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Notes to the financial statements

18 Risk management policies

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

19 Market risk sensitivity and exposure

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

The VaR limit set during the financial year to 30 June 2018 was 13% (2017: 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 2018 and 30 June 2017.

	2018	2018	2017	2017
for the year to 30 June	% of VaR	Utilisation of VaR [a] 13%	% of VaR	Utilisation of VaR [a] 13%
Lowest	1.55	11.94	1.65	12.65
Highest	2.10	16.19	2.35	18.06
Average	1.84	14.12	1.88	14.49

[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.

	2018	2017
as at 30 June	€'000	€'000
Investment grade securities	1,447,234	1,605,779
Below investment grade securities	120,057	123,757
Unrated securities	113,342	141,385
Other investments	(627)	4,117
Total	1,680,006	1,875,038

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.

	Swaps	Forward currency contracts	Futures
as at 30 June 2018	€'000	€'000	€'000
Bank of America Merrill Lynch	1,480	0	(1,367)
Citigroup	1,176	0	0
Credit Suisse	381	0	0
Deutsche Bank	110	0	0
J.P.Morgan	(2,017)	372	0
State Street Bank	0	(762)	0
Total	1,130	(390)	(1,367)

	Swaps	Forward currency contracts	Futures
as at 30 June 2017	€'000	€'000	€'000
Bank of America Merrill Lynch	0	0	1,828
Barclays Bank	203	0	0
BNP Paribas	789	0	0
Citigroup	581	67	0
Credit Suisse	509	0	0
Deutsche Bank	23	0	0
Goldman Sachs	1,184	0	0
J.P.Morgan	(2,153)	0	0
State Street Bank	0	1,086	0
Total	1,136	1,153	1,828

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 2018 and 30 June 2017 are disclosed in the table below.

	2018 [a]	2018 [a]	2017 [a]	2017 [a]
for the year to 30 June	€'000	% [b]	€'000	% [b]
Lowest	637,645	37	646,797	33
Highest	1,049,527	58	1,645,216	62
Average	787,311	41	1,032,743	43

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

[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 79.

M&G European Corporate Bond Fund

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Notes to the financial statements

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	01.07.17	30.09.17	02.10.17	30.11.17
Second interim	01.10.17	31.12.17	02.01.18	28.02.18
Third interim	01.01.18	31.03.18	02.04.18	31.05.18
Final	01.04.18	30.06.18	02.07.18	31.08.18

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

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

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

Euro Class 'A' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
First interim	4.2983	4.7613	9.0596	10.1720
Second interim	4.2458	4.7117	8.9575	10.1876
Third interim	3.2263	5.2135	8.4398	9.3150
Final	4.7979	3.9422	8.7401	9.3872

Euro Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
First interim	2.1480	2.6071	4.7551	5.7238
Second interim	2.1441	2.3746	4.5187	5.6233
Third interim	1.8677	2.2044	4.0721	5.0009
Final	2.3766	1.8540	4.2306	4.8268

Euro Class 'C' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
First interim	3.2478	6.9010	10.1488	11.3251
Second interim	2.6719	7.3747	10.0466	11.3690
Third interim	5.6766	3.8012	9.4778	10.4089
Final	1.8570	7.9736	9.8306	10.5023

Euro Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
First interim	3.9529	3.7342	7.6871	8.7071
Second interim	4.0661	3.4532	7.5193	8.6917
Third interim	3.3626	3.6381	7.0007	7.8988
Final	2.8702	4.4206	7.2908	7.8635

Sterling Class 'A' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	0.2134	0.2181	0.4315	0.4725
Second interim	0.1841	0.2447	0.4288	0.4775
Third interim	0.1295	0.2694	0.3989	0.4313
Final	0.2133	0.2044	0.4177	0.4448

Sterling Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	0.1025	0.1933	0.2958	0.3480
Second interim	0.1108	0.1720	0.2828	0.3465
Third interim	0.1135	0.1382	0.2517	0.3026
Final	0.1180	0.1463	0.2643	0.2991

Sterling Class 'I' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	3.2392	3.5475	6.7867	7.3945
Second interim	3.5889	3.1655	6.7544	7.4835
Third interim	3.2171	3.0764	6.2935	6.7647
Final	2.9392	3.6572	6.5964	6.9925

Sterling Class 'I' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	2.1879	3.1220	5.3099	5.8775
Second interim	2.4419	2.7794	5.2213	5.9185
Third interim	1.4942	3.3074	4.8016	5.3022
Final	1.9635	3.0915	5.0550	5.4076

Sterling Class 'I-H' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	n/a	n/a	n/a	n/a
Second interim	n/a	n/a	n/a	n/a
Third interim	0.1165	0.3926	0.5091	n/a
Final	0.1687	0.3627	0.5314	n/a

M&G European Corporate Bond Fund

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23 Interest distribution tables (continued)

Sterling Class 'R' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	0.3058	0.3705	0.6763	0.7395
Second interim	0.2574	0.4157	0.6731	0.7410
Third interim	0.1953	0.4316	0.6269	0.6754
Final	0.3521	0.3042	0.6563	0.6978

Sterling Class 'R' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	0.4441	-	0.4441	0.5045
Second interim	0.0996	0.3311	0.4307	0.4990
Third interim	0.0870	0.3041	0.3911	0.4478
Final	0.0030	0.4081	0.4111	0.4509

Sterling Class 'X' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	0.1239	0.3067	0.4306	0.4710
Second interim	0.1254	0.3022	0.4276	0.4770
Third interim	0.1666	0.2314	0.3980	0.4567
Final	0.1195	0.2972	0.4167	0.4145

Sterling Class 'X' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	0.1445	0.1450	0.2895	0.2760
Second interim	0.0816	0.1949	0.2765	0.2810
Third interim	0.0901	0.1560	0.2461	0.2960
Final	0.0648	0.1937	0.2585	0.2925

Swiss franc Class 'A-H' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	¢	¢	¢	¢
First interim	3.1229	-	3.1229	3.6635
Second interim	1.8565	1.0682	2.9247	3.5693
Third interim	2.6046	-	2.6046	3.2350
Final	2.6905	-	2.6905	3.0904

Swiss franc Class 'C-H' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	¢	¢	¢	¢
First interim	1.5884	3.0711	4.6595	5.2215
Second interim	2.2409	2.2792	4.5201	5.1456
Third interim	1.5868	2.5778	4.1646	4.7520
Final	0.6344	3.7545	4.3889	4.6884

US dollar Class 'A-H' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	¢	¢	¢	¢
First interim	5.8686	-	5.8686	6.2773
Second interim	2.1048	3.6007	5.7055	6.1583
Third interim	2.8971	2.4710	5.3681	5.9298
Final	1.1330	4.4312	5.5642	5.9104

US dollar Class 'A-H' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	¢	¢	¢	¢
First interim	1.0570	1.9163	2.9733	3.4157
Second interim	0.4027	2.3550	2.7577	3.2219
Third interim	1.1761	1.3253	2.5014	3.0775
Final	2.5470	-	2.5470	2.9246

US dollar Class 'C-H' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	¢	¢	¢	¢
First interim	5.8413	-	5.8413	6.2920
Second interim	5.7407	-	5.7407	6.1791
Third interim	5.4177	-	5.4177	5.9463
Final	5.6095	-	5.6095	5.9336

US dollar Class 'C-H' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	¢	¢	¢	¢
First interim	1.9781	2.4434	4.4215	4.7856
Second interim	0.6879	3.5763	4.2642	4.6363
Third interim	2.0837	1.8968	3.9805	4.4842
Final	1.3156	2.7883	4.1039	4.4134

M&G European High Yield Bond Fund

Authorised Corporate Director's Report

Investment objective

The fund aims to provide income and capital growth.

Investment policy

At least 70% of the fund is invested in higher yielding debt instruments denominated in any European currency and will normally be managed to give investors exposure to European currencies. The fund's exposure to higher yielding debt instruments 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, government and public securities and other transferable securities, cash, near cash, other money market instruments, warrants and other derivative instruments which may be denominated in any major global currency. Any non-European currency exposures within the fund may be managed by currency hedges in European currencies. More than 70% of the fund will be in euro or hedged back to euro.

Investment approach

The fund manager concentrates on bottom-up analysis of individual bond issues while remaining aware of macroeconomic developments. Emphasis is placed upon investigating the ability of a company or government to meet its interest payments, especially during unfavourable economic conditions. Credit risk is constantly monitored and typically spread across a variety of countries and industrial sectors.

Risk profile

The fund invests mainly in higher yielding fixed income securities denominated in any European currency. It is primarily subject to the price volatility of the European 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 on higher yielding debt securities implies that it may experience greater volatility than a fund that invests primarily in investment grade debt securities as higher risk assets could potentially experience a degree of illiquidity in times of market distress.

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

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

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



The above number:

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

Investment review

As at 2 July 2018, for the year ended 30 June 2018

Performance against objective

Between 3 July 2017 (the start of the review period) and 2 July 2018, the M&G European High Yield Bond Fund delivered a mixed performance in terms of the total return (the combination of income and growth of capital) across different share classes. Whereas the US dollar and some of the sterling share classes produced a small positive return, the euro and Swiss franc share classes delivered a negative return.*

In this reporting period, the fund has not met its objective of providing income** and capital growth, although it has over three and five years and since launch.

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

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

Investment performance

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

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

M&G European High Yield Bond Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

However, a period of heightened volatility in financial markets in February and March 2018 triggered a sharp rise in yields on high yield bonds, and a resultant widening in the difference between yields on high yields bonds and government bonds. (Bond yields refer to the interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.) As bond yields move inversely to bond prices, the rise in yields meant that prices on high yield bonds fell. The shift in market environment appeared to be prompted by expectations of higher US interest rates and fears of a trade war between the US and many of its trading partners.

After a brief respite in April, high yield bonds struggled again in the final two months of the review period. This was especially the case in European high yield markets as political uncertainty in the aftermath of the Italian election weighed on investor sentiment, although US high yield proved more resilient, partly due to the continued strength in oil prices.

Fund performance was varied across share classes. Whereas the US dollar and sterling share classes produced a positive return, the euro and Swiss franc share classes posted a small negative return. Furthermore, the sterling and euro share classes (the two share classes for which there is a comparative sector) slightly underperformed the Morningstar Europe High Yield Bond Sector.

While the fund's defensive sector positioning and careful selection of individual bond issues generally proved beneficial, this was offset by the fund's sizeable exposure to the financial services sector. In addition, several of the fund's telecom holdings experienced weakness towards the end of the period. From a regional perspective, the fund benefited from having only a modest allocation to the periphery of the eurozone. Its exposure to US high yield also proved beneficial as this market outperformed its European counterpart.

Investment activities

There was no significant change in fund positioning during the review period and we maintained our preference for defensive, non-cyclical companies offering resilient cashflows, such as packaging companies and cable businesses.

While not accounting for a significant part of the European high yield market, we nevertheless maintain minimal exposure to the energy and commodity sectors. We think these sectors by and large look fully priced and, as a consequence, no longer provide sufficient compensation for the risks.

In regional allocation terms, we kept the fund's US exposure at around 19%. This is around twice that of a comparable index and meant the fund benefited from the outperformance of the US high yield market versus its European counterpart.

Over the 12 months under review, the overall average credit risk of the fund was broadly unchanged. However, we have slightly increased the fund's exposure to lower rated single B bonds, as valuations in this part of the market started to look somewhat more attractive, while decreasing its exposure to more highly rated BB bonds.

We continue to see attractive opportunities in the primary high yield market and participated in a broad range of new deals over the period, including issues from data service provider Interxion, steel product specialist Schmolz + Bickenbach, and LHMC, a newly formed entity to fund the acquisition of Spanish gaming company Cirsa.

In terms of sales, we closed our position in US telecom company CenturyLink as we believe the bonds are now trading too tightly given the ongoing challenges facing the company. We also reduced the fund's exposure to a number of cable operators following solid performance, including Matterhorn, Virgin Media and ZIGGO.

Outlook

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

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

In our view, high yield investing is as much about avoiding the losers as picking the winners. On this basis, we remain cautiously positioned in the retail sector. UK fashion retailers in particular have been experiencing higher input costs as a result of the depreciation in sterling, coupled with a sharp slowdown in consumer spending. The sector is also facing longer term structural headwinds as shoppers move increasingly towards online spending and away from traditional bricks-and-mortar stores. While some of these businesses will be able to adapt, we continue to be very selective in this space.

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

James Tomlins

Fund manager

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

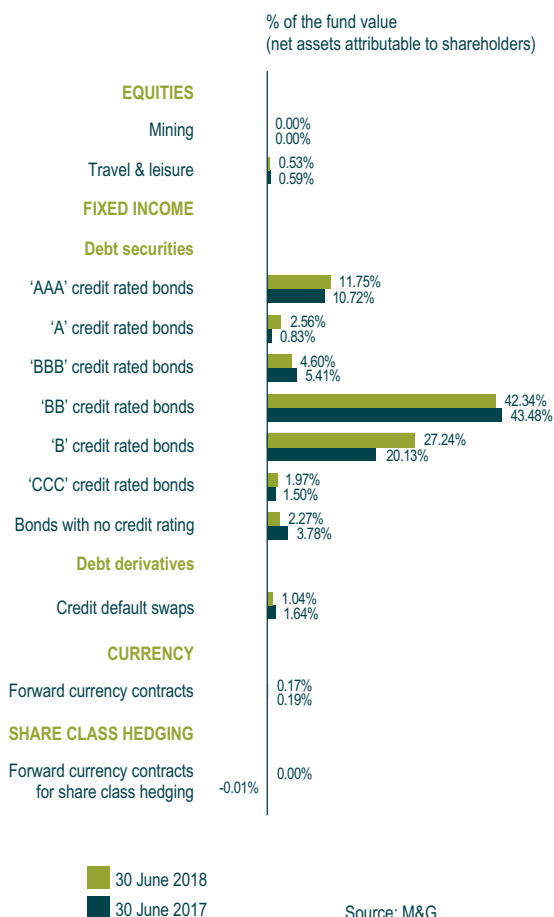
Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial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

M&G European High Yield Bond Fund

Authorised Corporate Director's Report

Investment review

Classification of investments



Investments

Portfolio statement

as at 30 June Holding	2018 €'000	2018 %	2017 %
EQUITIES	602	0.53	0.59
Mining	0	0.00	0.00
5,628,959 New World Resources ^[a]	0	0.00	
Travel & leisure	602	0.53	0.59
96,305 Codere	602	0.53	
FIXED INCOME	107,259	93.77	87.49
Debt securities	106,071	92.73	85.85
'AAA' credit rated bonds	13,447	11.75	10.72
€1,000,000 Germany (Federal Republic of) 0% 2020	1,012	0.88	
€2,200,000 Germany (Federal Republic of) 0% 2022	2,239	1.96	
€10,306,000 Germany (Federal Republic of) 0% 2026	10,196	8.91	
'A' credit rated bonds	2,933	2.56	0.83
€600,000 Banco Bilbao Vizcaya Argentaria Var. Rate Perp. (7%)	613	0.53	
€400,000 Banco Santander Var. Rate Perp. (6.25%)	407	0.36	
€1,100,000 Société Générale Var. Rate Perp. (6.75%)	1,173	1.02	
€720,000 Total Var. Rate Perp. (3.369%)	740	0.65	
'BBB' credit rated bonds	5,258	4.60	5.41
€1,600,000 American International Group Var. Rate 2067 (4.875%)	1,496	1.31	
€1,200,000 Commerzbank 7.75% 2021	1,403	1.22	
€750,000 MPT Operating Partnership 3.325% 2025	767	0.67	
€689,000 Unicredit Var. Rate Perp. (5.375%)	616	0.54	
€350,000 Unicredit Var. Rate Perp. (6.75%)	352	0.31	
€300,000 ZF North America Capital 2.25% 2019	305	0.27	
€300,000 ZF North American Capital 2.75% 2023	319	0.28	
'BB' credit rated bonds	48,433	42.34	43.48
€850,000 Adient Global Holdings 3.5% 2024	787	0.69	
€254,000 Aramark International Finance 3.125% 2025	257	0.22	
€1,100,000 Ardagh Packaging Finance 2.75% 2024	1,086	0.95	
€129,000 Arena Luxembourg Finance 2.875% 2024	127	0.11	
£667,000 Arrow Global Finance 5.125% 2024	696	0.61	
€900,000 Arrow Global Finance FRN 2025	856	0.75	
€723,000 Axalta Coating Systems 3.75% 2025	742	0.65	
€404,000 Axalta Coating Systems 4.25% 2024	420	0.37	
€350,000 Bank of Ireland Var. Rate Perp. (7.375%)	375	0.33	
€1,400,000 Bank of Ireland Var. Rate 2024 (4.25%)	1,436	1.26	
€324,000 Belden 3.375% 2027	306	0.27	
€400,000 Cable Communications Systems 5% 2023	417	0.36	
€600,000 CaixaBank Var. Rate Perp. (5.25%)	549	0.48	
€400,000 CaixaBank Var. Rate. Perp. (6.75%)	425	0.37	
€800,000 Casino Guichard Perrachon 3.248% 2024	796	0.70	
€369,000 Cemex 2.75% 2024	357	0.31	
€300,000 Chemours 4% 2026	297	0.26	
€193,000 Colfax 3.25% 2025	194	0.17	

M&G European High Yield Bond Fund

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Investments

Portfolio statement (continued)			
as at 30 June Holding	2018 €'000	2018 %	2017 %
'BB' credit rated bonds (continued)			
\$225,000 Credit Suisse Group Var. Rate Perp. (6.25%)	189	0.16	
\$225,000 Credit Suisse Group Var. Rate Perp. (7.125%)	196	0.17	
\$900,000 Credit Suisse Group Var. Rate Perp. (7.5%)	798	0.70	
€3,600,000 Crown European Holdings 3.375% 2025	3,638	3.18	
€357,000 Darling Global Finance 3.625% 2026	357	0.31	
€260,000 Drax Finco 4.25% 2022	294	0.26	
\$301,000 Drax Finco 6.625% 2025	259	0.23	
€471,000 Dufry Finance 4.5% 2023	486	0.42	
€258,000 Equinix 2.875% 2024	253	0.22	
€750,000 Gestamp Funding Luxembourg 3.5% 2023	762	0.67	
€226,000 Grupo Antolin 3.25% 2024	218	0.19	
€500,000 Grupo Antolin 3.375% 2026	458	0.40	
€2,000,000 Hanesbrands Finance Luxemburg 3.5% 2024	2,089	1.83	
€478,000 IHO Verwaltungen (formerly Schaeffler Verwaltung Zwei) 2.75% Pik 2021	482	0.42	
€366,000 Interxion Holding 4.75% 2025	367	0.32	
€150,000 Intesa Sanpaolo 3.928% 2026	152	0.13	
€125,000 Intesa Sanpaolo 6.625% 2023	146	0.13	
€450,000 Intesa Sanpaolo Var. Rate Perp. (7%)	459	0.40	
€213,000 Intesa Sanpaolo Var. Rate Perp. (7.75%)	229	0.20	
€890,000 Intrum (formerly Intrum Justitia) 3.125% 2024	831	0.73	
€800,000 KBC Groep Var. Rate Perp. (5.625%)	813	0.71	
€1,190,000 KPN Var. Rate Perp. (6.125%)	1,202	1.05	
€593,000 Levi Strauss & Co. 3.375% 2027	593	0.52	
€400,000 Lloyds Banking Group Var. Rate Perp. (6.375%)	425	0.37	
€168,000 Louvre Bidco SAS 4.25% 2024	158	0.14	
€500,000 New Areva Holdings (formerly Areva) 4.875% 2024	525	0.46	
£220,000 Nationwide Building Society Var. Rate Perp. (6.875%)	254	0.22	
€680,000 Nomad Foods 3.25% 2024	675	0.59	
€1,000,000 Novalis 3% 2022	1,013	0.89	
€2,220,000 OI European Group 3.125% 2024	2,237	1.96	
£400,000 Petrobras Global Finance 6.625% 2034	437	0.38	
€929,000 Progroup FRN 2024	920	0.80	
€1,136,000 QuintilesIMS 3.25% 2025	1,102	0.96	
€362,000 Silgan Holdings 3.25% 2025	372	0.33	
€600,000 Smurfit Kappa Acquisitions 2.375% 2024	606	0.53	
€850,000 Smurfit Kappa Acquisitions 2.75% 2025	863	0.75	
€1,850,000 SPCM 2.875% 2023	1,858	1.63	
€238,000 Stora Enso 2.5% 2027	242	0.21	
€222,000 Stora Enso 2.5% 2028	223	0.19	
€990,000 TA Manufacturing 3.625% 2023	994	0.87	
€1,530,000 Telenet Finance VI 4.875% 2027	1,618	1.41	
€365,000 Teva Pharmaceutical Finance 4.5% 2025	374	0.33	

Portfolio statement (continued)

as at 30 June Holding	2018 €'000	2018 %	2017 %
'BB' credit rated bonds (continued)			
€169,000 Unitymedia Hessen 3.5% 2027	176	0.15	
€1,450,000 Unitymedia Hessen 4% 2025	1,515	1.32	
€450,000 Unitymedia Hessen 4.625% 2026	487	0.43	
£316,000 William Hill 4.875% 2023	367	0.32	
€600,000 Wind Tre 3.125% 2025	485	0.42	
€2,496,000 Wind Tre FRN 2024	2,070	1.81	
€3,086,000 Ziggo 3.75% 2025	3,043	2.66	
'B' credit rated bonds			
	31,155	27.24	20.13
€359,000 Adler Pelzer (formerly HP Pelzer) 4.125% 2024	361	0.32	
£323,000 AMC Entertainment Holdings 6.375% 2024	368	0.32	
€670,000 ARD Finance 6.625% 2023	680	0.59	
£860,000 Ardagh Packaging Finance 4.75% 2027	928	0.81	
£328,000 Barclays Var. Rate Perp. (5.875%)	352	0.31	
€450,000 Barclays Var. Rate Perp. (8%)	498	0.44	
€775,000 Bombardier 6.125% 2021	846	0.74	
€419,000 Burger King France 6% 2024	445	0.39	
£902,000 Cabot Financial Luxembourg 7.5% 2023	1,037	0.91	
€740,000 Catalent Pharma Solutions 4.75% 2024	770	0.67	
€161,000 CMA CGM 5.25% 2025	130	0.11	
€500,000 CMF 9% 2022	426	0.37	
£536,000 Cognita Financing 7.75% 2021	614	0.54	
£244,000 CPUK Finance 4.25% 2047	277	0.24	
€218,000 Diamond (BC) 5.625% 2025	195	0.17	
€603,000 DKT Finance 7% 2023	609	0.53	
€620,000 eircom Finance 4.5% 2022	631	0.55	
€258,000 Gamenet Group FRN 2023	247	0.22	
€300,000 Garfunkelux Holdco 3 FRN 2023	267	0.23	
€300,000 Garfunkelux Holdco 7.5% 2022	292	0.26	
£1,500,000 Garfunkelux Holdco 8.5% 2022	1,651	1.44	
€600,000 HEMA Bondco I FRN 2022	575	0.50	
£1,275,000 Iceland Bondco 4.625% 2025	1,296	1.13	
€300,000 Lecta 6.5% 2023	295	0.26	
€457,000 LSF10 Wolverine Investments 5% 2024	452	0.40	
€2,235,000 Matterhorn Telecom 3.875% 2022	2,259	1.98	
€1,000,000 Matterhorn Telecom 4% 2027	935	0.82	
€71,429 Matterhorn Telecom FRN 2023	71	0.06	
€548,000 Netflix 3.625% 2027	536	0.47	
€442,000 Nidda Healthcare 3.5% 2024	416	0.36	
€500,000 Paprec Holding FRN 2025	500	0.44	
€453,000 Picard Groupe FRN 2023	442	0.39	
£435,000 Premier Foods Finance 6.25% 2023	502	0.44	
£325,000 Premier Foods Finance FRN 2022	368	0.32	
€710,000 PSPC Escrow 6% 2023	738	0.65	
€1,000,000 Royal Bank of Scotland Var. Rate Perp. (7.0916%)	981	0.86	
€448,000 Schmolz+Bickenbach 5.625% 2022	452	0.40	
€526,000 Scientific Games International 5.5% 2026	497	0.44	
€661,000 Selecta Group 5.875% 2024	644	0.56	
€1,550,000 SFR Group (formerly Numericable Group) 5.375% 2022	1,592	1.39	
€1,000,000 SFR Group (formerly Numericable Group) 5.625% 2024	1,035	0.90	
£508,000 Stonegate Pub Company 4.875% 2022	565	0.49	
€219,000 Tele Columbus 3.875% 2025	208	0.18	
\$225,000 Tesla 5.3% 2025	171	0.15	

M&G European High Yield Bond Fund

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Investments

Portfolio statement (continued)			
as at 30 June Holding	2018 €'000	2018 %	2017 %
'B' credit rated bonds (continued)			
€432,000 United Group 4.875% 2024	440	0.38	
€393,000 Unitymedia Kabel 3.75% 2027	410	0.36	
€1,745,000 Valeant Pharmaceuticals (formerly VRX Escrow) 4.5% 2023	1,645	1.44	
€124,000 Vallourec 6.375% 2023	122	0.11	
€284,000 Vallourec 6.625% 2022	288	0.25	
€150,000 Veritas 7.5% 2023	137	0.12	
\$800,000 VTR Finance 6.875% 2024	692	0.60	
€250,000 Ziggo Secured Finance 7.125% 2025	267	0.23	
'CCC' credit rated bonds			
\$353,000 Carlson Travel 9.5% 2024	275	0.24	
€400,000 New Look FRN 2022	198	0.17	
€337,000 NewCo 8% 2022	342	0.30	
€200,000 Swissport Financing SARL 9.75% 2022	215	0.19	
€295,000 Unilabs Subholding 5.75% 2025	281	0.25	
SEK9,780,000 Verisure Holdings FRN 2023	943	0.82	
Bonds with no credit rating			
€182,000 Assicurazioni Generali Var. Rate 2047 (5.5%)	193	0.17	
£760,000 Care UK Health FRN 2019	849	0.74	
€641,964 Hellas Telecom III 8.5% 2013 ^[b]	0	0.00	
£209,000 KIRS Midco 3 8.375% 2023	238	0.21	
€600,000 Lehman Brothers Holdings Var. Rate 2016 (4.25%) ^[b]	0	0.00	
€289,000 LHMC Finco 6.25% 2023	285	0.25	
£500,000 Ocado Group 4% 2024	563	0.49	
€500,000 Viridian Power & Energy 4% 2025	463	0.41	
Debt derivatives			
	1,188	1.04	1.64
Credit default swaps			
	1,188	1.04	1.64
€(2,500,000) Markit iTraxx Europe Xover Series 27 5 Year Jun 2022	249	0.22	
€(10,000,000) Markit iTraxx Europe Xover Series 28 5 Year Dec 2022	920	0.80	
€(250,000) Selecta Group Dec 2021	19	0.02	
CURRENCY			
	199	0.17	0.19
Forward currency contracts			
	199	0.17	0.19
€1,107,177 Bought for €1,251,447 (expires 22.08.18)	(11)	(0.01)	
SEK143,712 Bought for €14,023 (expires 22.08.18)	0	0.00	
\$1,223,902 Bought for €1,046,281 (expires 22.08.18)	1	0.00	
£(11,810,173) Sold for €13,497,959 (expires 22.08.18)	187	0.16	
SEK(9,908,930) Sold for €960,722 (expires 22.08.18)	12	0.01	
\$ (15,489,317) Sold for €4,708,876 (expires 22.08.18)	10	0.01	
Portfolio of investments	108,060	94.47	88.27

Portfolio statement (continued)

as at 30 June Holding	2018 €'000	2018 %	2017 %
SHARE CLASS HEDGING			
	(3)	0.00	(0.01)
Forward currency contracts for share class hedging			
	(3)	0.00	(0.01)
CHF65,695 Bought for €57,005 (expires 25.07.18)	0	0.00	
CHF(377) Sold for €291 (expires 25.07.18)	0	0.00	
\$675,930 Bought for €582,605 (expires 25.07.18)	(3)	0.00	
\$(3,108) Sold for €2,680 (expires 25.07.18)	0	0.00	
Total portfolio (notes 2c & 2d on page 7)	108,057	94.47	88.26
Net other assets / (liabilities)	6,328	5.53	11.74
Net assets attributable to shareholders	114,385	100.00	100.00

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

^[a] Suspended.

^[b] Defaulted bond.

M&G European High Yield Bond Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (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	2018 €'000	2017 €'000	2016 €'000
Fund net asset value (NAV)	114,385	123,245	125,978

Performance since launch

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



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

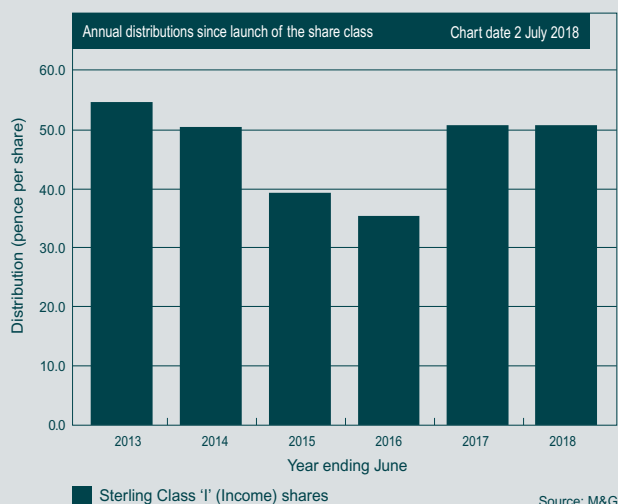
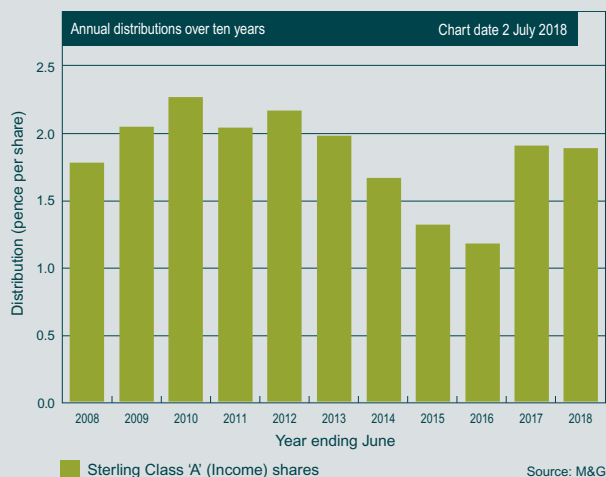
M&G European High Yield Bond Fund

Financial highlights

Fund performance

Distribution since launch

The charts below show the annual distribution of Sterling Class 'A' (Income) shares over the past 10 years and Sterling Class 'I' (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 03.07.17 % ^[a]	Three years 02.07.15 % p.a.	Five years 02.07.13 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A'	-0.9	+2.9	+4.6	+7.2 ^[c]
Class 'B'	-1.4	+2.4	n/a	+3.5 ^[d]
Class 'C'	-0.4	+3.4	+5.1	+7.0 ^[c]
Sterling ^[e]				
Class 'A'	-0.2	+10.3	+4.6	-12.7 ^[f]
Class 'I'	+0.3	+10.8	+5.0	+7.5 ^[g]
Class 'R'	+0.1	+10.6	+4.9	+7.3 ^[g]
Class 'X'	-0.2	+10.3	+4.6	+4.6 ^[h]
Swiss franc ^[b]				
Class 'A-H'	-1.2	n/a	n/a	+2.6 ^[i]
Class 'C-H'	-0.7	n/a	n/a	+3.1 ^[i]
US dollar ^[b]				
Class 'A-H'	+1.5	+4.5	n/a	+3.9 ^[j]
Class 'C-H'	+2.1	+5.1	n/a	+4.4 ^[j]

^[a] Absolute basis.

^[b] Price to price with gross income reinvested.

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

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

^[e] Price to price with income reinvested.

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

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

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

^[i] 25 September 2015, the launch date of the share class.

^[j] 8 August 2014, the launch date of the share class.

M&G European High Yield Bond Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Share class hedging:** Charge paid to M&G for currency hedging services to minimise exchange rate risk for the share class.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.

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

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

as at 30 June	2018	2017	2016	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.79	0.68	1.11	0.86

^[a] Average of first three columns.

M&G European High Yield Bond Fund

Financial highlights

Specific share class performance

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

Euro Class 'A' Income share performance

The share class was launched on 12 July 2013.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	2,488.21	2,398.89	2,463.32
Return before operating charges and after direct portfolio transaction costs	31.22	240.87	60.85
Operating charges	(35.45)	(35.54)	(35.00)
Return after operating charges	(4.23)	205.33	25.85
Distributions	(101.94)	(116.01)	(90.28)
Closing NAV	2,382.04	2,488.21	2,398.89
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.43	1.43	1.43
Return after operating charges	-0.17	+8.56	+1.05
Distribution yield ^[c]	4.18	4.14	3.37
Effect on yield of charges offset against capital	1.40	1.40	0.00
Other information			
Closing NAV (€'000)	2,867	3,410	2,793
Closing NAV percentage of total fund NAV (%)	2.51	2.77	2.22
Number of shares	120,339	137,030	116,430
Highest share price (Euro ¢)	2,534.27	2,545.26	2,519.90
Lowest share price (Euro ¢)	2,407.20	2,408.99	2,310.15

Euro Class 'A' Accumulation share performance

The share class was launched on 29 November 2002.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	2,961.42	2,725.59	2,697.10
Return before operating charges and after direct portfolio transaction costs	36.17	276.81	67.38
Operating charges	(42.80)	(40.98)	(38.89)
Return after operating charges	(6.63)	235.83	28.49
Distributions	(81.15)	(93.75)	(100.20)
Retained distributions	81.15	93.75	100.20
Closing NAV	2,954.79	2,961.42	2,725.59
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.43	1.43	1.43
Return after operating charges	-0.22	+8.65	+1.06
Distribution yield	2.76	2.74	3.37
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	45,205	58,025	59,501
Closing NAV percentage of total fund NAV (%)	39.52	47.08	47.23
Number of shares	1,529,896	1,959,377	2,183,046
Highest share price (Euro ¢)	3,046.46	2,996.33	2,788.19
Lowest share price (Euro ¢)	2,946.71	2,736.87	2,578.33

Euro Class 'B' Income share performance

The share class was launched on 11 September 2015.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	988.88	958.25	1,000.00
Return before operating charges and after direct portfolio transaction costs	12.49	96.03	6.21
Operating charges	(18.94)	(19.17)	(16.66)
Return after operating charges	(6.45)	76.86	(10.45)
Distributions	(40.42)	(46.23)	(31.30)
Closing NAV	942.01	988.88	958.25
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.93	1.93	1.90
Return after operating charges	-0.65	+8.02	-1.05
Distribution yield ^[c]	4.18	4.14	2.88
Effect on yield of charges offset against capital	1.90	1.90	0.00
Other information			
Closing NAV (€'000)	772	415	29
Closing NAV percentage of total fund NAV (%)	0.67	0.34	0.02
Number of shares	81,948	42,000	3,000
Highest share price (Euro ¢)	1,005.44	1,011.76	1,002.39
Lowest share price (Euro ¢)	951.97	962.24	922.22

M&G European High Yield Bond Fund

Financial highlights

Specific share class performance

Euro Class 'B' Accumulation share performance

The share class was launched on 26 July 2013.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,194.70	1,105.07	1,098.92
Return before operating charges and after direct portfolio transaction costs	14.65	112.04	27.52
Operating charges	(23.26)	(22.41)	(21.37)
Return after operating charges	(8.61)	89.63	6.15
Distributions	(26.62)	(32.10)	(35.28)
Retained distributions	26.62	32.10	35.28
Closing NAV	1,186.09	1,194.70	1,105.07

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.93	1.93	1.92
Return after operating charges	-0.72	+8.11	+0.56
Distribution yield	2.26	2.24	2.88
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	2,476	2,210	1,658
Closing NAV percentage of total fund NAV (%)	2.16	1.79	1.32
Number of shares	208,775	184,957	150,040
Highest share price (Euro ¢)	1,226.80	1,208.95	1,130.77
Lowest share price (Euro ¢)	1,185.54	1,109.60	1,047.34

Euro Class 'C' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	2,487.33	2,386.06	2,450.24
Return before operating charges and after direct portfolio transaction costs	31.18	239.59	59.85
Operating charges	(23.00)	(22.67)	(21.71)
Return after operating charges	8.18	216.92	38.14
Distributions	(102.10)	(115.65)	(102.32)
Closing NAV	2,393.41	2,487.33	2,386.06

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.92	0.92	0.93
Return after operating charges	+0.33	+9.09	+1.56
Distribution yield ^[c]	4.19	4.14	3.88
Effect on yield of charges offset against capital	0.90	0.90	0.00

Other information

Closing NAV (€'000)	26	27	74
Closing NAV percentage of total fund NAV (%)	0.02	0.02	0.06
Number of shares	1,097	1,097	3,097
Highest share price (Euro ¢)	2,538.13	2,544.15	2,507.81
Lowest share price (Euro ¢)	2,418.64	2,396.17	2,299.25

Euro Class 'C' Accumulation share performance

The share class was launched on 29 November 2002.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	2,846.75	2,606.98	2,566.85
Return before operating charges and after direct portfolio transaction costs	34.63	265.22	64.28
Operating charges	(26.81)	(25.45)	(24.15)
Return after operating charges	7.82	239.77	40.13
Distributions	(92.65)	(103.70)	(108.60)
Retained distributions	92.65	103.70	108.60
Closing NAV	2,854.57	2,846.75	2,606.98

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.93	0.93	0.93
Return after operating charges	+0.27	+9.20	+1.56
Distribution yield	3.27	3.24	3.87
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	9,121	17,966	27,199
Closing NAV percentage of total fund NAV (%)	7.97	14.58	21.59
Number of shares	319,519	631,107	1,043,301
Highest share price (Euro ¢)	2,935.99	2,879.91	2,666.09
Lowest share price (Euro ¢)	2,833.02	2,617.81	2,461.42

Sterling Class 'A' Income share performance

The share class was launched on 1 October 2002.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	46.30	41.99	37.12
Return before operating charges and after direct portfolio transaction costs	0.97	7.09	6.91
Operating charges	(0.67)	(0.65)	(0.56)
Return after operating charges	0.30	6.44	6.35
Distributions	(1.91)	(2.13)	(1.48)
Closing NAV	44.69	46.30	41.99

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

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.43	1.43	1.43
Return after operating charges	+0.65	+15.34	+17.11
Distribution yield ^[c]	4.18	4.14	3.36
Effect on yield of charges offset against capital	1.40	1.40	0.00

Other information

Closing NAV (€'000)	1,459	2,081	1,668
Closing NAV percentage of total fund NAV (%)	1.29	1.69	1.32
Number of shares	2,891,648	3,948,334	3,282,646
Highest share price (UK p)	49.64	47.55	42.29
Lowest share price (UK p)	44.75	42.72	36.81

M&G European High Yield Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	117.69	102.19	87.71
Return before operating charges and after direct portfolio transaction costs	2.41	17.48	16.51
Operating charges	(1.72)	(1.60)	(1.32)
Return after operating charges	0.69	15.88	15.19
Distributions	(3.24)	(3.68)	(3.53)
Retained distributions	3.24	3.30	2.82
Closing NAV	118.38	117.69	102.19

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

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.43	1.43	1.43
Return after operating charges	+0.59	+15.54	+17.32
Distribution yield	2.76	2.74	3.36
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	934	810	739
Closing NAV percentage of total fund NAV (%)	0.82	0.66	0.59
Number of shares	698,803	604,660	597,640
Highest share price (UK p)	126.16	119.53	102.22
Lowest share price (UK p)	117.24	103.96	86.98

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	1,235.47	1,114.56	985.48
Return before operating charges and after direct portfolio transaction costs	25.59	188.76	183.25
Operating charges	(11.55)	(11.17)	(9.57)
Return after operating charges	14.04	177.59	173.68
Distributions	(51.00)	(56.68)	(44.60)
Closing NAV	1,198.51	1,235.47	1,114.56

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

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.93	0.93	0.93
Return after operating charges	+1.14	+15.93	+17.62
Distribution yield ^[c]	4.18	4.15	3.86
Effect on yield of charges offset against capital	0.90	0.90	0.00

Other information

Closing NAV (€'000)	8,166	6,832	6,878
Closing NAV percentage of total fund NAV (%)	7.14	5.54	5.46
Number of shares	603,623	485,908	509,952
Highest share price (UK p)	1,325.63	1,268.69	1,123.67
Lowest share price (UK p)	1,199.55	1,134.03	977.47

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	1,517.21	1,311.52	1,121.08
Return before operating charges and after direct portfolio transaction costs	31.04	224.64	211.75
Operating charges	(14.44)	(13.36)	(11.03)
Return after operating charges	16.60	211.28	200.72
Distributions	(49.63)	(54.60)	(51.39)
Retained distributions	49.63	49.01	41.11
Closing NAV	1,533.81	1,517.21	1,311.52

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

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.93	0.93	0.93
Return after operating charges	+1.09	+16.11	+17.90
Distribution yield	3.27	3.24	3.86
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	30,248	16,017	9,125
Closing NAV percentage of total fund NAV (%)	26.44	13.00	7.24
Number of shares	1,747,069	927,635	574,966
Highest share price (UK p)	1,627.84	1,540.93	1,311.78
Lowest share price (UK p)	1,513.23	1,334.16	1,111.94

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	123.26	111.47	98.56
Return before operating charges and after direct portfolio transaction costs	2.53	18.87	18.33
Operating charges	(1.45)	(1.42)	(1.22)
Return after operating charges	1.08	17.45	17.11
Distributions	(5.08)	(5.66)	(4.20)
Closing NAV	119.26	123.26	111.47

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

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.18	1.18	1.18
Return after operating charges	+0.88	+15.65	+17.36
Distribution yield ^[c]	4.18	4.14	3.61
Effect on yield of charges offset against capital	1.15	1.15	0.00

Other information

Closing NAV (€'000)	913	64	71
Closing NAV percentage of total fund NAV (%)	0.80	0.05	0.06
Number of shares	678,197	45,874	52,874
Highest share price (UK p)	132.19	126.57	112.33
Lowest share price (UK p)	119.39	113.41	97.75

M&G European High Yield Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	150.48	130.36	111.64
Return before operating charges and after direct portfolio transaction costs	3.11	22.31	21.07
Operating charges	(1.82)	(1.66)	(1.39)
Return after operating charges	1.29	20.65	19.68
Distributions	(4.54)	(5.09)	(4.80)
Retained distributions	4.54	4.56	3.84
Closing NAV	151.77	150.48	130.36

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

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.18	1.18	1.18
Return after operating charges	+0.86	+15.84	+17.63
Distribution yield	3.02	2.99	3.62
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	730	17	30
Closing NAV percentage of total fund NAV (%)	0.64	0.01	0.02
Number of shares	425,903	10,000	19,000
Highest share price (UK p)	161.40	152.84	130.39
Lowest share price (UK p)	150.07	132.61	110.72

Sterling Class 'X' Income share performance

The share class was launched on 15 October 1999.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	46.23	41.91	37.06
Return before operating charges and after direct portfolio transaction costs	0.95	7.10	6.88
Operating charges	(0.66)	(0.65)	(0.55)
Return after operating charges	0.29	6.45	6.33
Distributions	(1.90)	(2.13)	(1.48)
Closing NAV	44.62	46.23	41.91

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

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.43	1.43	1.43
Return after operating charges	+0.63	+15.39	+17.08
Distribution yield ^[c]	4.18	4.14	3.36
Effect on yield of charges offset against capital	1.40	1.40	0.00

Other information

Closing NAV (€'000)	9,609	12,836	13,367
Closing NAV percentage of total fund NAV (%)	8.41	10.42	10.61
Number of shares	19,079,448	24,399,934	26,353,309
Highest share price (UK p)	49.55	47.47	42.21
Lowest share price (UK p)	44.68	42.64	36.75

Sterling Class 'X' Accumulation share performance

The share class was launched on 15 October 1999.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	117.62	102.13	87.65
Return before operating charges and after direct portfolio transaction costs	2.40	17.47	16.51
Operating charges	(1.71)	(1.60)	(1.32)
Return after operating charges	0.69	15.87	15.19
Distributions	(3.24)	(3.68)	(3.54)
Retained distributions	3.24	3.30	2.83
Closing NAV	118.31	117.62	102.13

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	1.43	1.43	1.43
Return after operating charges	+0.59	+15.54	+17.33
Distribution yield	2.76	2.74	3.86
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	1,234	1,897	1,794
Closing NAV percentage of total fund NAV (%)	1.08	1.54	1.43
Number of shares	923,814	1,417,421	1,451,362
Highest share price (UK p)	126.09	119.46	102.15
Lowest share price (UK p)	117.18	103.89	86.92

Swiss franc Class 'A-H' Accumulation share performance

The share class was launched on 25 September 2015.

for the year to 30 June Change in NAV per share	2018 Swiss ¢	2017 Swiss ¢	2016 Swiss ¢
Opening NAV	1,080.21	999.51	1,000.00
Return before operating charges and after direct portfolio transaction costs	9.31	95.92	10.91
Operating charges	(15.76)	(15.22)	(11.40)
Return after operating charges	(6.45)	80.70	(0.49)
Distributions	(29.55)	(34.02)	(36.79)
Retained distributions	29.55	34.02	36.79
Closing NAV	1,073.76	1,080.21	999.51

Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.44	1.45	1.42
Return after operating charges	-0.60	+8.07	-0.05
Distribution yield	2.74	2.73	3.37
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (€'000)	28	30	27
Closing NAV percentage of total fund NAV (%)	0.02	0.02	0.02
Number of shares	3,002	3,002	3,002
Highest share price (Swiss ¢)	1,110.17	1,093.06	1,022.25
Lowest share price (Swiss ¢)	1,073.26	1,003.25	946.89

M&G European High Yield Bond Fund

Financial highlights

Specific share class performance

Swiss franc Class 'C-H' Accumulation share performance

The share class was launched on 25 September 2015.

for the year to 30 June Change in NAV per share	2018 Swiss ¢	2017 Swiss ¢	2016 Swiss ¢
Opening NAV	1,089.45	1,003.29	1,000.00
Return before operating charges and after direct portfolio transaction costs	9.59	96.18	10.76
Operating charges	(10.44)	(10.02)	(7.47)
Return after operating charges	(0.85)	86.16	3.29
Distributions	(35.38)	(39.55)	(41.80)
Retained distributions	35.38	39.55	41.80
Closing NAV	1,088.60	1,089.45	1,003.29
Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.95	0.95	0.93
Return after operating charges	-0.08	+8.59	+0.33
Distribution yield	3.25	3.24	3.88
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	28	30	28
Closing NAV percentage of total fund NAV (%)	0.02	0.02	0.02
Number of shares	3,003	3,003	3,003
Highest share price (Swiss ¢)	1,121.45	1,102.27	1,025.83
Lowest share price (Swiss ¢)	1,083.93	1,007.13	948.68

US dollar Class 'A-H' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,005.09	953.43	971.10
Return before operating charges and after direct portfolio transaction costs	36.98	112.90	31.96
Operating charges	(14.66)	(14.68)	(14.00)
Return after operating charges	22.32	98.22	17.96
Distributions	(41.91)	(46.56)	(35.63)
Closing NAV	985.50	1,005.09	953.43
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.45	1.45	1.45
Return after operating charges	+2.22	+10.30	+1.85
Distribution yield ^[c]	4.19	4.23	3.30
Effect on yield of charges offset against capital	1.42	1.42	0.00
Other information			
Closing NAV (€'000)	279	302	101
Closing NAV percentage of total fund NAV (%)	0.24	0.25	0.08
Number of shares	32,932	34,290	11,790
Highest share price (US ¢)	1,030.79	1,027.40	994.06
Lowest share price (US ¢)	995.82	957.50	913.08

US dollar Class 'A-H' Accumulation share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,136.10	1,028.25	1,010.07
Return before operating charges and after direct portfolio transaction costs	41.17	123.44	32.94
Operating charges	(16.81)	(15.59)	(14.76)
Return after operating charges	24.36	107.85	18.18
Distributions	(31.48)	(35.47)	(37.68)
Retained distributions	31.48	35.47	37.68
Closing NAV	1,160.46	1,136.10	1,028.25
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.45	1.45	1.44
Return after operating charges	+2.14	+10.49	+1.80
Distribution yield	2.75	2.78	3.31
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	253	238	860
Closing NAV percentage of total fund NAV (%)	0.22	0.19	0.68
Number of shares	25,418	23,918	93,218
Highest share price (US ¢)	1,181.85	1,148.41	1,051.05
Lowest share price (US ¢)	1,130.77	1,032.54	967.32

US dollar Class 'C-H' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 June Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,008.42	951.57	970.36
Return before operating charges and after direct portfolio transaction costs	36.84	112.98	30.97
Operating charges	(9.59)	(9.40)	(9.01)
Return after operating charges	27.25	103.58	21.96
Distributions	(42.24)	(46.73)	(40.75)
Closing NAV	993.43	1,008.42	951.57
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.94	0.94	0.93
Return after operating charges	+2.70	+10.89	+2.26
Distribution yield ^[c]	4.20	4.23	3.83
Effect on yield of charges offset against capital	0.92	0.92	0.00
Other information			
Closing NAV (€'000)	17	18	17
Closing NAV percentage of total fund NAV (%)	0.01	0.01	0.01
Number of shares	2,000	2,000	2,000
Highest share price (US ¢)	1,036.64	1,030.71	993.78
Lowest share price (US ¢)	1,003.83	955.66	912.04

M&G European High Yield Bond Fund

Financial highlights

Specific share class performance

US dollar Class 'C-H' Accumulation share performance

The share class was launched on 8 August 2014.

for the year to 30 June	2018	2017	2016
Change in NAV per share	US ¢	US ¢	US ¢
Opening NAV	1,151.89	1,037.82	1,013.64
Return before operating charges and after direct portfolio transaction costs	42.30	124.58	33.78
Operating charges	(11.13)	(10.51)	(9.60)
Return after operating charges	31.17	114.07	24.18
Distributions	(37.99)	(41.43)	(43.23)
Retained distributions	37.99	41.43	43.23
Closing NAV	1,183.06	1,151.89	1,037.82
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.94	0.95	0.93
Return after operating charges	+2.71	+10.99	+2.39
Distribution yield	3.27	3.28	3.82
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	20	20	19
Closing NAV percentage of total fund NAV (%)	0.02	0.02	0.02
Number of shares	2,000	2,000	2,000
Highest share price (US ¢)	1,201.66	1,164.31	1,060.56
Lowest share price (US ¢)	1,146.68	1,042.18	974.48

^[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 High Yield Bond Fund

Financial statements and notes

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Statement of total return

for the year to 30 June	Note	2018 €'000	2017 €'000
Income			
Net capital gains / (losses)	3	(3,589)	5,858
Revenue	5	4,974	5,550
Expenses	6	(1,472)	(1,491)
Interest payable		(90)	(18)
Net revenue / (expense) before taxation		3,412	4,041
Taxation	7	0	(3)
Net revenue / (expense) after taxation		3,412	4,038
Total return before distributions		(177)	9,896
Distributions	8	(3,732)	(4,365)
Change in net assets attributable to shareholders from investment activities		(3,909)	5,531

Statement of change in net assets attributable to shareholders

for the year to 30 June	2018 €'000	2017 €'000
Opening net assets attributable to shareholders	123,245	125,978
Amounts received on issue of shares	34,813	31,185
Amounts paid on cancellation of shares	(42,559)	(42,671)
	(7,746)	(11,486)
Dilution adjustments	110	170
Change in net assets attributable to shareholders from investment activities (see above)	(3,909)	5,531
Retained distributions on Accumulation shares	2,685	3,052
Closing net assets attributable to shareholders	114,385	123,245

Balance sheet

as at 30 June	Note	2018 €'000	2017 €'000
Assets			
Fixed assets			
Investments		108,071	108,793
Current assets			
Debtors	9	1,035	2,798
Cash and bank balances	10	6,797	13,209
Total assets		115,903	124,800
Liabilities			
Investment liabilities		(14)	(15)
Creditors			
Distribution payable		(266)	(288)
Other creditors	11	(1,238)	(1,252)
Total liabilities		(1,518)	(1,555)
Net assets attributable to shareholders		114,385	123,245

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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

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

3 Net capital gains / (losses)

for the year to 30 June	2018 €'000	2017 €'000
Non-derivative securities	(3,440)	5,386
Derivative contracts	216	899
Currency gains / (losses)	(362)	(424)
Transaction charges	(3)	(3)
Net capital gains / (losses)	(3,589)	5,858

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 100.

for the year to 30 June	2018 €'000	2017 €'000
a) Purchases		
Debt securities ^[a]	41,085	50,566
Other transaction types		
Corporate actions	0	312
Total purchases	41,085	50,878
b) Sales		
Debt securities ^[a]	34,095	68,482
Other transaction types		
Corporate actions	3,284	0
Total sales	37,379	68,482

c) Direct portfolio transaction costs

There were no direct portfolio transaction costs

d) Indirect portfolio transaction costs	%	%
Portfolio dealing spread ^[b]	0.79	0.68

^[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	2018 €'000	2017 €'000
Bank interest	5	0
Derivative revenue	687	654
Interest on debt securities	4,282	4,896
Total revenue	4,974	5,550

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6 Expenses

for the year to 30 June	2018 €'000	2017 €'000
Payable to the ACD or associate		
Annual management charge	1,266	1,286
Administration charge	177	177
	1,443	1,463
Payable to the Depositary or associate		
Depositary's charge (including VAT)	11	11
Other expenses		
Audit fee (including VAT)	13	12
Safe custody charge	5	5
	18	17
Total expenses	1,472	1,491

7 Taxation

for the year to 30 June	2018 €'000	2017 €'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	0	3
Deferred tax (note 7c)	0	0
Total taxation	0	3
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	3,412	4,041
Corporation tax at 20%	682	808
Effects of:		
Interest distributions	(682)	(808)
Withholding tax	0	3
Total tax charge (note 7a)	0	3
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	0	0

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

Interest distributions have been made in respect of all distributions during the current and preceding periods. Income tax at 20% was accounted for on shareholders' behalf to HM Revenue & Customs up to 31 December 2016.

8 Distributions

for the year to 30 June	2018		2017	
	Inc ^[a] €'000	Acc ^[b] €'000	Inc ^[a] €'000	Acc ^[b] €'000
Interest distributions				
First interim	267	607	249	783
Second interim	260	689	268	773
Third interim	251	687	296	738
Final	266	702	288	758
Total net distributions		3,729		4,153
Income tax deducted at source		0		157
Interest distributions		3,729		4,310
Income deducted on cancellation of shares		131		225
Income received on issue of shares		(128)		(170)
Distributions		3,732		4,365
Net revenue / (expense) per statement of total return		3,412		4,038
Expenses offset against capital		320		327
Distributions		3,732		4,365

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

9 Debtors

as at 30 June	2018 €'000	2017 €'000
Amounts receivable on issues of shares	0	551
Currency deals outstanding	0	28
Debt security interest receivable	1,015	1,080
Derivative revenue receivable	16	25
Sales awaiting settlement	0	1,110
Withholding tax recoverable	4	4
Total debtors	1,035	2,798

10 Cash and bank balances

as at 30 June	2018 €'000	2017 €'000
Cash held as bank balances	6,797	13,209
Total cash and bank balances	6,797	13,209

11 Other creditors

as at 30 June	2018 €'000	2017 €'000
ACD's annual management charge payable	37	40
Administration charge payable	5	6
Amounts payable on cancellation of shares	0	195
Currency deals outstanding	0	28
Expenses payable	15	15
Purchases awaiting settlement	1,181	968
Total other creditors	1,238	1,252

12 Contingent assets, liabilities and outstanding commitments

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

13 Shares in issue

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

Share class	Opening 01.07.17	Movements		Closing 30.06.18
		Issued	Cancelled	
Euro				
Class 'A' Income	137,030	24,154	(40,845)	120,339
Class 'A' Accumulation	1,959,377	74,470	(503,951)	1,529,896
Class 'B' Income	42,000	48,078	(8,130)	81,948
Class 'B' Accumulation	184,957	39,962	(16,144)	208,775
Class 'C' Income	1,097	0	0	1,097
Class 'C' Accumulation	631,107	21,849	(333,437)	319,519
Sterling				
Class 'A' Income	3,948,334	1,528,439	(2,585,125)	2,891,648
Class 'A' Accumulation	604,660	445,459	(351,316)	698,803
Class 'I' Income	485,908	166,221	(48,506)	603,623
Class 'I' Accumulation	927,635	1,364,215	(544,781)	1,747,069
Class 'R' Income	45,874	730,727	(98,404)	678,197
Class 'R' Accumulation	10,000	445,766	(29,863)	425,903
Class 'X' Income	24,399,934	813,643	(6,134,129)	19,079,448
Class 'X' Accumulation	1,417,421	326,648	(820,255)	923,814
Swiss franc				
Class 'A-H' Accumulation	3,002	0	0	3,002
Class 'C-H' Accumulation	3,003	0	0	3,003
US dollar				
Class 'A-H' Income	34,290	2,142	(3,500)	32,932
Class 'A-H' Accumulation	23,918	6,500	(5,000)	25,418
Class 'C-H' Income	2,000	0	0	2,000
Class 'C-H' Accumulation	2,000	0	0	2,000

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14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %	Share class hedging charge %
Euro				
Class 'A'	3.25	n/a	1.25	n/a
Class 'B'	nil	n/a	1.75	n/a
Class 'C'	1.25	n/a	0.75	n/a
Sterling				
Class 'A'	nil	n/a	1.25	n/a
Class 'I'	nil	n/a	0.75	n/a
Class 'R'	nil	n/a	1.00	n/a
Class 'X'	nil	n/a	1.25	n/a
Swiss franc				
Class 'A-H'	3.25	n/a	1.25	[a]
Class 'C-H'	1.25	n/a	0.75	[a]
US dollar				
Class 'A-H'	3.25	n/a	1.25	[a]
Class 'C-H'	1.25	n/a	0.75	[a]

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

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 0.09% (2017: 0.12%) 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	Assets	Liabilities	Assets	Liabilities
Basis of valuation	2018	2018	2017	2017
	€'000	€'000	€'000	€'000
Level 1	14,635		13,210	0
Level 2	93,436	(14)	95,583	(15)
Level 3	0	0	0	0
	108,071	(14)	108,793	(15)

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

18 Risk management policies

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

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19 Market risk sensitivity and exposure

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

The VaR limit set during the financial year to 30 June 2018 was 12% (2017: 12%).

The lowest, highest and average VaR, as well as utilisation of VaR with reference to the limit above, are calculated during the financial years ended 30 June 2018 and 30 June 2017.

for the year to 30 June	2018 % of VaR	2018 Utilisation of VaR ^[a] 12%	2017 % of VaR	2017 Utilisation of VaR ^[a] 12%
Lowest	1.81	15.06	1.72	14.30
Highest	2.84	23.69	3.36	28.01
Average	2.30	19.20	2.56	21.34

^[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	2018 €'000	2017 €'000
Investment grade securities	21,638	20,894
Below investment grade securities	81,842	80,241
Unrated securities	3,193	4,665
Other investments	1,384	2,978
Total	108,057	108,778

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 2018	Swaps €'000	Forward currency contracts €'000
Bank of America Merrill Lynch	0	(1)
Citigroup	19	10
Goldman Sachs	920	0
HSBC	0	(3)
J.P.Morgan	249	0
National Australia Bank	0	1
State Street Bank	0	6
UBS	0	183
Total	1,188	196

as at 30 June 2017	Swaps €'000	Forward currency contracts €'000
Bank of America Merrill Lynch	0	232
Barclays	1,034	0
Citigroup	418	0
J.P.Morgan	574	0
State Street Bank	0	(11)
Total	2,026	221

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 2018 and 30 June 2017 are disclosed in the table below.

for the year to 30 June	2018 ^[a] €'000	2018 ^[a] % ^[b]	2017 ^[a] €'000	2017 ^[a] % ^[b]
Lowest	32,387	27	32,217	28
Highest	76,273	65	105,579	84
Average	38,621	32	46,141	39

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

^[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 97.

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	01.07.17	30.09.17	02.10.17	30.11.17
Second interim	01.10.17	31.12.17	02.01.18	28.02.18
Third interim	01.01.18	31.03.18	02.04.18	31.05.18
Final	01.04.18	30.06.18	02.07.18	31.08.18

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23 Interest distribution tables (continued)

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

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

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

Euro Class 'A' Income shares				
Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
First interim	11.9154	13.0599	24.9753	28.8261
Second interim	9.3191	16.4787	25.7978	30.8251
Third interim	13.7539	11.1109	24.8648	28.7951
Final	7.6253	18.6743	26.2996	27.5597

Euro Class 'A' Accumulation shares				
Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
First interim	7.0696	12.4776	19.5472	23.0650
Second interim	10.6905	9.7629	20.4534	25.2195
Third interim	12.4906	7.2848	19.7754	23.6151
Final	9.3992	11.9753	21.3745	21.8542

Euro Class 'B' Income shares				
Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
First interim	2.5409	7.3805	9.9214	11.5126
Second interim	4.0487	6.1861	10.2348	12.2907
Third interim	2.5676	7.2850	9.8526	11.4649
Final	6.5467	3.8610	10.4077	10.9599

Euro Class 'B' Accumulation shares				
Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
First interim	2.6987	3.7180	6.4167	7.9445
Second interim	4.3586	2.3619	6.7205	8.7344
Third interim	5.9264	0.5324	6.4588	8.1192
Final	4.2997	2.7271	7.0268	7.2989

Euro Class 'C' Income shares				
Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
First interim	24.9570	0.0000	24.9570	28.6944
Second interim	25.8012	0.0000	25.8012	30.6920
Third interim	24.9650	0.0000	24.9650	28.7241
Final	26.3726	0.0000	26.3726	27.5411

Euro Class 'C' Accumulation shares				
Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
First interim	9.8732	12.4214	22.2946	25.3837
Second interim	13.0606	10.2620	23.3226	27.6513
Third interim	10.7890	11.8622	22.6512	26.0422
Final	13.6060	10.7768	24.3828	24.6200

Sterling Class 'A' Income shares				
Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	0.2096	0.2570	0.4666	0.5260
Second interim	0.3195	0.1652	0.4847	0.5680
Third interim	0.0848	0.3767	0.4615	0.5230
Final	0.3477	0.1457	0.4934	0.5129

Sterling Class 'A' Accumulation shares				
Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	0.4791	0.3008	0.7799	0.9015
Second interim	0.4040	0.4168	0.8208	0.9935
Third interim	0.3207	0.4630	0.7837	0.9163
Final	0.3262	0.5301	0.8563	0.8685

Sterling Class 'I' Income shares				
Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	6.9581	5.5069	12.4650	13.9665
Second interim	5.9544	7.0041	12.9585	15.1100
Third interim	5.5683	6.7836	12.3519	13.9287
Final	6.3676	6.8558	13.2234	13.6762

Sterling Class 'I' Accumulation shares				
Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
First interim	6.6498	5.2857	11.9355	13.3095
Second interim	5.5756	6.9755	12.5511	14.6225
Third interim	6.0268	6.0130	12.0398	13.5466
Final	8.7939	4.3077	13.1016	13.1204

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23 Interest distribution tables (continued)

Sterling Class 'R' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
First interim	0.5919	0.6520	1.2439	1.3975
Second interim	0.4748	0.8168	1.2916	1.5095
Third interim	0.3180	0.9124	1.2304	1.3902
Final	0.8233	0.4929	1.3162	1.3647

Sterling Class 'R' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
First interim	1.0988	0.0000	1.0988	1.2355
Second interim	0.4042	0.7432	1.1474	1.3775
Third interim	0.2910	0.8072	1.0982	1.2594
Final	0.8582	0.3388	1.1970	1.2149

Sterling Class 'X' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
First interim	0.1367	0.3294	0.4661	0.5250
Second interim	0.1399	0.3441	0.4840	0.5670
Third interim	0.1726	0.2881	0.4607	0.5225
Final	0.1917	0.3010	0.4927	0.5120

Sterling Class 'X' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
First interim	0.6083	0.1715	0.7798	0.9010
Second interim	0.2366	0.5837	0.8203	0.9940
Third interim	0.4892	0.2941	0.7833	0.9155
Final	0.5874	0.2681	0.8555	0.8680

Swiss franc Class 'A-H' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	¢	¢	¢	¢
First interim	7.1844	0.0000	7.1844	8.4317
Second interim	7.4552	0.0000	7.4552	9.0529
Third interim	7.1805	0.0000	7.1805	8.6151
Final	7.7271	0.0000	7.7271	7.9233

Swiss franc Class 'C-H' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	¢	¢	¢	¢
First interim	8.5708	0.0000	8.5708	9.7370
Second interim	8.9160	0.0000	8.9160	10.4375
Third interim	8.6308	0.0000	8.6308	9.9887
Final	9.2630	0.0000	9.2630	9.3822

US dollar Class 'A-H' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	¢	¢	¢	¢
First interim	5.7091	4.6109	10.3200	11.5011
Second interim	5.7445	4.8448	10.5893	12.0377
Third interim	5.3887	4.8210	10.2097	11.8112
Final	6.4420	4.3496	10.7916	11.2091

US dollar Class 'A-H' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	¢	¢	¢	¢
First interim	2.8214	4.8380	7.6594	8.6976
Second interim	7.9142	0.0000	7.9142	9.2219
Third interim	7.6780	0.0000	7.6780	9.1672
Final	8.2325	0.0000	8.2325	8.3861

US dollar Class 'C-H' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	¢	¢	¢	¢
First interim	10.4060	0.0000	10.4060	11.5274
Second interim	10.6572	0.0000	10.6572	12.0375
Third interim	10.3064	0.0000	10.3064	11.8739
Final	10.8670	0.0000	10.8670	11.2880

US dollar Class 'C-H' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	¢	¢	¢	¢
First interim	9.2450	0.0000	9.2450	10.0927
Second interim	9.5520	0.0000	9.5520	10.7330
Third interim	9.2568	0.0000	9.2568	10.6233
Final	9.9375	0.0000	9.9375	9.9770

M&G Fund of Investment Trust Shares

Authorised Corporate Director's Report

Investment objective and policy up to 30 January 2018

The portfolio is normally limited to shares of investment trust companies. These shares provide a wide spread of investment in the UK and overseas stock markets and are often available at substantial discounts in relation to underlying asset values. Income is not a major factor, and the yield can be expected to be slightly less than the average for investment trust companies.

Investment objective from 30 January 2018

The fund aims to provide a higher total return (the combination of capital growth and income), net of the Ongoing Charges Figure, than that of the FTSE All Share Equity Investment Instruments Index over any five year period.

Investment policy from 30 January 2018

At least 80% of the fund is invested in the shares of investment trust companies. While these stocks are listed in the UK, such assets will be used to give exposure to a wide range of international markets. These investment trust companies may also hold a broad range of investment asset classes including equities, real estate and debt.

The fund may also invest in other transferable securities directly or via collective investment schemes, and may hold cash for liquidity purposes.

Collective investment schemes may include funds managed by M&G. Derivatives may be used for efficient portfolio management and hedging purposes.

Investment approach up to 30 January 2018

The M&G Fund of Investment Trust Shares is a diversified portfolio of approximately 60 investment companies with exposure to the UK and overseas. The fund manager uses his judgement to decide upon areas and investment vehicles from which long-term growth (over five years or more) can be obtained. Additional criteria used include the investment philosophy and objective of the underlying holdings and the ability of each manager to deliver on them; and the discount at which its shares are trading. Holdings may be sold if there is a change in the fund manager's view; a failure of the underlying company to deliver on stated objectives; corporate activity, which leads the fund manager to take profits; or if the fund manager believes a holding has become overvalued.

Investment approach from 30 January 2018

The fund manager selects investment vehicles from which long-term growth (over five years or more) can be obtained by assessing their investment philosophy, style, objective and the ability of each manager to deliver on them; and the discount at which its shares are trading.

Risk profile

The fund invests in the shares of investment trust companies and is exposed to a wide spread of investments in the UK and overseas stockmarkets. The fund is, therefore, subject to the price volatility of the global stockmarkets and the performance of individual investment trust companies. The fund is also subject to fluctuations in currency exchange rates. Diversification across markets, industries and asset classes is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

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

Investment review

As at 2 July 2018, for the year ended 30 June 2018

Performance against objective

Between 3 July 2017 (the start of the review period) and 2 July 2018, the fund's Sterling Class 'A' and 'X' shares each produced a total return (the combination of income and growth of capital) of 10.3%. Meanwhile, the fund's comparative index, FTSE All-Share Equity Investment Instruments Index, which is an index of comparable investment trusts, returned 8.8%.

Over five years, the fund broadly met its objective, which is to outperform, net of the ongoing charges figure, the FTSE All-Share Equity Investment Instruments Index. The fund's Class 'A' shares were modestly ahead of the FTSE All-Share Equity Investment Instruments Index, while the Class 'X' shares were in line.*

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

M&G Fund of Investment Trust Shares

Authorised Corporate Director's Report

Investment review

Investment performance

In a mixed period for company shares, world stockmarkets were largely buoyant during the 12 months under review, as investors were encouraged by continued expansion in the global economy. But the period was not without its challenges. Concerns about rising US interest rates, US-led air strikes in Syria, and a potential trade war between the US and China involving other nations all unnerved investors at times. So too did tensions between the US and North Korea, although events took a surprising turn in early summer 2018 with a meeting between the leaders of the two countries. In this environment, the FTSE World Index gained 8.8% in sterling terms.

The fund was ahead of the FTSE All-Share Equity Investment Instruments Index over the period under review, with performance supported by stock selection.

Syncona was the leading positive contributor. The company was formerly known as BACIT Investment Trust before it merged with the life science subsidiary of global charitable foundation Wellcome Trust in late 2016. Syncona is aimed at addressing a perceived lack of long-term capital in UK life sciences and capturing the full value of key innovative research projects.

Turning to geographic regions, the Japanese stockmarket was a strong performer over the 12-month period. Japanese companies are benefiting from healthy global growth, and we believe that Japan's structural reforms have helped to stimulate the domestic economy. At a time when other central banks, such as the US, are raising interest rates and ending their stimulus programmes, Japan's central bank continues to follow an easy monetary policy. Despite the healthy gains in the Japanese stockmarket over the 12 months, we believe that its valuation remains compelling. The fund's holdings in Baillie Gifford Shin Nippon, Baillie Gifford Japan Trust and JPMorgan Japan Smaller Companies Investment Trust all added value.

The US was also a solid performer during the 12 months under review. The US is enjoying robust economic growth and falling unemployment, while inflation reached the Federal Reserve's (Fed) target at the end of the period under review. Against this backdrop, the Fed raised interest rates three times in 2017 and again in March and June this year. Meanwhile, President Trump's trade policy has led to the imposition of tariffs on certain key products, with retaliatory steps taken or proposed by China, the European Union (EU) and other affected nations. Positions in JPMorgan American Investment Trust added modest value, while Gabelli Value Plus+ Trust and Middlefield Canadian Income Trust held back returns.

Elsewhere, performance in Asian and emerging markets was mixed. Robust economic growth in China is benefiting many of these countries, but concerns about a potential trade war and initial tension between US and North Korea dampened investor sentiment. Detractors from performance included Utilico Emerging Markets, Aberdeen Asian Income Fund and Weiss Korea Opportunity Fund, while Schroder Asian Total Return Investment Company was modestly beneficial.

European stockmarkets were weak over the review period. Economic data in the eurozone have been encouraging, although recent signs indicate the region's recovery may be weakening. In January 2018, the European Central Bank began scaling back its supportive asset-purchase programme. However, companies in the eurozone are still benefiting from extremely low interest rates. Politically, after lengthy negotiations, German mainstream parties agreed to form a coalition government, but tensions between the long-term allies over refugee policy are causing disquiet. Meanwhile, Italian populist parties formed a coalition government after nearly three months of deadlock and political tension that weighed on European stockmarkets, and uncertainties remain. Positions in Fidelity European Values and JPMorgan European Income Investment Trust held back returns, while JPMorgan European Smaller Companies Investment Trust was helpful.

Elsewhere, the UK stockmarket was supported by healthy global economic activity and it produced a respectable return over the 12 months. This positive performance was despite lacklustre economic growth, concerns about domestic politics and Brexit-related uncertainty. Progress has been made in the Brexit negotiations, although significant issues, such as Irish border control, have yet to be resolved. Also unclear is the final nature of economic relations between the UK and the EU and the implications for the domestic economy. Holdings in Artemis Alpha Trust and River & Mercantile UK Micro Cap Fund contributed positively, while Keystone Investment Trust detracted.

In terms of global investments in the portfolio, Scottish Mortgage Investment Trust is still one of the largest holdings. After a strong run we have been taking profits and its continued strength has therefore cost some relative performance. Elsewhere, our holding in Monks Investment Trust added value.

Contributors from the fund's 'specialist' holdings included Polar Capital Technology Trust, while CATCo Reinsurance Opportunities Fund held back returns. Meanwhile, from the property section of the portfolio, a holding in TR Property Investment Trust was beneficial, but Ediston Property Investment Company REIT detracted modestly. Elsewhere, other detractors included global infrastructure firm BBGI.

Investment activities

We sold a holding in P2P Global Investments, an investment trust specialising in alternative lending which looks to provide lower borrowing costs for customers, and potentially higher returns for investors, than traditional banks can offer. P2P has failed to live up to initial expectations after encountering difficulties. In other sales, we reduced some holdings following good performance. For example, we sold some of the holdings in Miton Global Opportunities, Baillie Gifford Japan Trust, Baillie Gifford Shin Nippon, F&C Private Equity Trust, Syncona and JPMorgan European Smaller Companies.

We also reduced the holding in Monks Investment Trust, another solid performer in the portfolio. Over the past two years, Monks has benefited from new in-house management, and we took the opportunity to lock in some of the good performance.

We put the proceeds from this sale towards a new holding in Baillie Gifford US Growth Trust, which provides access to the US growth story, an under-represented area for investment trusts. Baillie Gifford typically employs a high-growth strategy and this is the first new investment trust the company has launched in a number of years.

M&G Fund of Investment Trust Shares

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Investment review

Investment activities (continued)

In contrast, we also started a position in Aberforth Split Level Income Trust, a well-disciplined investment trust that provides access to smaller companies at a reasonable price. In our opinion, after the strong performance of the smaller companies sector, this value-focused investment trust may offer some downside protection should the positive trend come to an end, and provides useful diversification for the portfolio. We further increased the position following the initial purchase.

In other transactions, we started a holding in Odyssean Investment Trust, which has a manager with a good track record. Odyssean is focused on smaller UK companies.

Finally, we topped up some existing positions, namely PRS REIT and Greencoat UK Wind. PRS REIT is building a portfolio of newly constructed, professionally managed housing in locations outside London, while Greencoat has an interesting project pipeline in UK windfarms.

Outlook

The health of the global economy remains encouraging, with most major markets expanding. In this environment, many countries are normalising monetary policy after a period of implementing stimulus measures following the financial crisis.

Against this promising economic backdrop, challenges remain. Potential issues include the ongoing trade disputes between the US and a range of major markets, with the outcome and possible implications for global trade and economic activity likely to become clearer in the coming months. Elsewhere, Brexit remains a significant unknown for the UK. Shortly after the end of the review period, the UK's chief negotiator with the EU resigned, posing further problems for the government in its attempt to forge progress with the talks. Meanwhile, political uncertainty in Europe has increased following a number of key elections over the past year, with populist parties gaining a more dominant voice in some areas.

The fund is focused on a range of assets across different geographies, company sizes and specialist investments. In seeking out investment ideas, we look for mispriced assets that represent interesting opportunities for investment from around the world. It is worth noting that investment decisions do not necessarily reflect our views on geographic markets; investment ideas are generally based on our view of individual fund managers' abilities and prospects for the underlying funds. We remain confident about the underlying holdings in the portfolio.

Richard O'Connor

Fund manager

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

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

Investments

Portfolio statement

as at 30 June Holding	2018 £'000	2018 %	2017 %
Flexible investment	4,235	10.09	10.10
310,000 Miton Global Opportunities Investment Trust	877	2.09	
700 Personal Assets Trust	277	0.66	
50,000 RIT Capital Partners	1,035	2.46	
325,000 Ruffer Investment Company Red. Pref. shares	754	1.80	
516,819 Syncona	1,292	3.08	
Global	7,073	16.85	16.41
110,000 Alliance Trust	820	1.95	
31,000 Caledonia Investments	863	2.06	
38,000 Hansa Trust 'A' shares	369	0.88	
170,000 Monks Investment Trust	1,430	3.41	
466,000 Scottish Mortgage Investment Trust	2,491	5.93	
101,300 Witan Investment Trust	1,100	2.62	
UK all companies	2,621	6.25	6.33
190,000 Artemis Alpha Trust	665	1.59	
40,000 Keystone Investment Trust	702	1.67	
409,910 Mercantile Investment Trust	892	2.13	
435,000 Woodford Patient Capital Trust	362	0.86	
UK equity income	1,594	3.80	3.88
113,400 Finsbury Growth & Income Trust	919	2.19	
251,710 Value & Income Trust	675	1.61	
UK smaller companies	1,387	3.30	2.52
500,000 Aberforth Split Level Income Trust	505	1.20	
300,000 Odyssean Investment Trust	314	0.75	
288,169 River & Mercantile UK Micro Cap Fund	568	1.35	
Europe	2,001	4.77	5.25
535,000 Fidelity European Values	1,190	2.84	
300,000 JPMorgan European Income Investment Trust	458	1.09	
39,000 The European Investment Trust	353	0.84	
European smaller companies	1,125	2.68	2.87
269,867 JPMorgan European Smaller Companies Investment Trust	1,125	2.68	
North America	2,411	5.75	5.74
200,000 Baillie Gifford US Growth Trust	248	0.59	
400,000 Gabelli Value Plus+ Trust	512	1.22	
289,000 JP Morgan American Investment Trust	1,217	2.90	
460,000 Middlefield Canadian Income Trust	434	1.04	
North American smaller companies	911	2.17	2.10
31,109 North Atlantic Smaller Companies Investment Trust	911	2.17	
Global emerging markets	1,664	3.97	5.17
51,617 Aberdeen Emerging Markets Investment Company	297	0.71	
100,000 Templeton Emerging Markets Investment Trust	703	1.68	
333,600 Utilico Emerging Markets	664	1.58	
Asia Pacific - excluding Japan	2,849	6.79	7.39
387,000 Aberdeen Asian Income Fund	778	1.85	
295,000 Edinburgh Dragon Trust	1,071	2.55	
104,802 Schroder Asian Total Return Investment Company	377	0.90	
382,500 Weiss Korea Opportunity Fund ^[b]	623	1.49	

M&G Fund of Investment Trust Shares

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 30 June Holding	2018 £'000	2018 %	2017 %
Japan	1,063	2.53	2.59
127,000 Baillie Gifford Japan Trust	1,063	2.53	
Japanese smaller companies	1,789	4.27	4.07
484,465 Baillie Gifford Shin Nippon	935	2.23	
200,000 JPMorgan Japan Smaller Companies Investment Trust	854	2.04	
Private equity	2,080	4.96	5.36
260,000 F&C Private Equity Trust	894	2.13	
59,000 Pantheon International	1,186	2.83	
Property	0	0.00	0.00 ^[a]
UK direct property	970	2.31	1.48 ^[a]
525,000 Ediston Property Investment Company REIT	585	1.39	
370,000 PRS REIT	385	0.92	
Property securities	1,387	3.31	2.96 ^[a]
331,403 TR Property Investment Trust	1,387	3.31	
Specialist	4,710	11.22	12.02
638,659 BBGI	859	2.05	
100,000 Biotech Growth Trust	754	1.80	
136,000 BlackRock World Mining Trust	523	1.24	
400,000 CATCo Reinsurance Opportunities Fund	306	0.73	
232,500 Ecofin Global Utilities and Infrastructure	284	0.68	
394,086 Greencoat UK Wind	492	1.17	
119,000 Polar Capital Technology Trust	1,492	3.55	
Real estate investment trusts	0	0.00	0.00 ^[a]
Unquoted / unlisted	0	0.00	0.00
75,000 Bioscience Investment Trust	0	0.00	
2,000,000 M&G Equity Investment Trust (capital shares)	0	0.00	
1,305,397 M&G Equity Investment Trust (income shares)	0	0.00	
26,744 Thompson Clive Investment Trust	0	0.00	
Futures	(40)	(0.10)	(0.01)
21 E-Mini S&P 500 Sep 2018	(40)	(0.10)	
Portfolio of investments	39,830	94.92	96.23
'AAA' rated money market funds ^[c]	1,686	4.02	3.82
1,686,002 Northern Trust Global Fund - Sterling	1,686	4.02	
Total portfolio (notes 2c & 2d on page 7)	41,516	98.94	100.05
Net other assets / (liabilities)	446	1.06	(0.05)
Net assets attributable to shareholders	41,962	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] Uncommitted surplus cash is placed into 'AAA' rated money market funds with the aim of reducing counterparty risk.

Top portfolio transactions

for the year to 30 June 2018

Purchases	£'000
Aberforth Split Level Income Trust	489
Odyssean Investment Trust	300
CATCo Reinsurance Opportunities Fund	298
Baillie Gifford US Growth Trust	200
PRS REIT	197
Ediston Property Investment Company REIT	196
Greencoat UK Wind	125
BBGI	20
Syncona	13
Total purchases	1,838
Largest sales	£'000
Montanaro UK Smaller Companies Investment Trust	456
CATCo Reinsurance Opportunities Fund	376
Fundsmith Emerging Equities Trust	274
Miton Global Opportunities Investment Trust	245
Monks Investment Trust	236
Baillie Gifford Shin Nippon	211
Baillie Gifford Japan Trust	181
F&C Private Equity Trust	136
Gabelli Value Plus+ Trust	123
P2P Global Investments	119
Other sales	487
Total sales	2,844

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

M&G Fund of Investment Trust Shares

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. 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.

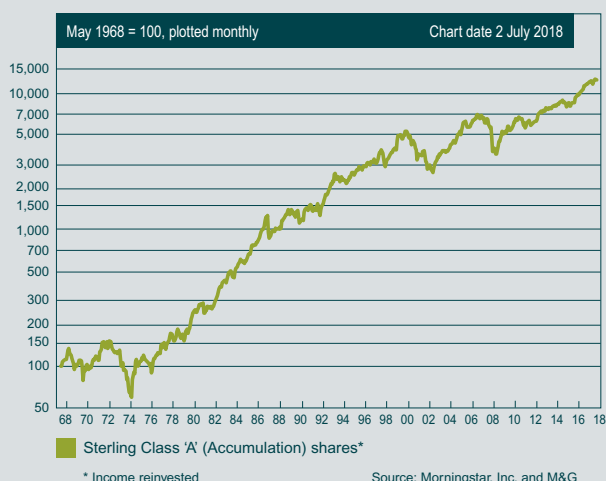
Fund level performance

Fund net asset value

as at 30 June	2018 £'000	2017 £'000	2016 £'000
Fund net asset value (NAV)	41,962	38,515	30,737

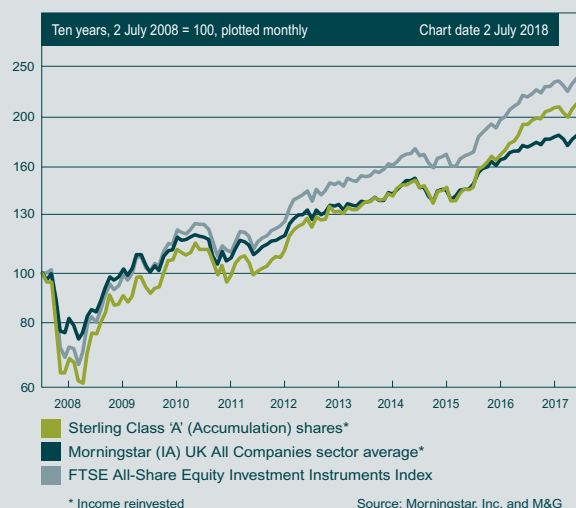
Performance since launch

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



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

Long-term performance by share class

	One year 03.07.17 % [a]	Three years 02.07.15 % p.a.	Five years 02.07.13 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	+10.3	+13.0	+11.8	+10.1 [c]
Class 'X'	+10.3	+12.7	+11.4	+9.7 [d]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 10 May 1968, the end of the initial offer period of the predecessor unit trust.

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

M&G Fund of Investment Trust Shares

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

for the year to 30 June	2018	2017	2016	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.00	0.01	0.01	0.01
Taxes	0.01	0.00	0.01	0.01
Costs before dilution adjustments	0.01	0.01	0.02	0.02
Dilution adjustments ^[c]	(0.01)	(0.01)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.00	0.00	0.01	0.01
as at 30 June	2018	2017	2016	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.84	0.79	1.23	0.95

^[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 Fund of Investment Trust Shares

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 6 July 2018.

Sterling Class 'A' Income share performance

The share class was launched on 10 May 1968.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	2,248.17	1,748.21	1,762.05
Return before operating charges and after direct portfolio transaction costs	300.75	558.37	20.43
Operating charges	(50.39)	(24.51)	(20.70)
Return after operating charges	250.36	533.86	(0.27)
Distributions	(38.59)	(33.90)	(13.57)
Closing NAV	2,459.94	2,248.17	1,748.21
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.26	0.11	0.41
Dilution adjustments ^[a]	(0.14)	(0.11)	(0.21)
Total direct portfolio transaction costs	0.12	(0.00)	0.20
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.01
Operating charges	1.19	1.19	1.20
Return after operating charges	+11.14	+30.54	-0.02
Historic yield ^[c]	1.57	1.49	0.75
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (£'000)	16,272	15,182	11,947
Closing NAV percentage of total fund NAV (%)	38.78	39.42	38.87
Number of shares	661,481	675,331	683,381
Highest share price (UK p)	2,536.65	2,331.17	1,807.56
Lowest share price (UK p)	2,271.75	1,759.74	1,574.61

Sterling Class 'A' Accumulation share performance

The share class was launched on 10 May 1968.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	5,238.14	4,009.95	4,010.72
Return before operating charges and after direct portfolio transaction costs	702.06	1,284.56	46.38
Operating charges	(117.83)	(56.37)	(47.15)
Return after operating charges	584.23	1,228.19	(0.77)
Distributions	(26.44)	(23.70)	(30.92)
Retained distributions	26.44	23.70	30.92
Closing NAV	5,822.37	5,238.14	4,009.95
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.62	0.25	0.93
Dilution adjustments ^[a]	(0.33)	(0.25)	(0.48)
Total direct portfolio transaction costs	0.29	(0.00)	0.45
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.01
Operating charges	1.20	1.19	1.20
Return after operating charges	+11.15	+30.63	-0.02
Historic yield	0.45	0.45	0.75
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	24,031	21,664	17,294
Closing NAV percentage of total fund NAV (%)	57.27	56.25	56.27
Number of shares	412,730	413,580	431,292
Highest share price (UK p)	5,951.11	5,385.36	4,114.09
Lowest share price (UK p)	5,292.95	4,035.94	3,592.58

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	2,253.91	1,756.77	1,770.86
Return before operating charges and after direct portfolio transaction costs	301.50	560.24	20.32
Operating charges	(50.50)	(29.10)	(29.46)
Return after operating charges	251.00	531.14	(9.14)
Distributions	(38.69)	(34.00)	(4.95)
Closing NAV	2,466.22	2,253.91	1,756.77
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.26	0.11	0.41
Dilution adjustments ^[a]	(0.14)	(0.11)	(0.21)
Total direct portfolio transaction costs	0.12	(0.00)	0.20
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.01
Operating charges	1.19	1.42*	1.70
Return after operating charges	+11.14	+30.23	-0.52
Historic yield ^[c]	1.57	1.49	0.27
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (£'000)	1,016	1,028	902
Closing NAV percentage of total fund NAV (%)	2.42	2.67	2.93
Number of shares	41,205	45,605	51,355
Highest share price (UK p)	2,543.12	2,337.13	1,816.02
Lowest share price (UK p)	2,277.55	1,768.13	1,581.36

* As the annual management charge has been discounted during the period, 1.19% is a more reliable estimate of the operating charges for the period to 30.06.17.

M&G Fund of Investment Trust Shares

Financial highlights

Specific share class performance

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 30 June	2018	2017	2016
Change in NAV per share	UK p	UK p	UK p
Opening NAV	4,912.03	3,768.90	3,788.54
Return before operating charges and after direct portfolio transaction costs	658.30	1,205.87	43.29
Operating charges	(110.41)	(62.74)	(62.93)
Return after operating charges	547.89	1,143.13	(19.64)
Distributions	(24.80)	(12.67)	(10.58)
Retained distributions	24.80	12.67	10.58
Closing NAV	5,459.92	4,912.03	3,768.90
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.58	0.23	0.87
Dilution adjustments ^[a]	(0.31)	(0.23)	(0.45)
Total direct portfolio transaction costs	0.27	0.00	0.42
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.01
Operating charges	1.19	1.42*	1.70
Return after operating charges	+11.15	+30.33	-0.52
Historic yield	0.45	0.25	0.27
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	643	641	594
Closing NAV percentage of total fund NAV (%)	1.53	1.66	1.93
Number of shares	11,778	13,043	15,753
Highest share price (UK p)	5,580.65	5,050.08	3,885.07
Lowest share price (UK p)	4,963.43	3,793.01	3,383.03

* As the annual management charge has been discounted during the period, 1.19% is a more reliable estimate of the operating charges for the period to 30.06.17.

^[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 Fund of Investment Trust Shares

Financial statements and notes

Financial statements

Statement of total return					
for the year to 30 June	Note	2018		2017	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		4,048		9,016
Revenue	5	704		614	
Expenses	6	(479)		(422)	
Net revenue / (expense) before taxation		225		192	
Taxation	7	0		0	
Net revenue / (expense) after taxation			225		192
Total return before distributions			4,273		9,208
Distributions	8		(386)		(346)
Change in net assets attributable to shareholders from investment activities			3,887		8,862

Statement of change in net assets attributable to shareholders					
for the year to 30 June		2018		2017	
		£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			38,515		30,737
Amounts received on issue of shares	526			419	
Amounts paid on cancellation of shares	(1,086)			(1,614)	
			(560)		(1,195)
Dilution adjustments			7		10
Change in net assets attributable to shareholders from investment activities (see above)			3,887		8,862
Retained distributions on Accumulation shares			112		100
Unclaimed distributions			1		1
Closing net assets attributable to shareholders			41,962		38,515

Balance sheet			
as at 30 June	Note	2018 £'000	2017 £'000
Assets			
Fixed assets			
Investments		39,870	37,066
Current assets			
Debtors	9	126	72
Cash and bank balances	10	520	92
Cash equivalents		1,686	1,473
Total assets		42,202	38,703
Liabilities			
Investment liabilities		(40)	(3)
Creditors			
Overdrawn positions at futures clearing houses and collateral manager		(22)	(23)
Distribution payable		(153)	(139)
Other creditors	11	(25)	(23)
Total liabilities		(240)	(188)
Net assets attributable to shareholders		41,962	38,515

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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

In determining the amount available for distribution, 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	2018 £'000	2017 £'000
Non-derivative securities	3,841	8,909
Derivative contracts	210	110
Currency gains / (losses)	3	1
Transaction charges	(6)	(4)
Net capital gains / (losses)	4,048	9,016

M&G Fund of Investment Trust Shares

Financial statements and notes

Notes to the financial statements

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 118.

for the year to 30 June	2018 £'000	% of transaction	2017 £'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	1,835		1,247	
Taxes	3	0.16	1	0.08
Total purchases after transaction costs	1,838		1,248	

b) Sales				
Equities				
Equities before transaction costs	2,803		3,036	
Commissions	(1)	0.04	(1)	0.03
Equities after transaction costs	2,802		3,035	
Other transaction types				
Corporate actions	42		685	
Total sales after transaction costs	2,844		3,720	

c) Direct portfolio transaction costs	2018 £'000	% of average NAV	2017 £'000	% of average NAV
Commissions paid				
Equities	1	0.00	1	0.01
Taxes paid				
Equities	3	0.01	1	0.00
Total direct portfolio transaction costs ^[a]	4	0.01	2	0.01

d) Indirect portfolio transaction costs		%		%
Portfolio dealing spread ^[b]		0.84		0.79

^[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	2018 £'000	2017 £'000
Dividends from equity investments: non-taxable	633	567
Dividends from equity investments: taxable	32	26
Interest distributions	6	2
Stock dividends	33	19
Total revenue	704	614

6 Expenses

for the year to 30 June	2018 £'000	2017 £'000
Payable to the ACD or associate		
Annual management charge	405	357
Administration charge	61	53
	466	410
Payable to the Depositary or associate		
Depositary's charge (including VAT)	4	3
Other expenses		
Audit fee (including VAT)	9	9
Total expenses	479	422

7 Taxation

for the year to 30 June	2018 £'000	2017 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	0	0
Deferred tax (note 7c)	0	0
Total taxation	0	0
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	225	192
Corporation tax at 20%	45	38
Effects of:		
Dividends from equity investments: non-taxable	(127)	(113)
Stock dividends not taxable	(7)	(4)
Offshore income tax gains	(12)	34
Current year expenses not utilised	101	45
Total tax charge (note 7a)	0	0
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	0	0

The fund has not recognised a deferred tax asset of £1,298,000 (2017: £1,197,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

	2018		2017	
for the year to 30 June	Inc ^[a] £'000	Acc ^[b] £'000	Inc ^[a] £'000	Acc ^[b] £'000
Dividend distributions				
Interim	121	36	106	35
Final	153	76	139	65
Total net distributions		386		345
Income deducted on cancellation of shares		1		2
Income received on issue of shares		(1)		(1)
Distributions		386		346
Net revenue / (expense) per statement of total return		225		192
Expenses offset against capital		194		173
Stock dividends not distributed		(33)		(19)
Distributions		386		346

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

9 Debtors

as at 30 June	2018 £'000	2017 £'000
Distributions receivable	1	0
Dividends receivable	124	70
Tax recoverable	1	2
Total debtors	126	72

10 Cash and bank balances

as at 30 June	2018 £'000	2017 £'000
Amounts held at futures clearing houses and collateral manager	157	88
Cash held as bank balances	363	4
Total cash and bank balances	520	92

M&G Fund of Investment Trust Shares

Financial statements and notes

Notes to the financial statements

11 Other creditors

as at 30 June	2018 £'000	2017 £'000
ACD's annual management charge payable	13	12
Administration charge payable	2	2
Expenses payable	10	9
Total other creditors	25	23

12 Contingent assets, liabilities and outstanding commitments

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

13 Shares in issue

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

Share class	Opening 01.07.17	Movements		Closing 30.06.18
		Issued	Cancelled	
Class 'A' Income	675,331	6,225	(20,075)	661,481
Class 'A' Accumulation	413,580	6,375	(7,225)	412,730
Class 'X' Income	45,605	1,000	(5,400)	41,205
Class 'X' Accumulation	13,043	0	(1,265)	11,778

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %
Sterling			
Class 'A'	nil	n/a	1.00
Class 'X'	nil	n/a	1.00

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 1.22% (2017: 1.61%) 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	Assets 2018 £'000	Liabilities 2018 £'000	Assets 2017 £'000	Liabilities 2017 £'000
Basis of valuation				
Level 1	39,870	(40)	37,066	(3)
Level 2	0	0	0	0
Level 3	0	0	0	0
	39,870	(40)	37,066	(3)

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

18 Risk management policies

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

19 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by £1,992,000 (2017: £1,853,000). 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 Fund of Investment Trust Shares

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.

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.

	Futures £'000
as at 30 June 2018	
Bank of America Merrill Lynch	(40)
Total	(40)

	Futures £'000
as at 30 June 2017	
Bank of America Merrill Lynch	(3)
Total	(3)

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	01.07.17	31.12.17	02.01.18	28.02.18
Final	01.01.18	30.06.18	02.07.18	31.08.18

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

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

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

Sterling Class 'A' Income shares				
Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	8.9490	7.8069	16.7559	14.6245
Final	13.9449	7.8875	21.8324	19.2769

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	5.1223	3.3625	8.4848	8.4488
Final	14.1247	3.8271	17.9518	15.2467

Sterling Class 'X' Income shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	11.0937	5.7047	16.7984	14.6737
Final	14.8928	6.9958	21.8886	19.3268

Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	3.0755	4.8888	7.9643	0.0000
Final	13.6539	3.1816	16.8355	12.6711

M&G Global Government Bond Fund

Authorised Corporate Director's Report

Investment objective

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

Investment policy

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 approach

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.

Risk profile

The fund invests mainly in investment grade government bonds, including government-guaranteed debt securities, 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.

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.



The above number:

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

Investment review

As at 2 July 2018, for the year ended 30 June 2018

Performance against objective

Between 3 July 2017 (the start of the review period) and 2 July 2018, the M&G Global Government Bond Fund recorded negative total returns (the combination of income and growth of capital) across its different share classes, with the exception of its Swiss franc share classes. The fund's objective is to maximise total returns (the combination of income and growth of capital), and although it had mixed results during the year under review, it met its objective over three and five years and since launch.*

Over the 12 months, a variety of global investment themes adversely affected sentiment towards global government bond markets, including expected (and confirmed) rises in interest rates. Some key segments of developed government bond markets registered negative returns, including in the US; emerging market bonds also weakened, which detracted from the fund's overall performance. For the fund's Swiss franc share classes, the increase in value of the US dollar (in which the fund held a sizeable exposure) against the Swiss franc helped to provide some upside.

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

Investment performance

Expected and actual rising interest rates due to firmer inflation remained key themes in global financial markets during the 12 months to 30 June 2018. In the important US market, the Federal Reserve confirmed three interest rate increases of 0.25 percentage points each. The moves added to the gradual steps taken by the US central bank in recent years to lift rates against the backdrop of strengthening economic growth and inflation.

Improving economic growth was also evident in the eurozone, although the European Central Bank (ECB) held interest rates unchanged. However, expectations increased among global investors that the significant monetary stimulus policies operated by the ECB for some time would soon be scaled back. Known as quantitative easing, these measures are largely designed to keep interest rates low.

M&G Global Government Bond Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

In the UK, the annual inflation rate, as measured by the Consumer Prices Index (CPI), stayed above the 2% target set by the Bank of England (BoE). To counter rising consumer prices, central banks often raise interest rates, and the BoE confirmed a quarter of a percentage point rate rise in November 2017. However, subsequently the BoE's Monetary Policy Committee had to weigh up the implications of Brexit-related uncertainty in the UK outlook. This factor seemed to contribute to the central bank's decision to leave rates unchanged for the remainder of the period. Some signs of softer UK economic data later in the period also appeared to influence this stance by the BoE.

In the bond markets, anticipated (and confirmed) increases in inflation or interest rates typically dampen sentiment towards government bonds. Bonds are loans in the form of a security, usually issued by a government – government bonds – or company – corporate bonds; they normally pay a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid. When interest rates rise, the value of a bond's fixed interest payments decline, thus dampening its price.

The effects of US interest rate moves can even be felt internationally, given the size and influence of the US market within a global context. Indeed, mainstream government bonds delivered mixed results in this environment, with declines recorded in the US market. During the second half of the review period, the UK government bond market also fell.

As well as the fund's allocations to major industrialised nations, we favoured holding exposures to government bonds in emerging markets on a selective basis. In our view, compelling value could be found in this area of the market, helped by factors such as continued low interest rates in Europe and Japan. This environment maintained government bond yields in these areas at low (or even negative) levels. In turn, we preferred to allocate some of the fund towards higher yielding areas of the bond markets, such as those in developing countries, for taking on a higher degree of risk. (Bond yields refer to the interest received from a fixed interest security, which is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value).

While emerging market bonds performed relatively well throughout 2017, these assets generally recorded declines during the first six months of 2018. This partly reflected increased concerns about the US government's placement of trade tariffs on a range of imported goods, which was met by retaliatory tariffs from China and the European Union. There were also some renewed economic and political challenges in individual emerging countries such as Argentina and Turkey. Against this backdrop, the fund's allocation to emerging markets detracted from its returns during the first half of 2018.

For the 12-month review period, the weakness in various areas of developed and emerging government bond markets contributed to the fund recording negative returns across its different share classes, with the exception of its unhedged Swiss franc share classes. For the latter, the increase in value of the US dollar (which remained one of the fund's larger currency exposures) against the Swiss franc helped to provide some upside.

Investment activities

We maintained a globally diversified fund of government bonds throughout the review period. Among larger industrialised nations, our position in the US was reduced earlier in the period on the backdrop of rising US interest rates. However, we added back some exposure to US government bonds in recent months, feeling that these assets began to offer some better value after a period of underperformance. Elsewhere, we maintained a broadly stable allocation to Japanese government bonds. As the period ended, the US and Japan continued to rank as the fund's largest individual country positions.

In contrast, we reduced the fund's overall exposure to the German government bond market. This largely reflected our view that more attractive relative value could be found elsewhere, given the prospect of scaled down stimulus activity by the ECB. Among smaller markets in Europe, we increased our exposure to some countries that we felt offered appealing value as their economies looked set to improve, including Portugal.

In addition to developed industrialised nations, we continued to assess investment opportunities in emerging markets. We maintained the opinion that government bond valuations in the latter area looked relatively attractive on a selective basis, and the fund held positions from across the main emerging market regions.

Within this theme, we added bonds from the government of Malaysia, partly based on our view that the country stands to benefit from strengthening oil prices as it is an oil producer. We also added government bonds in Poland and the Philippines. Elsewhere, our preferred holdings in emerging markets continued to include bonds from the governments of Indonesia and Israel, while Mexico remained the fund's largest individual allocation to an emerging market at the end of the review period.

Outlook

Active management of the fund's country allocations, as well as its currency positioning, are among the main drivers of its long-term returns. The fund's flexible investment approach also allows us to position the portfolio so that its performance should be less sensitive to the prospect of rising interest rates – a strategy known as holding short duration. Duration measures the sensitivity of a bond's price to a change in interest rates; it is an estimate of the number of years it takes an investor to recover the price of a bond if interest rates change. Generally, the longer the duration, the more sensitive the bond's price is to changes in interest rates. During the review period, we kept a short duration positioning in the fund against the backdrop of actual, or expected, increases in interest rates. We continued to hold this stance as the period ended.

Among other investment themes, we maintained a globally diversified portfolio of government bonds, not only from large developed nations such as the US, Japan, and the UK, but also from select emerging economies. Despite the recent underperformance of emerging market bonds, we believe long-term value can still be found in this area when comparing their valuations to government bonds in developed countries. We also believe that sentiment towards emerging market bonds should be supported by improvements to their creditworthiness – a measure of a borrower's ability and willingness to repay its debt.

M&G Global Government Bond Fund

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Investment review

Outlook (continued)

This improvement should be helped by global economic growth forecasts that remain encouraging and broad-based, in our opinion.

At the same time, the relevant risks need to be monitored closely, including increased US interest rates. However, we believe that this higher interest rate environment is less challenging for many emerging market economies than in previous rising-rate cycles, partly due to the adjustments they have made towards having lower overall levels of US dollar-denominated debt. However, US rate increases may cause a headwind for other emerging economies, particularly those more dependent on US dollar funding. Other potentially adverse factors must also be considered, such as international trade tensions over tariff introductions. On the other hand, firmer commodity prices, notably for oil, can be beneficial for commodity producers in emerging economies.

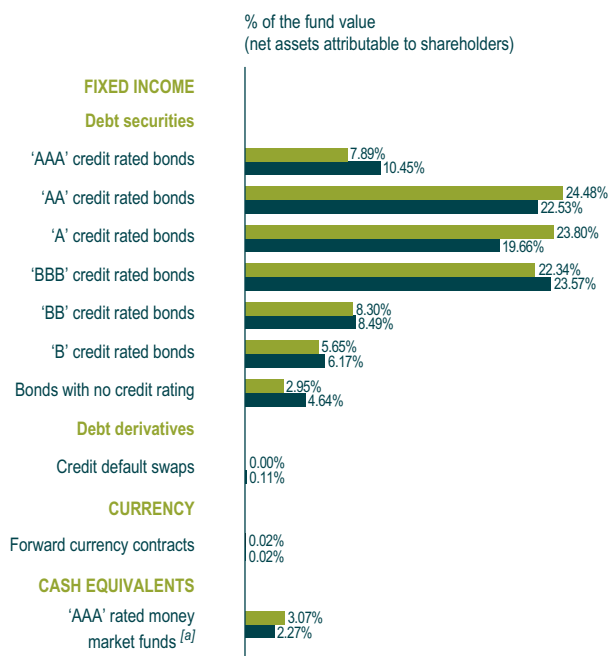
Overall, we continue to determine the fund's investment strategy by seeking the most attractive value in the global government bond markets amid the prevailing economic conditions, while avoiding those countries where we believe the outlook is less favourable.

Claudia Calich
Fund manager

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

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

Classification of investments



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

■ 30 June 2018
■ 30 June 2017

Source: M&G

M&G Global Government Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement			
as at 30 June Holding	2018 \$'000	2018 %	2017 %
FIXED INCOME	83,027	95.41	95.62
Debt securities	83,027	95.41	95.51
'AAA' credit rated bonds	6,865	7.89	10.45
AUD2,200,000 Australia (Commonwealth of) 2.75% 2024	1,654	1.90	
NOK12,500,000 Norway (Kingdom of) 2% 2023	1,579	1.82	
SGD2,500,000 Singapore (Republic of) 4% 2018	1,839	2.11	
SEK14,000,000 Sweden (Kingdom of) 3.5% 2022	1,793	2.06	
'AA' credit rated bonds	21,307	24.48	22.53
CZK32,000,000 Czech (Republic of) 4.6% 2018	1,439	1.65	
NZD2,000,000 New Zealand (Govt. of) 2.5% IL 2035	1,539	1.77	
\$556,000 Qatar (State of) 5.103% 2048	554	0.64	
\$1,000,000 Qatar (State of) 6.4% 2040	1,185	1.36	
£2,800,000 Treasury 4.5% 2019	3,779	4.34	
\$8,550,000 US Treasury 0.75% 2019	8,408	9.66	
\$4,500,000 US Treasury 1.375% 2020	4,403	5.06	
'A' credit rated bonds	20,712	23.80	19.66
CLP700,000,000 Chile (Republic of) 5.5% 2020	1,119	1.29	
ILS4,000,000 Israel (State of) 2.25% 2019	1,113	1.28	
\$1,350,000 Israel (State of) 4.5% 2043	1,365	1.57	
¥1,100,000,000 Japan (Govt. of) 0.1% 2019	9,957	11.44	
MYR5,000,000 Malaysia (Govt. of) 3.882% 2022	1,241	1.43	
MXN35,000,000 Mexico (United Mexican States) 6.5% 2022	1,701	1.95	
PEN4,800,000 Peru (Republic of) 8.2% 2026	1,744	2.00	
PLN3,700,000 Poland (Republic of) 3.25% 2025	1,003	1.15	
INR100,000,000 Rural Electrification 9.04% 2019	1,469	1.69	
'BBB' credit rated bonds	19,437	22.34	23.57
COP2,600,000,000 Bogota Distrito Capital 9.75% 2028	962	1.10	
HUF250,000,000 Hungary (Republic of) 7.5% 2020	1,004	1.15	
IDR20,000,000,000 Indonesia (Republic of) 8.25% 2036	1,372	1.58	
€1,000,000 Italy (Republic of) 2.2% 2027	1,129	1.30	
KZT150,000,000 Kazakhstan (Republic of) 0% 2018	427	0.49	
KZT160,000,000 Kazakhstan (Republic of) 0% 2019	437	0.50	
£792,000 Mexico (United Mexican States) 5.625% 2114	1,055	1.21	
\$600,000 MFB Hungarian Development Bank 6.25% 2020	629	0.72	
\$1,300,000 Morocco (Kingdom of) 5.5% 2042	1,315	1.51	
\$800,000 Perusahaan Penerbit 4.35% 2024	796	0.91	
\$562,500 Petroleos Mexicano 2.46% 2025	528	0.61	
PHP50,000,000 Philippines (Republic of) 6.25% 2036	989	1.14	
\$500,000 Philippines (Republic of) 9.5% 2030	729	0.84	
\$1,200,000 Portugal (Republic of) 5.125% 2024	1,241	1.43	
€1,000,000 Romania (Republic of) 3.875% 2035	1,189	1.37	
RON3,500,000 Romania (Republic of) 5.8% 2027	907	1.04	
RUB115,000,000 Russia (Federation of) 8.15% 2027	1,896	2.18	
THB50,000,000 Thailand (Kingdom of) 1.25% IL 2028	1,477	1.70	
UYU24,609,000 Uruguay (Republic of) 8.5% 2028	678	0.78	
UYU21,509,000 Uruguay (Republic of) 9.875% 2022	677	0.78	

Portfolio statement (continued)

as at 30 June Holding	2018 \$'000	2018 %	2017 %
'BB' credit rated bonds	7,222	8.30	8.49
\$500,000 Bahamas (Commonwealth of) 6% 2028	502	0.58	
BRL4,500,000 Brazil (Federal Republic of) 10% 2025	1,094	1.26	
DOP13,350,000 Dominican Republic 8.9% 2023	275	0.32	
\$34,000,000 Dominican Republic 10.4% 2019	697	0.80	
\$700,000 Guatemala (Republic of) 5.75% 2022	726	0.84	
\$800,000 Honduras (Republic of) 8.75% 2020	865	0.99	
€850,000 Macedonia (Govt. of) 5.625% 2023	1,123	1.29	
\$571,000 Oman (Sultanate of) 6.75% 2048	517	0.59	
ZAR13,700,000 South Africa (Republic of) 8.75% 2048	900	1.03	
TRY3,200,000 Turkey (Republic of) 11% 2027	523	0.60	
'B' credit rated bonds	4,920	5.65	6.17
€800,000 Albania (Republic of) 5.75% 2020	1,020	1.17	
€550,441 Argentina (Republic of) 7.82% 2033	639	0.73	
ARS11,250,000 Argentina (Republic of) FRN 2020	413	0.48	
EGP11,000,000 Egypt (Arab Republic of) 0% 2018 (10 Jul)	612	0.70	
EGP10,950,000 Egypt (Arab Republic of) 0% 2018 (30 Oct)	575	0.66	
EGP13,125,000 Egypt (Arab Republic of) 0% 2019	636	0.73	
€448,000 Senegal (Republic of) 4.75% 2028	486	0.56	
\$628,000 Ukraine (Republic of) 7.375% 2032	539	0.62	
Bonds with no credit rating	2,564	2.95	4.64
ARS10,000,000 Argentina (Republic of) 24.72% 2018 (14 Sep)	373	0.43	
ARS10,000,000 Argentina (Republic of) 24.72% 2018 (12 Oct)	362	0.42	
€800,000 Cote d'Ivoire 5.125% 2025	934	1.07	
\$1,300,000 Debt and Asset Trading 1% 2025	895	1.03	
Debt derivatives	0	0.00	0.11
Credit default swaps	0	0.00	0.11
CURRENCY	19	0.02	0.02
Forward currency contracts	19	0.02	0.02
€1,067,427 Bought for NZD1,812,956 (expires 25.07.18)	19	0.02	
Portfolio of investments	83,046	95.43	95.64
CASH EQUIVALENTS	2,668	3.07	2.27
'AAA' rated money market funds [a]	2,668	3.07	2.27
2,668,002 Northern Trust Global Fund - US dollar	2,668	3.07	
Total portfolio (notes 2c & 2d on page 7)	85,714	98.50	97.91
Net other assets / (liabilities)	1,306	1.50	2.09
Net assets attributable to shareholders	87,020	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 show the performance for two of the fund's share classes – Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

We show performance for these two share classes because:

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

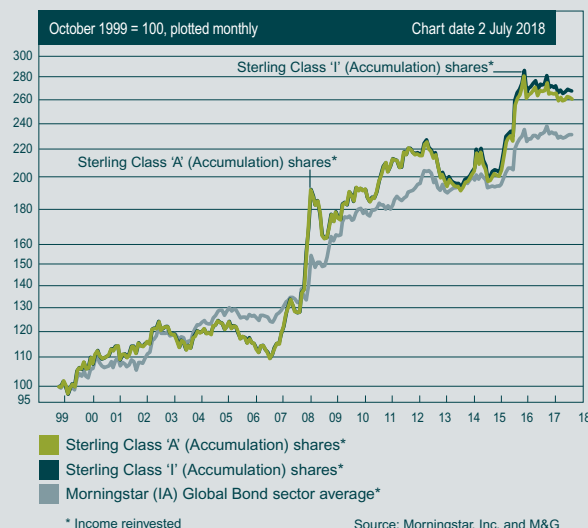
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 30 June	2018 \$'000	2017 \$'000	2016 \$'000
Fund net asset value (NAV)	87,020	76,013	61,760

Performance since launch

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



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

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

Long-term performance by share class

	One year 03.07.17 % [a]	Three years 02.07.15 % p.a.	Five years 02.07.13 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	-3.1	+2.1	n/a	+4.8 [c]
Class 'C'	-2.5	+2.6	n/a	+5.4 [c]
Sterling [d]				
Class 'A'	-2.4	+9.6	+4.0	+5.2 [e]
Class 'I'	-1.9	+10.1	+4.4	+3.1 [f]
Class 'R'	-2.1	+9.9	+4.2	+2.9 [f]
Swiss franc [b]				
Class 'A'	+2.5	+5.4	n/a	+3.7 [c]
Class 'C'	+3.0	+6.0	n/a	+4.2 [c]
US dollar [b]				
Class 'A'	-0.8	+3.8	n/a	+1.3 [c]
Class 'C'	-0.3	+4.4	n/a	+1.9 [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

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

as at 30 June	2018	2017	2016	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.35	0.37	0.39	0.37

^[a] Average of first three columns.

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 Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,169.78	1,226.01	1,121.26
Return before operating charges and after direct portfolio transaction costs	(19.41)	(0.38)	138.27
Operating charges	(13.78)	(15.07)	(14.52)
Return after operating charges	(33.19)	(15.45)	123.75
Distributions	(40.79)	(40.78)	(19.00)
Closing NAV	1,095.80	1,169.78	1,226.01
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.03
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.21	1.22	1.23
Return after operating charges	-2.84	-1.26	+11.04
Distribution yield ^[c]	3.86	3.65	1.76
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (\$'000)	5,985	3,426	755
Closing NAV percentage of total fund NAV (%)	6.88	4.51	1.22
Number of shares	469,187	256,797	55,260
Highest share price (Euro ¢)	1,175.37	1,260.56	1,250.06
Lowest share price (Euro ¢)	1,110.72	1,195.42	1,101.32

Euro Class 'A' Accumulation share performance

The share class was launched on 22 August 2014.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,233.05	1,248.80	1,124.07
Return before operating charges and after direct portfolio transaction costs	(21.01)	(0.38)	139.09
Operating charges	(14.59)	(15.37)	(14.36)
Return after operating charges	(35.60)	(15.75)	124.73
Distributions	(29.31)	(27.44)	(19.13)
Retained distributions	29.31	27.44	19.13
Closing NAV	1,197.45	1,233.05	1,248.80
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.03
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.21	1.22	1.23
Return after operating charges	-2.89	-1.26	+11.10
Distribution yield	2.70	2.51	1.76
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	9,645	5,521	1,917
Closing NAV percentage of total fund NAV (%)	11.08	7.26	3.10
Number of shares	691,939	392,596	137,745
Highest share price (Euro ¢)	1,238.75	1,298.59	1,260.46
Lowest share price (Euro ¢)	1,190.42	1,232.20	1,104.06

Euro Class 'C' Income share performance

The share class was launched on 22 August 2014.

for the year to 30 June Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,175.01	1,225.30	1,120.51
Return before operating charges and after direct portfolio transaction costs	(18.67)	(0.30)	138.43
Operating charges	(8.13)	(8.51)	(8.18)
Return after operating charges	(26.80)	(8.81)	130.25
Distributions	(41.96)	(41.48)	(25.46)
Closing NAV	1,106.25	1,175.01	1,225.30
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.00	0.03
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.71	0.69	0.71
Return after operating charges	-2.28	-0.72	+11.62
Distribution yield ^[c]	3.85	3.68	2.28
Effect on yield of charges offset against capital	0.65	0.65	0.00
Other information			
Closing NAV (\$'000)	6	7	7
Closing NAV percentage of total fund NAV (%)	0.01	0.01	0.01
Number of shares	500	500	500
Highest share price (Euro ¢)	1,180.72	1,261.95	1,252.76
Lowest share price (Euro ¢)	1,119.41	1,201.15	1,101.45

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 Change in NAV per share	2018 Euro €	2017 Euro €	2016 Euro €
Opening NAV	1,252.06	1,261.31	1,129.06
Return before operating charges and after direct portfolio transaction costs	(20.55)	(0.29)	140.57
Operating charges	(8.62)	(8.96)	(8.32)
Return after operating charges	(29.17)	(9.25)	132.25
Distributions	(36.78)	(34.68)	(25.78)
Retained distributions	36.78	34.68	25.78
Closing NAV	1,222.89	1,252.06	1,261.31

Direct portfolio transaction costs	Euro €	Euro €	Euro €
Costs before dilution adjustments	0.00	0.00	0.03
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.03

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.70	0.70	0.71
Return after operating charges	-2.33	-0.73	+11.71
Distribution yield	3.20	3.02	2.28
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	7	7	7
Closing NAV percentage of total fund NAV (%)	0.01	0.01	0.01
Number of shares	500	500	500
Highest share price (Euro €)	1,258.23	1,317.31	1,273.04
Lowest share price (Euro €)	1,213.39	1,247.26	1,109.89

Sterling Class 'A' Income share performance

The share class was launched on 4 October 1999.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	98.02	96.60	76.06
Return before operating charges and after direct portfolio transaction costs	(0.83)	6.04	22.97
Operating charges	(1.17)	(1.22)	(1.00)
Return after operating charges	(2.00)	4.82	21.97
Distributions	(3.45)	(3.40)	(1.43)
Closing NAV	92.57	98.02	96.60

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	1.21	1.21	1.24
Return after operating charges	-2.04	+4.99	+28.89
Distribution yield ^[c]	3.86	3.65	1.76
Effect on yield of charges offset against capital	1.15	1.15	0.00

Other information

Closing NAV (\$'000)	2,669	3,813	4,442
Closing NAV percentage of total fund NAV (%)	3.07	5.02	7.19
Number of shares	2,193,963	2,997,769	3,409,000
Highest share price (UK p)	101.37	107.13	99.17
Lowest share price (UK p)	92.03	96.72	75.83

Sterling Class 'A' Accumulation share performance

The share class was launched on 4 October 1999.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	132.84	126.77	98.57
Return before operating charges and after direct portfolio transaction costs	(1.15)	7.96	29.88
Operating charges	(1.59)	(1.62)	(1.31)
Return after operating charges	(2.74)	6.34	28.57
Distributions	(3.19)	(2.95)	(1.87)
Retained distributions	3.19	2.68	1.50
Closing NAV	130.10	132.84	126.77

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

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.21	1.21	1.24
Return after operating charges	-2.06	+5.00	+28.99
Distribution yield	2.70	2.51	1.76
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	7,931	9,228	9,724
Closing NAV percentage of total fund NAV (%)	9.11	12.14	15.74
Number of shares	4,639,906	5,352,374	5,686,909
Highest share price (UK p)	137.39	140.69	129.11
Lowest share price (UK p)	126.85	127.07	98.27

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	1,138.41	1,116.35	879.00
Return before operating charges and after direct portfolio transaction costs	(9.74)	69.83	266.00
Operating charges	(7.92)	(8.36)	(7.16)
Return after operating charges	(17.66)	61.47	258.84
Distributions	(40.15)	(39.41)	(21.49)
Closing NAV	1,080.60	1,138.41	1,116.35

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.03
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.03

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.71	0.72	0.73
Return after operating charges	-1.55	+5.51	+29.45
Distribution yield ^[c]	3.85	3.66	2.26
Effect on yield of charges offset against capital	0.65	0.65	0.00

Other information

Closing NAV (\$'000)	21,313	17,908	12,179
Closing NAV percentage of total fund NAV (%)	24.49	23.56	19.72
Number of shares	1,501,062	1,212,092	808,857
Highest share price (UK p)	1,178.24	1,239.86	1,148.20
Lowest share price (UK p)	1,073.24	1,120.21	876.45

M&G Global Government Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	1,218.46	1,157.67	896.49
Return before operating charges and after direct portfolio transaction costs	(10.64)	72.55	272.80
Operating charges	(8.60)	(8.71)	(7.19)
Return after operating charges	(19.24)	63.84	265.61
Distributions	(35.40)	(33.10)	(22.13)
Retained distributions	35.40	30.05	17.70
Closing NAV	1,199.22	1,218.46	1,157.67

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.03
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.03

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.71	0.71	0.73
Return after operating charges	-1.58	+5.51	+29.63
Distribution yield	3.20	3.00	2.26
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	36,857	35,205	32,422
Closing NAV percentage of total fund NAV (%)	42.35	46.31	52.50
Number of shares	2,339,042	2,226,239	2,076,382
Highest share price (UK p)	1,261.12	1,286.17	1,178.92
Lowest share price (UK p)	1,168.21	1,162.28	893.89

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	113.55	111.63	87.90
Return before operating charges and after direct portfolio transaction costs	(0.97)	6.97	26.58
Operating charges	(1.06)	(1.12)	(0.93)
Return after operating charges	(2.03)	5.85	25.65
Distributions	(4.00)	(3.93)	(1.92)
Closing NAV	107.52	113.55	111.63

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

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.96	0.96	0.99
Return after operating charges	-1.79	+5.24	+29.18
Distribution yield ^[c]	3.86	3.66	2.01
Effect on yield of charges offset against capital	0.90	0.90	0.00

Other information

Closing NAV (\$'000)	345	136	86
Closing NAV percentage of total fund NAV (%)	0.39	0.18	0.14
Number of shares	244,420	91,923	57,000
Highest share price (UK p)	117.48	123.89	114.72
Lowest share price (UK p)	106.84	111.89	87.63

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	120.91	115.13	89.33
Return before operating charges and after direct portfolio transaction costs	(1.03)	7.22	27.14
Operating charges	(1.16)	(1.17)	(0.95)
Return after operating charges	(2.19)	6.05	26.19
Distributions	(3.20)	(2.99)	(1.96)
Retained distributions	3.20	2.72	1.57
Closing NAV	118.72	120.91	115.13

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	0.96	0.96	0.98
Return after operating charges	-1.81	+5.25	+29.32
Distribution yield	2.95	2.76	2.01
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	499	102	42
Closing NAV percentage of total fund NAV (%)	0.57	0.13	0.07
Number of shares	319,986	65,122	26,736
Highest share price (UK p)	125.09	127.83	117.25
Lowest share price (UK p)	115.69	115.49	89.06

Swiss franc Class 'A' Accumulation share performance

The share class was launched on 22 August 2014.

for the year to 30 June Change in NAV per share	2018 Swiss ¢	2017 Swiss ¢	2016 Swiss ¢
Opening NAV	1,116.80	1,124.23	966.39
Return before operating charges and after direct portfolio transaction costs	45.50	5.64	170.10
Operating charges	(14.06)	(13.07)	(12.26)
Return after operating charges	31.44	(7.43)	157.84
Distributions	(28.98)	(25.61)	(18.24)
Retained distributions	28.98	25.61	18.24
Closing NAV	1,148.24	1,116.80	1,124.23

Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.00	0.00	0.03
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.03

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.20	1.16	1.18
Return after operating charges	+2.82	-0.66	+16.33
Distribution yield	2.75	2.57	1.82
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (\$'000)	217	6	6
Closing NAV percentage of total fund NAV (%)	0.25	0.01	0.01
Number of shares	18,800	500	500
Highest share price (Swiss ¢)	1,195.76	1,151.12	1,131.53
Lowest share price (Swiss ¢)	1,115.74	1,102.10	975.77

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Swiss franc Class 'C' Accumulation share performance

The share class was launched on 22 August 2014.

for the year to 30 June Change in NAV per share	2018 Swiss ¢	2017 Swiss ¢	2016 Swiss ¢
Opening NAV	1,132.69	1,134.62	970.54
Return before operating charges and after direct portfolio transaction costs	46.10	5.61	171.25
Operating charges	(7.92)	(7.54)	(7.17)
Return after operating charges	38.18	(1.93)	164.08
Distributions	(35.90)	(31.57)	(23.58)
Retained distributions	35.90	31.57	23.58
Closing NAV	1,170.87	1,132.69	1,134.62
Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.00	0.00	0.03
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.67	0.66	0.68
Return after operating charges	+3.37	-0.17	+16.91
Distribution yield	3.27	3.06	2.32
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	6	6	6
Closing NAV percentage of total fund NAV (%)	0.01	0.01	0.01
Number of shares	500	500	500
Highest share price (Swiss ¢)	1,215.94	1,166.80	1,141.96
Lowest share price (Swiss ¢)	1,131.71	1,114.64	980.13

US dollar Class 'A' Income share performance

The share class was launched on 22 August 2014.

for the year to 30 June Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,005.29	1,029.66	944.59
Return before operating charges and after direct portfolio transaction costs	4.57	21.55	113.14
Operating charges	(12.36)	(12.18)	(11.59)
Return after operating charges	(7.79)	9.37	101.55
Distributions	(36.29)	(33.74)	(16.48)
Closing NAV	961.21	1,005.29	1,029.66
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.00	0.00	0.03
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.21	1.22	1.21
Return after operating charges	-0.77	+0.91	+10.75
Distribution yield ^[c]	3.86	3.65	1.79
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (\$'000)	207	166	5
Closing NAV percentage of total fund NAV (%)	0.24	0.22	0.01
Number of shares	21,536	16,558	500
Highest share price (US ¢)	1,051.51	1,060.36	1,044.41
Lowest share price (US ¢)	981.87	959.92	917.57

US dollar Class 'A' Accumulation share performance

The share class was launched on 22 August 2014.

for the year to 30 June Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,059.91	1,049.32	947.49
Return before operating charges and after direct portfolio transaction costs	4.10	23.24	113.83
Operating charges	(13.17)	(12.65)	(12.00)
Return after operating charges	(9.07)	10.59	101.83
Distributions	(26.08)	(22.80)	(15.96)
Retained distributions	26.08	22.80	15.96
Closing NAV	1,050.84	1,059.91	1,049.32
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.00	0.00	0.03
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.21	1.21	1.23
Return after operating charges	-0.86	+1.01	+10.75
Distribution yield	2.70	2.52	1.76
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	1,304	177	152
Closing NAV percentage of total fund NAV (%)	1.50	0.23	0.25
Number of shares	124,082	16,714	14,514
Highest share price (US ¢)	1,127.49	1,080.56	1,053.25
Lowest share price (US ¢)	1,052.81	991.45	920.23

US dollar Class 'C' Income share performance

The share class was launched on 22 August 2014.

for the year to 30 June Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,009.77	1,029.02	943.85
Return before operating charges and after direct portfolio transaction costs	5.32	22.78	113.24
Operating charges	(6.82)	(6.86)	(6.62)
Return after operating charges	(1.50)	15.92	106.62
Distributions	(37.89)	(35.17)	(21.45)
Closing NAV	970.38	1,009.77	1,029.02
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.00	0.00	0.03
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.66	0.68	0.69
Return after operating charges	-0.15	+1.55	+11.30
Distribution yield ^[c]	3.89	3.69	2.31
Effect on yield of charges offset against capital	0.65	0.65	0.00
Other information			
Closing NAV (\$'000)	5	5	5
Closing NAV percentage of total fund NAV (%)	0.01	0.01	0.01
Number of shares	500	500	500
Highest share price (US ¢)	1,059.42	1,060.83	1,046.34
Lowest share price (US ¢)	991.95	961.81	918.95

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US dollar Class 'C' Accumulation share performance

The share class was launched on 22 August 2014.

for the year to 30 June	2018	2017	2016
Change in NAV per share	US ¢	US ¢	US ¢
Opening NAV	1,077.79	1,060.08	951.66
Return before operating charges and after direct portfolio transaction costs	4.11	24.55	115.18
Operating charges	(7.96)	(6.84)	(6.76)
Return after operating charges	(3.85)	17.71	108.42
Distributions	(32.14)	(29.87)	(21.69)
Retained distributions	32.14	29.87	21.69
Closing NAV	1,073.94	1,077.79	1,060.08
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.00	0.00	0.03
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.71	0.69	0.69
Return after operating charges	-0.36	+1.67	+11.39
Distribution yield	3.20	3.07	2.30
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	24	300	5
Closing NAV percentage of total fund NAV (%)	0.03	0.39	0.01
Number of shares	2,216	27,800	500
Highest share price (US ¢)	1,149.77	1,092.93	1,064.06
Lowest share price (US ¢)	1,072.19	1,004.75	926.55

^[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	2018		2017	
		\$'000	\$'000	\$'000	\$'000
Income					
Net capital gains / (losses)	3		(2,865)		(726)
Revenue	5	3,161		2,431	
Expenses	6	(769)		(590)	
Net revenue / (expense) before taxation		2,392		1,841	
Taxation	7	(25)		(23)	
Net revenue / (expense) after taxation			2,367		1,818
Total return before distributions			(498)		1,092
Distributions	8		(2,583)		(1,974)
Change in net assets attributable to shareholders from investment activities			(3,081)		(882)

Statement of change in net assets attributable to shareholders					
for the year to 30 June		2018		2017	
		\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders			76,013		61,760
Amounts received on issue of shares		37,323		37,610	
Amounts paid on cancellation of shares		(24,960)		(23,817)	
			12,363		13,793
Dilution adjustments			70		83
Change in net assets attributable to shareholders from investment activities (see above)			(3,081)		(882)
Retained distributions on Accumulation shares			1,655		1,259
Closing net assets attributable to shareholders			87,020		76,013

Balance sheet			
as at 30 June	Note	2018	2017
		\$'000	\$'000
Assets			
Fixed assets			
Investments		83,046	72,724
Current assets			
Debtors	9	1,665	1,954
Cash and bank balances	10	277	648
Cash equivalents		2,668	1,721
Total assets		87,656	77,047
Liabilities			
Investment liabilities		0	(23)
Creditors			
Distribution payable		(597)	(462)
Other creditors	11	(39)	(549)
Total liabilities		(636)	(1,034)
Net assets attributable to shareholders		87,020	76,013

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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

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

3 Net capital gains / (losses)

for the year to 30 June	2018	2017
	\$'000	\$'000
Non-derivative securities	(2,758)	(106)
Derivative contracts	(158)	(591)
Currency gains / (losses)	56	(23)
Transaction charges	(5)	(6)
Net capital gains / (losses)	(2,865)	(726)

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 130.

for the year to 30 June	2018	2017
	\$'000	\$'000
a) Purchases		
Debt securities ^[a]	65,222	96,814
b) Sales		
Debt securities ^[a]	50,654	80,529
Other transaction types		
Corporate actions	1,172	2,547
Total sales	51,826	83,076

c) Direct portfolio transaction costs

There were no direct portfolio transaction costs

d) Indirect portfolio transaction costs	%	%
Portfolio dealing spread ^[b]	0.35	0.37

^[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	2018	2017
	\$'000	\$'000
Bank interest	0	3
Interest distributions	12	7
Interest on debt securities	3,149	2,421
Total revenue	3,161	2,431

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6 Expenses

for the year to 30 June	2018 \$'000	2017 \$'000
Payable to the ACD or associate		
Annual management charge	561	443
Administration charge	129	105
	690	548
Payable to the Depositary or associate		
Depositary's charge (including VAT)	8	6
Other expenses		
Audit fee (including VAT)	13	13
Interest payable	31	3
Safe custody charge	27	20
	71	36
Total expenses	769	590

7 Taxation

for the year to 30 June	2018 \$'000	2017 \$'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	25	23
Deferred tax (note 7c)	0	0
Total taxation	25	23
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	2,392	1,841
Corporation tax at 20%	478	368
Effects of:		
Interest distributions	(478)	(368)
Withholding tax	25	23
Total tax charge (note 7a)	25	23
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	0	0

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

Interest distributions have been made in respect of all distributions during the current and preceding periods. Income tax at 20% was accounted for on shareholders' behalf to HM Revenue & Customs up to 31 December 2016.

8 Distributions

for the year to 30 June	2018		2017	
	Inc ^[a] \$'000	Acc ^[b] \$'000	Inc ^[a] \$'000	Acc ^[b] \$'000
Interest distributions				
Interim	429	819	209	555
Final	597	836	462	704
Total net distributions		2,681		1,930
Income tax deducted at source		0		159
Interest distributions		2,681		2,089
Income deducted on cancellation of shares		184		131
Income received on issue of shares		(282)		(246)
Distributions		2,583		1,974
Net revenue / (expense) per statement of total return		2,367		1,818
Expenses offset against capital		216		156
Distributions		2,583		1,974

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 30 June	2018 \$'000	2017 \$'000
Amounts receivable on issues of shares	468	631
Currency deals outstanding	0	269
Debt security interest receivable	1,193	1,025
Distributions receivable	1	1
Withholding tax recoverable	3	28
Total debtors	1,665	1,954

10 Cash and bank balances

as at 30 June	2018 \$'000	2017 \$'000
Cash held as bank balances	277	648
Total cash and bank balances	277	648

11 Other creditors

as at 30 June	2018 \$'000	2017 \$'000
ACD's annual management charge payable	17	15
Administration charge payable	4	3
Amounts payable on cancellation of shares	0	241
Currency deals outstanding	0	269
Expenses payable	18	21
Total other creditors	39	549

12 Contingent assets, liabilities and outstanding commitments

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

13 Shares in issue

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

Share class	Opening 01.07.17	Movements		Closing 30.06.18
		Issued	Cancelled	
Euro				
Class 'A' Income	256,797	238,992	(26,602)	469,187
Class 'A' Accumulation	392,596	350,767	(51,424)	691,939
Class 'C' Income	500	0	0	500
Class 'C' Accumulation	500	0	0	500
Sterling				
Class 'A' Income	2,997,769	258,518	(1,062,324)	2,193,963
Class 'A' Accumulation	5,352,374	2,345,014	(3,057,482)	4,639,906
Class 'I' Income	1,212,092	673,690	(384,720)	1,501,062
Class 'I' Accumulation	2,226,239	757,183	(644,380)	2,339,042
Class 'R' Income	91,923	190,185	(37,688)	244,420
Class 'R' Accumulation	65,122	289,305	(34,441)	319,986
Swiss franc				
Class 'A' Accumulation	500	18,300	0	18,800
Class 'C' Accumulation	500	0	0	500
US dollar				
Class 'A' Income	16,558	4,978	0	21,536
Class 'A' Accumulation	16,714	117,367	(9,999)	124,082
Class 'C' Income	500	0	0	500
Class 'C' Accumulation	27,800	18,316	(43,900)	2,216

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14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %
Euro			
Class 'A'	4.00	n/a	1.00
Class 'C'	1.25	n/a	0.50
Sterling			
Class 'A'	nil	n/a	1.00
Class 'I'	nil	n/a	0.50
Class 'R'	nil	n/a	0.75
Swiss franc			
Class 'A'	4.00	n/a	1.00
Class 'C'	1.25	n/a	0.50
US dollar			
Class 'A'	4.00	n/a	1.00
Class 'C'	1.25	n/a	0.50

15 Related parties

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

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

At the balance sheet date, there were no material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary (2017: 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	Assets 2018	Liabilities 2018	Assets 2017	Liabilities 2017
Basis of valuation	\$'000	\$'000	\$'000	\$'000
Level 1	27,676	0	20,609	0
Level 2	55,370	0	52,115	(23)
Level 3	0	0	0	0
	83,046	0	72,724	(23)

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

18 Risk management policies

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

19 Market risk sensitivity and exposure

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

The VaR limit set during the financial year to 30 June 2018 was 18% (2017: 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 2018 and 30 June 2017.

for the year to 30 June	2018 % of VaR	2018 Utilisation of VaR [a] 18%	2017 % of VaR	2017 Utilisation of VaR [a] 18%
Lowest	2.24	12.43	3.14	17.42
Highest	3.97	22.06	4.56	25.34
Average	3.21	17.86	3.79	21.05

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

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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.

	2018 \$'000	2017 \$'000
as at 30 June		
Investment grade securities	68,321	57,927
Below investment grade securities	12,142	11,143
Unrated securities	2,564	3,530
Other investments	19	101
Total	83,046	72,701

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

	Forward currency contracts \$'000
as at 30 June 2018	
National Bank Australia	19
Total	19

	Swaps \$'000	Forward currency contracts \$'000
as at 30 June 2017		
Citigroup	109	0
J.P.Morgan	(23)	0
State Street Bank	0	15
Total	86	15

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 2018 and 30 June 2017 are disclosed in the table below.

for the year to 30 June	2018 ^[a] \$'000	2018 ^[a] % ^[b]	2017 ^[a] \$'000	2017 ^[a] % ^[b]
Lowest	2,458	3	821	2
Highest	17,676	21	23,479	46
Average	8,238	10	7,651	14

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

^[b] Expressed as a percentage over fund valuation.

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	01.07.17	31.12.17	02.01.18	28.02.18
Final	01.01.18	30.06.18	02.07.18	31.08.18

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

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

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

Euro Class 'A' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	€	€	€	€
Interim	9.0955	10.2347	19.3302	19.5489
Final	9.6827	11.7787	21.4614	21.2280

Euro Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	€	€	€	€
Interim	9.8751	3.8073	13.6824	12.3580
Final	6.1130	9.5132	15.6262	15.0867

Euro Class 'C' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	€	€	€	€
Interim	19.8749	0.0000	19.8749	19.7880
Final	22.0840	0.0000	22.0840	21.6900

Euro Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	€	€	€	€
Interim	17.2789	0.0000	17.2789	15.8400
Final	19.5020	0.0000	19.5020	18.8440

M&G Global Government Bond Fund

Financial statements and notes

Notes to the financial statements

22 Interest distribution tables (continued)

Sterling Class 'A' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	1.1402	0.4952	1.6354	1.6250
Final	0.9362	0.8768	1.8130	1.7788

Sterling Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	0.6997	0.7884	1.4881	1.3235
Final	0.9497	0.7479	1.6976	1.6249

Sterling Class 'I' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	10.3874	8.6315	19.0189	18.7835
Final	7.4553	13.6782	21.1335	20.6292

Sterling Class 'I' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	10.0256	6.5480	16.5736	15.2570
Final	8.6180	10.2069	18.8249	17.8414

Sterling Class 'R' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	0.8201	1.0748	1.8949	1.8685
Final	0.4596	1.6444	2.1040	2.0572

Sterling Class 'R' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	0.5674	0.9305	1.4979	1.3640
Final	0.9503	0.7558	1.7061	1.6245

Swiss franc Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
Interim	0.8128	13.1730	13.9858	11.3660
Final	10.6790	4.3200	14.9990	14.2460

Swiss franc Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
Interim	16.9936	0.0000	16.9936	14.4320
Final	18.9100	0.0000	18.9100	17.1400

US dollar Class 'A' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
Interim	4.7962	12.6641	17.4603	15.5019
Final	6.7222	12.1080	18.8302	18.2344

US dollar Class 'A' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
Interim	6.2175	6.1481	12.3656	9.8340
Final	8.3384	5.3739	13.7123	12.9622

US dollar Class 'C' Income shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
Interim	18.0102	0.0000	18.0102	16.2040
Final	19.8760	0.0000	19.8760	18.9620

US dollar Class 'C' Accumulation shares

Interest distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	€	€	€	€
Interim	3.2836	11.9576	15.2412	13.3680
Final	12.2628	4.6400	16.9028	16.5046

M&G Recovery Fund

Authorised Corporate Director's Report

Investment objective and policy

The fund predominantly invests in a diversified range of securities issued by companies which are out of favour, in difficulty or whose future prospects are not fully recognised by the market. The sole aim of the fund is capital growth. There is no particular income yield target.

Investment approach

The M&G Recovery Fund invests in companies that are out of favour with the stockmarket where a good management team is making concerted efforts to turn the business around. The fund manager takes a long-term view with a typical holding period of five years or more and aims to provide a diversified portfolio of up to 100 stocks. Developing a constructive dialogue with company management is a fundamental part of the investment process and the fund manager will not invest in a company unless he has met the management team first.

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.

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



The above number:

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

Investment review

As at 2 July 2018, for the year ended 30 June 2018

Performance against objective

The M&G Recovery Fund aims to deliver capital growth by investing at least 80% of the portfolio in the shares of UK-listed companies that, at the time of investment, are out of favour with the stockmarket, and where we believe a good management team is making concerted efforts to turn the business around. The fund achieved this objective as it produced a positive total return (the combination of income and growth of capital) across all share classes between 3 July 2017 (the start of the review period) and 2 July 2018.*

The fund's returns in all share classes, except the Sterling Class 'C' shares, were below or equal to that of a comparative index, the FTSE All-Share Index. Over the same period, returns for the index were 7.1% and 6.4% in sterling and euros, respectively.

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

Investment performance

The fund delivered positive returns over the 12-month review period, but underperformed its comparative index, the FTSE All-Share Index. Nonetheless, there was good performance from a number of companies across the portfolio, with stock selection in the healthcare sector particularly beneficial.

Although the majority of the UK market's positive performance was recorded in the first half of the reporting period, it managed to achieve new all-time highs at the start of 2018 and again in May. A notable feature of stockmarkets was a return of volatility in 2018 after a period of relative calm in 2017. Initially, this was partly associated with a greater level of uncertainty around monetary policy in the major economies of the world as central banks, led by the US, begin the process of normalising interest rates after a decade of 'emergency' levels. More recently, ongoing volatility has also been attributed to the various economic and geopolitical developments that have taken place. Most prominent have been the boost from President Trump's corporate tax cuts, offset by the unsettling impact of the ebb and flow of the US dispute over trade tariffs with its trading partners, especially China and Europe. Consequently, most stockmarkets, including the UK, made little progress during the second half of the reporting period.

Over the 12 months, though, shares were lifted by a recovery in the global economy, combined with subdued inflation, low interest rates and continued central bank stimulus. The domestic market was also assisted by a broad-based growth in corporate profits, in part due to sterling's referendum-driven depreciation, as around 70% of the market revenues are derived abroad. In addition, the wider market was lifted by the strength of the oil majors and the miners, helped by higher commodity prices. This enabled UK investors to shrug aside the first rise in interest rates in a decade in November and a rise in bond yields in 2018, prompted by a brief spike in domestic inflation and strong economic growth in the US, resulting in concerns that the Federal

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Investment review

Investment performance (continued)

Reserve would speed up the pace of interest rate rises. Other negative factors included a lack of clarity over the UK's withdrawal from the European Union, and a weak consumer reflected in a stagnating housing market and a troubled high street. Furthermore, increased political uncertainty, following last year's unexpected election, resulted in a minority government in disarray over its Brexit policy and reliant on the DUP to stay in power.

Despite the macro environment, we remain encouraged by improvements in many of the businesses we support. Our top contributor to performance over the period was copper miner First Quantum Minerals, the fund's seventh-largest holding. The company's mines in Zambia continue to maintain high production levels, while the Cobre Panama development is expected to start production in late 2018.

Two biotechnology companies were our top contributors in the healthcare sector. Cannabinoid medicine developer GW Pharmaceuticals, the fund's third-largest holding, gained the approval of the US Food and Drug Administration (FDA) for Epidiolex, its treatment for two rare forms of childhood epilepsy, Lennox-Gastaut syndrome and Dravet syndrome. Consequently, GW is expected to begin distributing Epidiolex in the US towards the end of 2018. In addition, the European Medicines Agency is expected to give its approval for the drug in early 2019. Meanwhile, Oxford Biomedica, the fund's fourth-largest holding, made positive announcements about progress with its haemophilia treatments and the licensing of one of its compounds for the treatment of Parkinson's Disease to Axovant, a US-listed company.

Elsewhere, in the energy sector, BP, the fund's largest holding, added value. In addition to benefiting from a 60% rise in the oil price over the period, the oil major announced a substantial share buyback over the next year and is the first major European energy firm to resume buybacks since the oil price fall in 2014. The company has also announced that it is looking at drawing a line under the outstanding Macondo rig disaster claims this year in a sign that the saga is finally coming to an end. In the media sector, the fund's tenth-largest holding, Entertainment One, added value. The company is delivering on growth expectations for its franchises, Peppa Pig and MGC, and is seeing increasing success in its television content division.

The fund's lack of consumer goods stocks was positive for performance. The sector, which contains a large number of well-established, well-run companies such as those in the drinks and tobacco industries, lost value as the market rotated away from perceived 'safe' investments during the period.

Conversely, with the exception of BP, not holding the oil majors detracted from performance. At the company level, some of our holdings issued profit warnings which led to sharp falls in their share prices. These included over-50s tourism and insurance group Saga, which said its tour operations business had been hit by the collapse of Monarch airlines, which it partnered with on many of its tour packages.

Other detractors included Indian power generator KSK Power Ventur, African low-cost carrier fastjet, exploration company Nostrum Oil & Gas and cruise operator Carnival. KSK Power Ventur has been affected by a change in the law requiring banks to foreclose on their debts to power companies and, as a result, has lost control of its main assets. fastjet suffered from a lack of market confidence in its ability to raise funds to continue as a going concern. However, run by the ex-chief executive of Mango (South African Airlines' low-cost subsidiary), the funds are now in place and the company remains an interesting opportunity, in our view. Nostrum Oil & Gas has run into difficulty recently in its operation in Kazakhstan, where production from some new wells has disappointed. Carnival's performance was affected by a downgrade to its forecast second-half results, but we take a relaxed view, given the company tends to be conservative in its guidance, and the strength of the US economy allied with low unemployment suggest cruises will remain in demand.

Investment activities

We continued to see takeover activity on the fund. Over the 12 months, takeovers of three long-term holdings on the portfolio were completed. Semiconductor manufacturer Imagination Technologies was bought for £550 million by a private equity firm, backed by Chinese investors. Imagination, which designs the graphics processors used in smartphones and other electronic devices, put itself up for sale last June after Apple, its biggest customer and one of its main shareholders, said it would stop using Imagination graphics technology in the iPhone and other new products by 2019. Elsewhere, specialist insurer Novae was taken over by Bermuda-based Axis, and oil & gas services company Cape by French group Altrad.

Amongst the new positions established during the period were a digital financial transactions technology company, eServGlobal, support services group Capita, the broadcaster ITV, food ingredients manufacturer Tate & Lyle and software firm Micro Focus.

eServGlobal has a joint venture – HomeSend – with MasterCard and BICS (Belgacom International Carrier Services). HomeSend recently raised €10 million towards growth opportunities in the cross-border banking market. Capita, which we view as a classic recovery situation, has been afflicted by over-expansion and mispriced contracts, which have resulted in a collapsing share price; the outsourcer has responded with a rescue rights issue and reorganisation. ITV has suffered a downturn in advertising revenue and competition from other media platforms; however, the company has potential to deliver more content and has brought in Carolyn McCall as chief executive, who turned around easyJet. Tate & Lyle has been affected by delivery issues and, along with other companies in a weak consumer goods sector, by concerns about the US threat to withdraw from NAFTA; but the company is expected to recover under its new chief executive, former finance director Nick Hampton, who is ex-PepsiCo. Micro Focus was an opportunistic purchase after the share price halved following a profit warning related to short-term difficulties it has encountered with its purchase of Hewlett Packard's software business. We have met the management a number of times recently and believe them to be on top of the situation.

We also made three complete sales over the period to provide funds for better opportunities elsewhere: Kingfisher, a supplier of home improvement products, Morgan Advanced Materials, an engineering company, and Australian-listed Tap Oil, an oil & gas exploration company.

M&G Recovery Fund

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Investment review

Outlook

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

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

The UK is home to some fantastic companies operating within a strong corporate governance and legal framework. We continue to believe in taking a contrarian view on the fund, ignoring the short-term noise and exploiting mispriced risk to invest in some great opportunities.

Tom Dobell
Fund manager

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

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

Investments

Portfolio statement

as at 30 June Holding	2018 £'000	2018 %	2017 %
EQUITIES	2,815,068	100.19	100.71
Oil & gas producers	384,878	13.70	11.61
20,133,472 African Petroleum	2,215	0.08	
45,345,000 BP	262,729	9.35	
16,592,508 Great Eastern Energy GDR	11,615	0.41	
8,970,675 Nostrum Oil & Gas	17,277	0.62	
87,688,530 Providence Resources ^[a]	9,646	0.34	
33,250,000 Tullow Oil	81,396	2.90	
Oil equipment, services & distribution	12,209	0.43	0.96
12,600,000 Lamprell	12,209	0.43	
Industrial metals & mining	97,330	3.46	2.42
103,636,364 Bluejay Mining ^[a]	21,764	0.77	
7,233,300 First Quantum Minerals	75,566	2.69	
Mining	204,744	7.29	6.48
13,456,784 Bacanora Lithium ^[a]	10,496	0.37	
10,144,158 Hummingbird Resources	3,043	0.11	
17,855,335 Kenmare Resources	38,568	1.37	
40,788 Kenmare Resources wts. 2019	0	0.00	
23,346,347 McMining ^[a]	5,370	0.19	
50,128,263 Petra Diamonds	28,774	1.02	
1,510,000 Rio Tinto	63,669	2.28	
18,202,741 St Barbara	49,220	1.75	
28,247,500 Sylvania Platinum ^[a]	4,604	0.16	
55,536,586 White Energy Company	1,000	0.04	
Construction & materials	118,336	4.21	4.27
14,140,000 Balfour Beatty	40,115	1.43	
2,910,000 CRH	78,221	2.78	
Aerospace & defence	69,178	2.46	2.64
25,000,000 Cobham	32,225	1.15	
2,890,000 Meggitt	14,282	0.51	
4,770,000 QinetiQ Group	12,779	0.45	
1,000,000 Rolls-Royce Holdings	9,892	0.35	
General industrials	83,906	2.99	5.49
62,000,000 Coats Group	47,802	1.71	
2,125,000 Smiths Group	36,104	1.28	
Electronic & electrical equipment	11,625	0.41	0.97
5,000,000 Xaar	11,625	0.41	
Industrial engineering	49,620	1.77	1.60
27,500,000 Renold	8,002	0.29	
37,000,000 Severfield	31,376	1.12	
146,309,150 TP Group ^[a]	10,242	0.36	
Industrial transportation	46,792	1.67	2.50
5,812,903 Avation	12,963	0.46	
60,634,550 Mercantile Ports ^[a]	1,455	0.05	
14,014,659 Stobart Group	32,374	1.16	
Support services	180,172	6.41	5.35
21,799,998 Capita	34,727	1.24	
3,227,530 Essentra	15,531	0.55	
1,700,000 Grafton Group	13,541	0.48	
5,249,560 Homeserve	47,246	1.68	
21,938,236 IWG	69,127	2.46	
Food producers	44,201	1.57	0.95
7,287,630 REA Holdings	24,049	0.86	
2,405,000 Tate & Lyle	15,522	0.55	
46,304,408 Zambeef Products ^[a]	4,630	0.16	

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Investments

Portfolio statement (continued)				
as at 30 June Holding	2018 £'000	2018 %	2017 %	
Household goods & home construction	8,075	0.29	0.48	
8,240,000 McCarthy & Stone	8,075	0.29		
Healthcare equipment & services	7,966	0.28	1.49	
965,029 UDG Healthcare	7,966	0.28		
Pharmaceuticals & biotechnology	381,242	13.57	10.33	
5,381,802 Eco Animal Health ^[a]	27,447	0.98		
1,340,000 GW Pharmaceuticals ADR	141,124	5.02		
2,340,838 Hutchison China Meditech ADR	54,389	1.94		
54,497,775 Mesoblast	45,233	1.61		
1,038,939 Mesoblast ADR	4,238	0.15		
11,156,679 Oxford Biomedica	108,811	3.87		
General retailers	63,865	2.27	3.94	
1,200,000 Dignity	12,156	0.43		
10,445,000 Dixons Carphone	19,605	0.70		
19,899,040 Mothercare	5,791	0.20		
21,000,000 Saga	26,313	0.94		
Media	111,002	3.95	2.44	
19,500,000 Entertainment One	70,746	2.52		
11,850,000 ITV	20,773	0.74		
2,200,000 Pearson	19,483	0.69		
Travel & leisure	251,968	8.97	8.96	
1,030,000 Carnival	44,692	1.59		
6,950,000 Dalata Hotel Group	42,117	1.50		
3,240,000 easyJet	54,319	1.94		
43,000,000 EI Group	63,554	2.26		
104,427,139 fastjet	8,145	0.29		
9,321,340 fastjet wts. 2021	0	0.00		
9,800,000 National Express	39,141	1.39		
Fixed line telecommunications	36,465	1.30	0.74	
16,750,000 BT Group	36,465	1.30		
Mobile telecommunications	1,259	0.04	0.08	
27,359,073 Avanti Communications ^[a]	1,259	0.04		
Electricity	8,825	0.31	1.13	
34,149,791 KSK Power Ventur	1,161	0.04		
45,081,231 OPG Power Ventures ^[a]	7,664	0.27		
Banks	403,948	14.38	15.03	
31,400,000 HSBC Holdings	224,008	7.97		
134,380,000 Lloyds Banking Group	84,659	3.01		
17,885,000 Royal Bank of Scotland Group	45,893	1.64		
7,100,000 Standard Chartered	49,388	1.76		
Non-life insurance	0	0.00	0.49	
Life insurance	145,004	5.16	6.57	
12,710,000 Aviva	64,135	2.28		
4,645,000 Prudential ^[b]	80,869	2.88		
Financial services	33,371	1.19	1.24	
17,857,142 IP Group	22,571	0.80		
2,580,000 TP Icap	10,800	0.39		
Equity investment instruments	4,065	0.15	0.12	
410,580 Gresham House Strategic ^[a]	4,065	0.15		

Portfolio statement (continued)

as at 30 June Holding	2018 £'000	2018 %	2017 %
Software & computer services	49,854	1.78	1.25
6,615,674 Actual Experience ^[a]	17,862	0.64	
11,302,515 Blanco Technology ^[a]	8,364	0.30	
65,000,000 Eservglobal ^[a]	5,655	0.20	
1,120,000 Micro Focus	14,969	0.53	
2,916,666 Watchstone ^[a]	3,004	0.11	
Technology hardware & equipment	5,168	0.18	1.18
7,951,272 Frontier Smart Technologies	5,168	0.18	
Unquoted / unlisted	0	0.00	0.00
38,761,085 African Minerals ^[c]	0	0.00	
39,868,814 Alizyme ^[c]	0	0.00	
3,094,020 Izodia ^[c]	0	0.00	
Portfolio of investments	2,815,068	100.19	100.71
CASH EQUIVALENTS	0	0.00	0.15
'AAA' rated money market funds ^[d]	0	0.00	0.15
Total portfolio (notes 2c & 2d on page 7)	2,815,068	100.19	100.86
Net other assets / (liabilities)	(5,339)	(0.19)	(0.86)
Net assets attributable to shareholders	2,809,729	100.00	100.00

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

^[a] AIM quoted.

^[b] Related party to the fund.

^[c] Suspended.

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

Top ten portfolio transactions

for the year to 30 June 2018

Largest purchases	£'000
Capita	32,827
BT Group	24,610
ITV	18,354
Petra Diamonds	17,799
Tate & Lyle	14,364
Micro Focus	14,200
Dignity	14,057
Mesoblast	12,308
fastjet	7,459
Grafton Group	6,523
Other purchases	37,603
Total purchases	200,104
Largest sales	£'000
Coats Group	56,252
GW Pharmaceuticals ADR	52,180
UDG Healthcare	36,921
Smiths Group	35,198
Imagination Technologies Group	34,627
BP	31,154
HSBC Holdings	29,864
First Quantum Minerals	29,352
Carnival	28,314
Aviva	27,418
Other sales	309,162
Total sales	670,442

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

We show performance for these two share classes because:

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

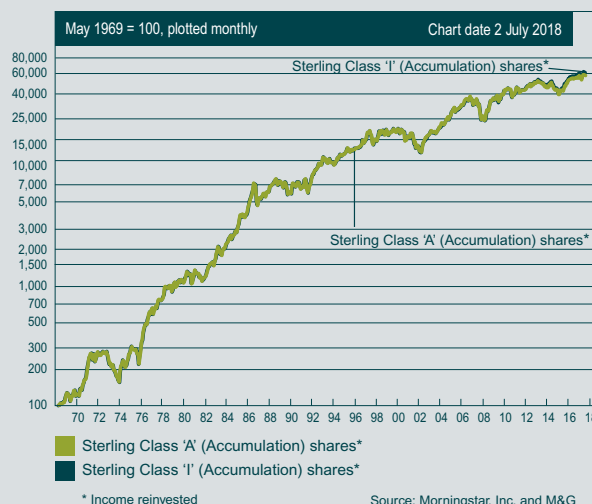
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 30 June	2018 £'000	2017 £'000	2016 £'000
Fund net asset value (NAV)	2,809,729	3,085,097	3,248,531

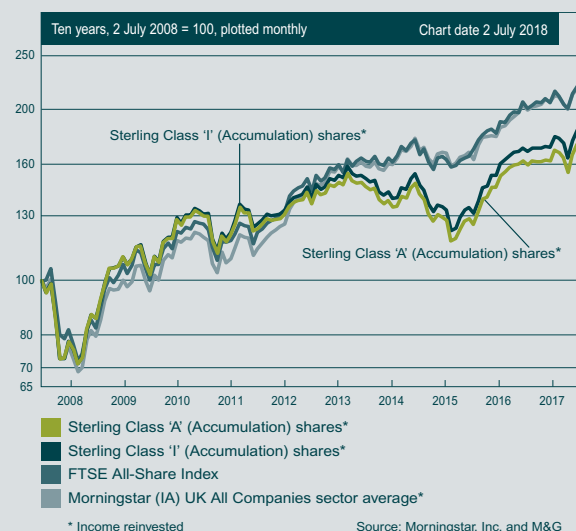
Performance since launch

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



Ten-year performance

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



The fund's Sterling Class 'I' (Accumulation) shares were launched on 15 January 2010. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

M&G Recovery Fund

Financial highlights

Fund performance

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

Long-term performance by share class				
	One year 03.07.17 % ^[a]	Three years 02.07.15 % p.a.	Five years 02.07.13 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A'	+5.5	-1.5	+3.6	+6.7 ^[c]
Class 'C'	+6.2	-0.8	+4.4	+7.5 ^[c]
Sterling ^[d]				
Class 'A'	+6.2	+5.9	+4.3	+13.8 ^[e]
Class 'C'	+7.8	+7.5	+5.8	+9.5 ^[f]
Class 'I'	+7.0	+6.7	+5.1	+5.8 ^[g]
Class 'R'	+6.7	+6.5	+4.8	+5.8 ^[h]
Class 'X'	+6.2	+5.9	+4.3	+9.2 ^[i]

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

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

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

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

M&G Recovery Fund

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Fund performance

Operating charges and portfolio transaction costs

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs				
for the year to 30 June	2018	2017	2016	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.01	0.03	0.04	0.03
Taxes	0.02	0.02	0.02	0.02
Costs before dilution adjustments	0.03	0.05	0.06	0.05
Dilution adjustments ^[c]	(0.02)	(0.04)	(0.03)	(0.03)
Total direct portfolio transaction costs	0.01	0.01	0.03	0.02
as at 30 June	2018	2017	2016	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.59	0.69	0.79	0.69

^[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.

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 6 July 2018.

Euro Class 'A' Accumulation share performance

The share class was launched on 29 November 2002.

for the year to 30 June	2018	2017	2016
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	2,588.06	2,161.61	2,836.50
Return before operating charges and after direct portfolio transaction costs	207.49	467.57	(634.19)
Operating charges	(43.74)	(41.12)	(40.70)
Return after operating charges	163.75	426.45	(674.89)
Distributions	(19.50)	(9.77)	(25.87)
Retained distributions	19.50	9.77	25.87
Closing NAV	2,751.81	2,588.06	2,161.61
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.84	1.21	1.28
Dilution adjustments ^[a]	(0.61)	(1.06)	(0.64)
Total direct portfolio transaction costs	0.23	0.15	0.64
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.03
Operating charges	1.66	1.66	1.66
Return after operating charges	+6.33	+19.73	-23.79
Historic yield	0.71	0.37	1.20
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	8,815	10,739	10,559
Closing NAV percentage of total fund NAV (%)	0.31	0.35	0.33
Number of shares	361,578	472,232	591,129
Highest share price (Euro ¢)	2,889.21	2,716.96	2,943.87
Lowest share price (Euro ¢)	2,419.72	2,076.74	1,943.75

M&G Recovery Fund

Financial highlights

Specific share class performance

Euro Class 'C' Accumulation share performance

The share class was launched on 29 November 2002.

for the year to 30 June Change in NAV per share	2018 Euro €	2017 Euro €	2016 Euro €
Opening NAV	2,892.31	2,397.69	3,122.73
Return before operating charges and after direct portfolio transaction costs	233.02	519.83	(700.31)
Operating charges	(26.94)	(25.21)	(24.73)
Return after operating charges	206.08	494.62	(725.04)
Distributions	(44.04)	(31.40)	(48.04)
Retained distributions	44.04	31.40	48.04
Closing NAV	3,098.39	2,892.31	2,397.69
Direct portfolio transaction costs	Euro €	Euro €	Euro €
Costs before dilution adjustments	0.94	1.35	1.41
Dilution adjustments ^[a]	(0.68)	(1.18)	(0.70)
Total direct portfolio transaction costs	0.26	0.17	0.71
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.03
Operating charges	0.91	0.91	0.92
Return after operating charges	+7.12	+20.63	-23.22
Historic yield	1.42	1.07	2.01
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	11,892	14,157	9,441
Closing NAV percentage of total fund NAV (%)	0.42	0.46	0.29
Number of shares	433,231	557,008	476,506
Highest share price (Euro €)	3,250.49	3,033.18	3,242.26
Lowest share price (Euro €)	2,707.52	2,303.84	2,149.91

Sterling Class 'A' Income share performance

The share class was launched on 27 June 1977.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	139.67	111.85	127.83
Return before operating charges and after direct portfolio transaction costs	12.42	32.75	(12.77)
Operating charges	(2.37)	(2.20)	(1.91)
Return after operating charges	10.05	30.55	(14.68)
Distributions	(3.41)	(2.73)	(1.30)
Closing NAV	146.31	139.67	111.85
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.06	0.06
Dilution adjustments ^[a]	(0.03)	(0.06)	(0.03)
Total direct portfolio transaction costs	0.02	0.00	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.03
Operating charges	1.66	1.66	1.66
Return after operating charges	+7.20	+27.31	-11.48
Historic yield ^[c]	2.34	1.93	1.14
Effect on yield of charges offset against capital	1.65	1.65	0.00
Other information			
Closing NAV (£'000)	467,858	529,572	463,186
Closing NAV percentage of total fund NAV (%)	16.65	17.17	14.26
Number of shares	319,778,985	379,165,975	414,104,046
Highest share price (UK p)	154.04	144.26	129.92
Lowest share price (UK p)	132.92	110.93	96.44

Sterling Class 'A' Accumulation share performance

The share class was launched on 23 May 1969.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	323.47	254.06	287.04
Return before operating charges and after direct portfolio transaction costs	28.80	74.38	(28.67)
Operating charges	(5.51)	(4.97)	(4.31)
Return after operating charges	23.29	69.41	(32.98)
Distributions	(2.46)	(1.22)	(2.91)
Retained distributions	2.46	1.22	2.91
Closing NAV	346.76	323.47	254.06
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.11	0.15	0.14
Dilution adjustments ^[a]	(0.08)	(0.13)	(0.07)
Total direct portfolio transaction costs	0.03	0.02	0.07
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.03
Operating charges	1.66	1.66	1.66
Return after operating charges	+7.20	+27.32	-11.49
Historic yield	0.71	0.37	1.13
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	634,597	769,199	983,361
Closing NAV percentage of total fund NAV (%)	22.59	24.93	30.27
Number of shares	183,009,631	237,792,926	387,051,472
Highest share price (UK p)	360.34	330.04	291.71
Lowest share price (UK p)	310.94	251.92	217.43

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 Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	142.12	112.10	128.14
Return before operating charges and after direct portfolio transaction costs	12.75	32.99	(12.82)
Operating charges	(0.23)	(0.21)	(0.18)
Return after operating charges	12.52	32.78	(13.00)
Distributions	(3.50)	(2.76)	(3.04)
Closing NAV	151.14	142.12	112.10
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.07	0.06
Dilution adjustments ^[a]	(0.03)	(0.06)	(0.03)
Total direct portfolio transaction costs	0.02	0.01	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.03
Operating charges	0.16	0.16	0.16
Return after operating charges	+8.81	+29.24	-10.15
Historic yield ^[c]	2.32	1.91	2.68
Effect on yield of charges offset against capital	0.15	0.15	0.00
Other information			
Closing NAV (£'000)	93,253	105,916	100,463
Closing NAV percentage of total fund NAV (%)	3.32	3.43	3.09
Number of shares	61,700,616	74,523,640	89,619,819
Highest share price (UK p)	158.86	146.56	130.33
Lowest share price (UK p)	136.82	111.22	96.83

M&G Recovery Fund

Financial highlights

Specific share class performance

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 Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	390.40	302.06	336.17
Return before operating charges and after direct portfolio transaction costs	35.04	88.91	(33.64)
Operating charges	(0.64)	(0.57)	(0.47)
Return after operating charges	34.40	88.34	(34.11)
Distributions	(9.06)	(6.92)	(8.03)
Retained distributions	9.06	6.92	8.03
Closing NAV	424.80	390.40	302.06
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.13	0.18	0.16
Dilution adjustments ^[a]	(0.09)	(0.15)	(0.08)
Total direct portfolio transaction costs	0.04	0.03	0.08
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.03
Operating charges	0.16	0.16	0.16
Return after operating charges	+8.81	+29.25	-10.15
Historic yield	2.14	1.75	2.63
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	482,882	546,007	679,884
Closing NAV percentage of total fund NAV (%)	17.19	17.70	20.93
Number of shares	113,673,926	139,858,895	225,080,167
Highest share price (UK p)	440.73	397.70	341.89
Lowest share price (UK p)	379.57	299.58	257.03

Sterling Class 'I' Income share performance

The share class was launched on 15 January 2010.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	140.63	111.77	127.75
Return before operating charges and after direct portfolio transaction costs	12.56	32.81	(12.77)
Operating charges	(1.31)	(1.21)	(1.05)
Return after operating charges	11.25	31.60	(13.82)
Distributions	(3.45)	(2.74)	(2.16)
Closing NAV	148.43	140.63	111.77
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.06	0.06
Dilution adjustments ^[a]	(0.03)	(0.06)	(0.03)
Total direct portfolio transaction costs	0.02	0.00	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.03
Operating charges	0.91	0.91	0.91
Return after operating charges	+8.00	+28.27	-10.82
Historic yield ^[c]	2.33	1.92	1.91
Effect on yield of charges offset against capital	0.90	0.90	0.00
Other information			
Closing NAV (£'000)	173,323	175,603	158,735
Closing NAV percentage of total fund NAV (%)	6.17	5.69	4.89
Number of shares	116,769,431	124,865,425	142,016,993
Highest share price (UK p)	156.15	145.14	129.89
Lowest share price (UK p)	134.61	110.87	96.46

Sterling Class 'I' Accumulation share performance

The share class was launched on 15 January 2010.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	340.98	265.81	298.06
Return before operating charges and after direct portfolio transaction costs	30.48	78.06	(29.81)
Operating charges	(3.20)	(2.89)	(2.44)
Return after operating charges	27.28	75.17	(32.25)
Distributions	(5.24)	(3.68)	(5.07)
Retained distributions	5.24	3.68	5.07
Closing NAV	368.26	340.98	265.81
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.11	0.15	0.14
Dilution adjustments ^[a]	(0.08)	(0.14)	(0.07)
Total direct portfolio transaction costs	0.03	0.01	0.07
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.03
Operating charges	0.91	0.91	0.91
Return after operating charges	+8.00	+28.28	-10.82
Historic yield	1.43	1.06	1.89
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	643,242	672,526	606,968
Closing NAV percentage of total fund NAV (%)	22.89	21.80	18.68
Number of shares	174,669,140	197,234,721	228,343,644
Highest share price (UK p)	382.38	347.63	303.01
Lowest share price (UK p)	329.64	263.60	226.83

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	120.65	96.13	109.87
Return before operating charges and after direct portfolio transaction costs	10.78	28.20	(10.99)
Operating charges	(1.45)	(1.33)	(1.14)
Return after operating charges	9.33	26.87	(12.13)
Distributions	(2.96)	(2.35)	(1.61)
Closing NAV	127.02	120.65	96.13
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.04	0.06	0.05
Dilution adjustments ^[a]	(0.03)	(0.05)	(0.03)
Total direct portfolio transaction costs	0.01	0.01	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.03
Operating charges	1.16	1.16	1.16
Return after operating charges	+7.73	+27.95	-11.04
Historic yield ^[c]	2.33	1.92	1.66
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (£'000)	12,469	2,130	1,776
Closing NAV percentage of total fund NAV (%)	0.44	0.07	0.05
Number of shares	9,816,918	1,765,807	1,847,161
Highest share price (UK p)	133.66	124.54	111.69
Lowest share price (UK p)	115.26	95.35	82.93

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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 Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	130.16	101.72	114.35
Return before operating charges and after direct portfolio transaction costs	11.64	29.85	(11.43)
Operating charges	(1.58)	(1.41)	(1.20)
Return after operating charges	10.06	28.44	(12.63)
Distributions	(1.66)	(1.10)	(1.68)
Retained distributions	1.66	1.10	1.68
Closing NAV	140.22	130.16	101.72
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.04	0.06	0.05
Dilution adjustments ^[a]	(0.03)	(0.05)	(0.03)
Total direct portfolio transaction costs	0.01	0.01	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.03
Operating charges	1.16	1.16	1.16
Return after operating charges	+7.73	+27.96	-11.05
Historic yield	1.19	0.83	1.63
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	72,805	1,032	920
Closing NAV percentage of total fund NAV (%)	2.59	0.03	0.03
Number of shares	51,920,764	792,930	904,763
Highest share price (UK p)	145.64	132.73	116.23
Lowest share price (UK p)	125.59	100.87	86.89

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	140.58	112.58	128.66
Return before operating charges and after direct portfolio transaction costs	12.50	32.97	(12.86)
Operating charges	(2.38)	(2.22)	(1.92)
Return after operating charges	10.12	30.75	(14.78)
Distributions	(3.44)	(2.75)	(1.30)
Closing NAV	147.26	140.58	112.58
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.07	0.06
Dilution adjustments ^[a]	(0.03)	(0.06)	(0.03)
Total direct portfolio transaction costs	0.02	0.01	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.03
Operating charges	1.66	1.66	1.66
Return after operating charges	+7.20	+27.31	-11.49
Historic yield ^[c]	2.34	1.93	1.14
Effect on yield of charges offset against capital	1.65	1.65	0.00
Other information			
Closing NAV (£'000)	74,042	90,478	80,856
Closing NAV percentage of total fund NAV (%)	2.64	2.93	2.49
Number of shares	50,279,512	64,361,188	71,819,773
Highest share price (UK p)	155.05	145.20	130.76
Lowest share price (UK p)	133.79	111.65	97.07

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	320.08	251.40	284.03
Return before operating charges and after direct portfolio transaction costs	28.49	73.65	(28.37)
Operating charges	(5.45)	(4.97)	(4.26)
Return after operating charges	23.04	68.68	(32.63)
Distributions	(2.43)	(1.21)	(2.89)
Retained distributions	2.43	1.21	2.89
Closing NAV	343.12	320.08	251.40
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.10	0.15	0.13
Dilution adjustments ^[a]	(0.08)	(0.13)	(0.07)
Total direct portfolio transaction costs	0.02	0.02	0.06
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.03
Operating charges	1.66	1.66	1.66
Return after operating charges	+7.20	+27.32	-11.49
Historic yield	0.71	0.37	1.13
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	134,551	167,738	152,382
Closing NAV percentage of total fund NAV (%)	4.79	5.44	4.69
Number of shares	39,213,889	52,404,180	60,612,884
Highest share price (UK p)	356.56	326.59	288.65
Lowest share price (UK p)	307.68	249.28	215.15

^[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 Recovery Fund

Financial statements and notes

Financial statements

Statement of total return					
for the year to 30 June	Note	2018		2017	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		178,317		773,201
Revenue	5	69,897		88,715	
Expenses	6	(32,748)		(37,738)	
Net revenue / (expense) before taxation		37,149		50,977	
Taxation	7	(59)		(100)	
Net revenue / (expense) after taxation			37,090		50,877
Total return before distributions			215,407		824,078
Distributions	8		(48,470)		(41,794)
Change in net assets attributable to shareholders from investment activities			166,937		782,284

Statement of change in net assets attributable to shareholders					
for the year to 30 June		2018		2017	
		£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			3,085,097		3,248,531
Amounts received on issue of shares		133,780		60,186	
Amounts paid on cancellation of shares		(604,603)		(1,031,158)	
			(470,823)		(970,972)
Dilution adjustments			1,841		3,993
Change in net assets attributable to shareholders from investment activities (see above)			166,937		782,284
Retained distributions on Accumulation shares			26,638		21,243
Unclaimed distributions			39		18
Closing net assets attributable to shareholders			2,809,729		3,085,097

Balance sheet			
as at 30 June	Note	2018 £'000	2017 £'000
Assets			
Fixed assets			
Investments		2,815,068	3,107,060
Current assets			
Debtors	9	9,122	6,203
Cash and bank balances	10	2,840	2,701
Cash equivalents		0	4,680
Total assets		2,827,030	3,120,644
Liabilities			
Creditors			
Distribution payable		(10,809)	(11,095)
Other creditors	11	(6,492)	(24,452)
Total liabilities		(17,301)	(35,547)
Net assets attributable to shareholders		2,809,729	3,085,097

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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

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

In determining the amount available for distribution, ordinary stock dividends have been transferred to capital, reducing the amount available.

3 Net capital gains / (losses)

for the year to 30 June	2018 £'000	2017 £'000
Non-derivative securities	178,346	773,260
Currency gains / (losses)	(22)	(48)
Transaction charges	(7)	(11)
Net capital gains / (losses)	178,317	773,201

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4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on pages 146 and 147.

for the year to 30 June	2018 £'000	% of transaction	2017 £'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	171,740		270,505	
Commissions	55	0.03	93	0.03
Taxes	584	0.34	606	0.22
Equities after transaction costs	172,379		271,204	
Other transaction types				
Corporate actions	27,725		21,939	
Total purchases after transaction costs	200,104		293,143	
b) Sales				
Equities				
Equities before transaction costs	649,996		1,124,837	
Commissions	(282)	0.04	(913)	0.08
Taxes	(2)	0.00	(3)	0.00
Equities after transaction costs	649,712		1,123,921	
Other transaction types				
Corporate actions	20,730		78,051	
Total sales after transaction costs	670,442		1,201,972	
c) Direct portfolio transaction costs	2018 £'000	% of average NAV	2017 £'000	% of average NAV
Commissions paid				
Equities	337	0.01	1,006	0.03
Taxes paid				
Equities	586	0.02	609	0.02
Total direct portfolio transaction costs [a]	923	0.03	1,615	0.05
d) Indirect portfolio transaction costs		%		%
Portfolio dealing spread [b]		0.59		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	2018 £'000	2017 £'000
Bank interest	1	1
Dividends from equity investments: non-taxable	69,911	66,607
Dividends from equity investments: taxable	(30)	89
Interest distributions	15	37
Stock dividends	0	21,032
Underwriting commission	0	949
Total revenue	69,897	88,715

6 Expenses

for the year to 30 June	2018 £'000	2017 £'000
Payable to the ACD or associate		
Annual management charge	28,112	32,517
Administration charge	4,370	4,972
	32,482	37,489
Payable to the Depositary or associate		
Depositary's charge (including VAT)	111	124
Other expenses		
Audit fee (including VAT)	9	9
Interest payable	18	9
Safe custody charge	128	107
	155	125
Total expenses	32,748	37,738

7 Taxation

for the year to 30 June	2018 £'000	2017 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	59	100
Deferred tax (note 7c)	0	0
Total taxation	59	100
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	37,149	50,977
Corporation tax at 20%	7,430	10,195
Effects of:		
Dividends from equity investments: non-taxable	(13,982)	(13,321)
Stock dividends not taxable	0	(4,206)
Current year expenses not utilised	6,552	7,332
Withholding tax	59	100
Total tax charge (note 7a)	59	100
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 £153,037,000 (2017: £146,485,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

for the year to 30 June	2018 Inc [a] £'000	2018 Acc [b] £'000	2017 Inc [a] £'000	2017 Acc [b] £'000
Dividend distributions				
Interim	8,922	10,937	6,879	6,311
Final	10,809	15,701	11,095	14,932
Total net distributions		46,369		39,217
Income deducted on cancellation of shares		2,563		2,828
Income received on issue of shares		(462)		(251)
Distributions		48,470		41,794
Net revenue / (expense) per statement of total return				
		37,090		50,877
Expenses offset against capital		11,380		11,948
Stock dividends not distributed		0		(21,032)
Undistributed income brought forward		1		2
Undistributed income carried forward		(1)		(1)
Distributions		48,470		41,794

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

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9 Debtors

as at 30 June	2018 £'000	2017 £'000
Amounts receivable on issues of shares	289	279
Distributions receivable	1	2
Dividends receivable	3,836	4,476
Sales awaiting settlement	4,793	1,240
Withholding tax recoverable	203	206
Total debtors	9,122	6,203

10 Cash and bank balances

as at 30 June	2018 £'000	2017 £'000
Cash held as bank balances	2,840	2,701
Total cash and bank balances	2,840	2,701

11 Other creditors

as at 30 June	2018 £'000	2017 £'000
ACD's annual management charge payable	829	913
Administration charge payable	130	142
Amounts payable on cancellation of shares	5,493	23,375
Expenses payable	18	22
Purchases awaiting settlement	22	0
Total other creditors	6,492	24,452

12 Contingent assets, liabilities and outstanding commitments

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

13 Shares in issue

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

Share class	Opening 01.07.17	Movements		Closing 30.06.18
		Issued	Cancelled	
Euro				
Class 'A' Accumulation	472,232	35,887	(146,541)	361,578
Class 'C' Accumulation	557,008	139,077	(262,854)	433,231
Sterling				
Class 'A' Income	379,165,975	5,124,438	(64,511,428)	319,778,985
Class 'A' Accumulation	237,792,926	0	(54,783,295)	183,009,631
Class 'C' Income	74,523,640	1,470,365	(14,293,389)	61,700,616
Class 'C' Accumulation	139,858,895	1,902,119	(28,087,088)	113,673,926
Class 'I' Income	124,865,425	5,387,658	(13,483,652)	116,769,431
Class 'I' Accumulation	197,234,721	5,095,104	(27,660,685)	174,669,140
Class 'R' Income	1,765,807	9,214,460	(1,163,349)	9,816,918
Class 'R' Accumulation	792,930	52,494,828	(1,366,994)	51,920,764
Class 'X' Income	64,361,188	930,292	(15,011,968)	50,279,512
Class 'X' Accumulation	52,404,180	1,051,691	(14,241,982)	39,213,889

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %
Euro			
Class 'A'	5.25	n/a	1.50
Class 'C'	3.25	n/a	0.75
Sterling			
Class 'A'	nil	n/a	1.50
Class 'C'	nil	n/a	nil
Class 'I'	nil	n/a	0.75
Class 'R'	nil	n/a	1.00
Class 'X'	nil	n/a	1.50

15 Related parties

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

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

During the year, there were transactions in Prudential plc, a related party of M&G Securities Limited with a total value of £24,800,000 (2017: £37,262,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £80,869,000 (2017: £106,906,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 14.31% (2017: 15.31%) 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 2018 £'000	Liabilities 2018 £'000	Assets 2017 £'000	Liabilities 2017 £'000
Basis of valuation				
Level 1	2,815,068	0	3,107,060	0
Level 2	0	0	0	0
Level 3	0	0	0	0
	2,815,068	0	3,107,060	0

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

18 Risk management policies

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

19 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by £140,753,000 (2017: £155,353,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

as at 30 June	2018 £'000	2017 £'000
Currency exposure in respect of the fund		
Australian dollar	97,616	103,965
Canadian dollar	75,566	64,276
Euro	42,117	34,313
Norwegian krone	2,215	8,885
Sterling	2,392,261	2,683,531
US dollar	199,954	190,127
Total	2,809,729	3,085,097

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	01.07.17	31.12.17	02.01.18	28.02.18
Final	01.01.18	30.06.18	02.07.18	31.08.18

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

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

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

Euro Class 'A' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	Distribution 2018	Distribution 2017
	£	£	£	£
Interim	0.4665	5.9065	6.3730	0.0664
Final	3.4513	9.6750	13.1263	9.7069

Euro Class 'C' Accumulation shares

Ordinary distributions for the year to 30 June	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	Distribution 2018	Distribution 2017
	£	£	£	£
Interim	8.6322	9.0843	17.7165	9.5700
Final	24.6883	1.6361	26.3244	21.8315

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23 Dividend distribution tables (continued)

Sterling Class 'A' Income shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	0.7237	0.7610	1.4847	1.0155
Final	1.1814	0.7467	1.9281	1.7162

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	0.1674	0.6365	0.8039	0.0081
Final	0.8491	0.8049	1.6540	1.2132

Sterling Class 'C' Income shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	0.5299	0.9857	1.5156	1.0203
Final	1.1787	0.8054	1.9841	1.7396

Sterling Class 'C' Accumulation shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	1.0356	2.8356	3.8712	2.4994
Final	4.7169	0.4691	5.1860	4.4245

Sterling Class 'I' Income shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	0.5986	0.8988	1.4974	1.0160
Final	0.9328	1.0195	1.9523	1.7248

Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	0.8998	1.2138	2.1136	1.1019
Final	1.6727	1.4562	3.1289	2.5737

Sterling Class 'R' Income shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	0.5055	0.7785	1.2840	0.8736
Final	0.7148	0.9569	1.6717	1.4806

Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	0.0771	0.5693	0.6464	0.2821
Final	0.4330	0.5845	1.0175	0.8181

Sterling Class 'X' Income shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	0.7615	0.7329	1.4944	1.0221
Final	1.3815	0.5591	1.9406	1.7275

Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	Group 1 & 2 Distribution 2017
	p	p	p	p
Interim	0.4634	0.3321	0.7955	0.0081
Final	1.6153	0.0215	1.6368	1.2005

M&G Recovery Fund

Financial statements and notes

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M&G Smaller Companies Fund

Authorised Corporate Director's Report

Investment objective and policy up to 30 January 2018

The fund invests in smaller companies, where good management can have most impact on earnings. Investment in such shares can offer prospects of above average capital growth. Income is not a major factor and the yield can be expected to be less than that of the FTSE All-Share Index.

Investment objective from 30 January 2018

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 from 30 January 2018

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 up to 30 January 2018

The fund invests in companies from the bottom 10%, by value, of the UK stockmarket. The investment team takes a bottom-up approach to stockpicking and aims to construct a well-diversified portfolio of between 60 and 65 stocks. They adopt a long-term perspective with particular focus placed on three specific criteria: scarce assets, growth drivers and valuation.

Scarce assets are the key elements that enable companies to generate sustainable, attractive returns. Depending on the nature of the business, scarce assets may be tangible, intangible or organisational.

Growth drivers provide companies with the opportunity to reinvest their returns profitably. They may include shifts in the commercial or regulatory environment, changes in customer behaviour or expansion into new markets.

Valuation is critical for differentiating between great companies and great investments. A comprehensive but flexible approach to company valuation is undertaken; a wide range of metrics are monitored to ensure an appropriate valuation for each individual company.

The quality of company management is central to the successful exploitation of scarce assets and growth drivers. Company meetings are therefore a crucial component of the investment process.

Investment approach from 30 January 2018

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.

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.



The above number:

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

M&G Smaller Companies Fund

Authorised Corporate Director's Report

Investment review

As at 2 July 2018, for the year ended 30 June 2018

Performance against objective

Between 3 July 2017 (the start of the review period) and 2 July 2018, the M&G Smaller Companies Fund delivered a positive total return (the combination of income and growth of capital) across all of its share classes*. The fund finished the period ahead of a comparative index, the Numis Smaller Companies Index (ex Investment Companies), which returned 7.5%.

The fund aims to deliver a higher total return than the Numis Smaller Companies Index (ex Investment Companies), net of the ongoing charge figure, over any five year period. Accordingly, over this time frame the fund has broadly met its objective, returning between 10.5% and 12.2% across its share classes, compared to the index which returned 11.1%.

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

Investment performance

The 12 months under review was a strong period for small and medium-sized companies in the UK, assisted by a partial recovery in the pound that reduced import costs and a pick-up in merger and acquisition activity (M&A). In particular, medium-sized companies staged a rebound from a lacklustre 2016. Larger companies in the UK were less ebullient, but along with all three market sectors touched all-time highs at the start of 2018 and again in May. During the year, the Numis Smaller Companies Index (ex Investment Companies) returned 7.5%, while the FTSE 250 Index of medium-sized companies returned 9.5% and the blue-chip FTSE 100 Index of larger companies returned 6.5%. Meanwhile, the broad market FTSE All-Share Index, returned 7.1%.

However, the numbers disguise a return of volatility in 2018 after a period of relative calm in 2017. Initially, this was partly associated with a greater level of uncertainty around monetary policy in the major economies of the world as central banks, led by the US, begin the process of normalising interest rates after a decade of 'emergency' low levels. More recently, ongoing volatility has also been attributed to the various economic and geopolitical developments that have taken place. Most prominent have been the boost from President Trump's corporate tax cuts, offset by the unsettling impact of the ebb and flow of the US dispute over trade tariffs with its trading partners, especially China and Europe. Consequently, most equity markets, including the UK, made little progress during the second half of the reporting period.

Over the 12 months, though, shares were lifted by a recovery in the global economy, combined with subdued inflation, low interest rates and continued central bank stimulus. The domestic market was also assisted by a broad-based growth in corporate profits, in part due to sterling's referendum-driven depreciation, as around 70% of the market revenues are derived abroad. In addition, the wider market was lifted by the strength of the oil majors and the miners, helped by higher commodity prices. This enabled UK investors to shrug aside the first rise in interest rates in a decade in November and a rise in bond yields in 2018, prompted by a brief spike in domestic inflation and strong economic growth in the US, resulting in concerns that the Federal Reserve would speed up the pace of interest rate rises. Other negative

factors included a lack of clarity over the UK's withdrawal from the European Union, a slowdown in the UK economy, and a weak consumer reflected in a stagnating housing market and a troubled high street. Furthermore, increased political uncertainty, following last year's unexpected election, resulted in a minority government in disarray over its Brexit policy and reliant on the DUP to stay in power.

Within the smaller company universe, the technology sector was a standout performer; aside from participating in the global rally in technology stocks, it was driven upward by some strong individual performers, including Softcat, Fidessa and FDM Group, which between them account for half the software sub-sector. Selected consumer stocks were also strong, especially within leisure goods and beverages, along with media, which benefited from corporate activity. Meanwhile, banks and insurance companies with long-term liabilities were supported by the prospect of rising interest rates. Energy companies were supported by a rise in the oil price of more than 60%. Pharmaceutical stocks were another area of the market that performed well, recovering from a poor 2016. Conversely, industrials, telecoms, utilities, non-life insurers, general retailers, housebuilders and miners all notably underperformed. Housebuilders came under pressure in the second half of the period as investors grew concerned when both Berkeley Homes and Crest Nicholson warned about a slowdown in the London residential property market. Miners in the Numis Index, on the other hand, were affected by stock specific issues.

Against this background, the M&G Smaller Companies Fund finished the 12-month period ahead of the Numis Index, principally due to sector allocation. In particular, value was added primarily through the fund's above-index weighting in technology companies, as well as healthcare stocks. Conversely, further value was added through the fund's below-market position in support services and a zero exposure to mining companies. Some performance was surrendered, however, in consumer goods where the fund has an above-index position.

At the stock selection level, value was added within medium-sized and AIM-listed companies, along with stocks in the financials, chemicals, healthcare, oil & gas, support services and beverages sectors. The main source of lost value at the stock level was within software, industrials (excluding support services) and the consumer areas – particularly the housebuilders.

The principal individual contributors to the fund's performance over the 12-month period included Softcat, an IT infrastructure provider to the corporate and public sectors, GB Group, an identification and verification software business, St Ives, a printing and marketing services firm, Victrex, a hi-tech plastics manufacturer, and Dechra Pharmaceuticals, a UK-based manufacturer of veterinary products. The common denominator was market-pleasing results. Softcat, which is highly cash-generative, also paid a special dividend and upgraded its earnings guidance for the year. An improvement in St Ives' balance sheet followed a troubled trading statement with a profit warning last year. Dechra Pharmaceuticals, on the other hand, strengthened its presence in Europe through an acquisition.

The main individual detractors over the period included Luceco, a UK lighting specialist, Conviviality, a wholesale drinks distributor, UP Global Sourcing, which supplies branded housewares to retailers such as B&M and Poundland, Arrow Global, a debt recovery firm, and Superdry, the global fashion brand.

M&G Smaller Companies Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

After revealing accounting issues last year relating to its failure to pass on some inflation costs to its customers, Luceco issued a profit warning at the start of 2018 which it blamed on a tough UK trading environment; accordingly, and for opportunity cost reasons, we have been reducing the holding. Having added value in 2017, Conviviality's shares were suspended in the new year after a series of profit warnings and the uncovering of an accounting misstatement. Whilst the impact on the fund was substantial, we managed to preserve some value by exiting most of the residual holding prior to the suspension. The company was subsequently put into administration. Meanwhile, UP Global Sourcing, which had performed strongly after being floated on the market last year, issued a profit warning that it blamed on the weak consumer environment. Arrow Global, which buys books of non-performing loans from banks and insurers, underperformed, despite producing a trading statement that was in line with market expectations, on adverse broker research and worries about the level of debt on its balance sheet. We added to the position on a lower market valuation, whilst being mindful of the concerns. Superdry's latest results broadly beat market expectations, however, the firm's retail business suffered from very poor trading figures in the first quarter of 2018, which could not be explained (poor weather or market trend), and the market took fright. We remain supportive and added to the holding at a lower share price on the basis that Superdry was a multi-channel, global growth opportunity on a more attractive rating.

Investment activities

Amongst the new positions established during the 12-month period were three new issues brought to the market: challenger bank Charter Court Financial, specialist fund management consultancy firm Alpha Financial Markets, and specialist motor insurer Sabre Insurance.

Charter Court Financial has an impeccable credit history and came to the market on a substantial discount to its peers. In addition, the flotation presented the opportunity to increase the fund's exposure to a sector which is gaining market share from the established high street banks. Alpha Financial Markets is a beneficiary of increasing regulatory and technology spend in financial services, and we are backing the management's ability to expand its successful UK business overseas. Sabre Insurance has a strong underwriting record and offered a high dividend yield.

Three other new positions established during the period were Spire Healthcare, a private hospital operator, Galliford Try, a builder of residential and social housing, and Medica, an independent provider of radiology reporting services. Spire Healthcare, the second-largest provider of private healthcare in the UK, is stepping away from expanding into new hospitals and focusing on improving cashflow and capital allocation by exploiting existing assets more effectively. Galliford Try's shares had lagged in a strongly performing sector as the company had to make provision for a construction contract; but since the vast majority of the business relates to residential and social housing, where the demand profile remains very positive, the share price weakness represented a buying opportunity. Medica provides a way for the NHS to reduce costs by outsourcing its radiology services.

Notable sales included cloud storage provider and consultancy firm iomart, aerospace, trucks and automobile business Senior, software group Sophos, retirement home builder McCarthy & Stone and UP Global Sourcing.

iomart had performed very well and reached fair value. Senior was a long-term hold in the portfolio that had bounced back after a difficult 2016 and, as it appeared to be fair value, the opportunity was taken to exit the position. Sophos was sold after strong performance in 2017 had lifted it out of the Numis Index. McCarthy & Stone had struggled since the 2016 Brexit vote due to a lacklustre secondary housing market. We disposed of the holding and consolidated the fund's position in the new build market, where demand has been sustained and government support is stronger. UP Global Sourcing issued a second profit warning and, given the difficult trading environment, we exited the position. We also disposed of gambling group Rank and cheesemaker Dairy Crest after losing conviction in their investment cases.

In addition, a number of positions were reduced after good performance, including FDM, Dechra Pharmaceuticals, Restore, Victrex, Stock Spirits and Ascential, along with software companies Accesso Technology, Softcat, On The Beach and GB Group. Funds raised were used to add to the fund's holdings in St Ives, global translation services provider SDL, property company Helical, challenger bank OneSavings Bank, aerospace & defence technology group Ultra Electronics, medical devices manufacturer Consort Medical, and property group LondonMetric Property.

Outlook

Aside from the US market, UK equities have outperformed the other major regions so far this year, largely due to a strong performance in April and May. Despite this, the UK offers relative value compared to other stockmarkets as it has generally lagged behind on an 18-month view. Net outflows by retail investors from UK company shares have been significant since 2012, especially in the past two years as anxiety over Brexit, political uncertainty and currency weakness caused investors to reduce their exposure to UK plc.

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

Within the smaller companies segment, whilst conscious of the risks and the fact that smaller companies have delivered a strong performance since the nadir of 2009, we remain cautiously optimistic about the prospects for the remainder of 2018. This is due to the number of quality, niche companies in the UK, the pick-up in M&A, the significant number of new issues coming to the market and the strength of corporate balance sheets. Furthermore, if the domestic economy proves to be more resilient than expected, this should provide a boost to smaller companies.

Garfield Kiff

Fund manager

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

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

M&G Smaller Companies Fund

Authorised Corporate Director's Report

Investments

Portfolio statement

as at 30 June Holding	2018 £'000	2018 %	2017 %
EQUITIES	431,980	96.00	96.74
Oil & gas producers	8,329	1.85	1.40
3,291,979 Cairn Energy	8,329	1.85	
Oil equipment, services & distribution	0	0.00	1.04
Chemicals	21,576	4.80	4.33
2,490,623 Synthomer	13,138	2.92	
292,783 Victrex	8,438	1.88	
Construction & materials	34,626	7.70	8.36
3,220,076 Forterra	9,950	2.21	
769,171 Kier Group	7,426	1.65	
2,178,339 Polypipe	8,361	1.86	
2,661,370 Tyman	8,889	1.98	
Aerospace & defence	8,534	1.90	3.54
524,192 Ultra Electronics Holdings	8,534	1.90	
General industrials	12,661	2.81	1.79
10,000,000 Coats Group	7,710	1.71	
829,387 Vesuvius	4,951	1.10	
Electronic & electrical equipment	4,740	1.05	2.33
4,950,000 Luceco	2,534	0.56	
948,717 Xaar	2,206	0.49	
Industrial engineering	18,365	4.08	3.95
640,625 Hill & Smith Holdings	9,392	2.09	
685,000 Vittec Group	8,973	1.99	
Industrial transportation	9,082	2.02	1.95
520,753 James Fisher & Sons	9,082	2.02	
Support services	52,358	11.64	7.52 [a]
4,475,556 Alpha Financial Markets [b]	10,652	2.37	
4,014,915 Boku [b]	4,135	0.92	
2,867,523 Equiniti	7,040	1.57	
8,679,394 Renewi	6,579	1.46	
1,627,401 Restore [b]	8,332	1.85	
1,094,045 Sanne	7,242	1.61	
8,133,639 St. Ives	8,378	1.86	
Beverages	5,849	1.30	1.20
2,571,091 Stock Spirits Group	5,849	1.30	
Food producers	5,986	1.33	3.07
3,233,194 Greencore	5,986	1.33	
Household goods & home construction	26,056	5.79	6.06 [a]
2,875,387 Countryside Properties	9,863	2.19	
1,084,117 Galliford Try	9,481	2.11	
1,250,000 Redrow	6,712	1.49	
Leisure goods	3,568	0.79	0.00
1,600,000 Codemasters Group Holdings [b]	3,568	0.79	
Personal goods	6,875	1.53	0.00
609,492 Superdry	6,875	1.53	
Healthcare equipment & services	21,333	4.74	1.28
660,635 Consort Medical	7,914	1.76	
5,010,000 Medica Group	6,343	1.41	
2,821,292 Spire Healthcare	7,076	1.57	
Pharmaceuticals & biotechnology	6,814	1.51	3.61
246,514 Dechra Pharmaceuticals	6,814	1.51	
Food & drug retailers	0	0.00	1.33
215,942 Conviviality (formerly Conviviality Retail) [c]	0	0.00	

Portfolio statement (continued)

as at 30 June Holding	2018 £'000	2018 %	2017 %
General retailers	9,115	2.03	1.97
2,146,807 Pets at Home	2,769	0.62	
12,564,989 Vertu Motors [b]	6,346	1.41	
Media	23,610	5.25	5.70
1,780,995 Ascential	8,022	1.78	
2,550,000 Tarsus Group	7,395	1.65	
3,399,554 Wilmington	8,193	1.82	
Travel & leisure	5,898	1.31	3.47
1,156,402 On the Beach Group	5,898	1.31	
Non-life insurance	15,675	3.48	1.98
1,300,000 Lancashire Holdings	7,345	1.63	
3,085,191 Sabre Insurance Group	8,330	1.85	
Real estate investment & services	7,417	1.65	1.18 [a]
2,171,759 Helical	7,417	1.65	
Real estate investment trusts	26,196	5.82	6.04 [a]
4,480,304 Hansteen Holdings REIT	4,700	1.04	
3,781,627 LondonMetric Property REIT	7,011	1.56	
1,265,656 Safestore REIT	6,967	1.55	
700,000 Workspace Group REIT	7,518	1.67	
Financial services	44,136	9.80	8.47 [a]
1,482,832 Alpha FX [b]	7,859	1.75	
2,925,104 Arrow Global Group	7,209	1.60	
1,980,500 Brewin Dolphin Holdings	7,039	1.56	
3,061,111 Charter Court Financial Services	9,872	2.19	
1,697,485 OneSavings Bank	6,960	1.55	
199,868 Rathbone Brothers	5,197	1.15	
Software & computer services	53,181	11.82	15.17
125,164 accesso Technology Group [b]	2,966	0.66	
1,012,014 EMIS Group [b]	8,997	2.00	
765,725 FDM Group	7,443	1.65	
185,250 Fidessa Group	7,141	1.59	
1,532,177 GB Group [b]	9,316	2.07	
1,551,161 SDL	6,623	1.47	
1,410,930 Softcat	10,695	2.38	
Portfolio of investments	431,980	96.00	96.74
CASH EQUIVALENTS	18,204	4.05	4.06
'AAA' rated money market fund [d]	18,204	4.05	4.06
18,203,998 Northern Trust Global Fund - Sterling	18,204	4.05	
Total portfolio (notes 2c & 2d on page 7)	450,184	100.05	100.80
Net other assets / (liabilities)	(214)	(0.05)	(0.80)
Net assets attributable to shareholders	449,970	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] Delisted.

[d] 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

Investments

Top ten portfolio transactions

for the year to 30 June 2018

Largest purchases	£'000
Superdry	9,849
Galliford Try	8,951
Renewi	8,472
Sabre Insurance Group	7,377
Alpha Financial Markets	7,252
Charter Court Financial Services	7,101
Medica Group	6,718
Pets at Home	6,560
Spire Healthcare	6,375
Vesuvius	5,260
Other purchases	61,238
Total purchases	135,153
Largest sales	£'000
Sophos	10,302
iomart	10,064
Senior	9,916
Clinigen	8,239
accesso Technology Group	7,314
On the Beach Group	6,764
Hansteen Holdings REIT	5,936
Dechra Pharmaceuticals	5,683
Ascential	5,543
Dairy Crest Group	5,420
Other sales	79,250
Total sales	154,431

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

We show performance for these two share classes because:

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

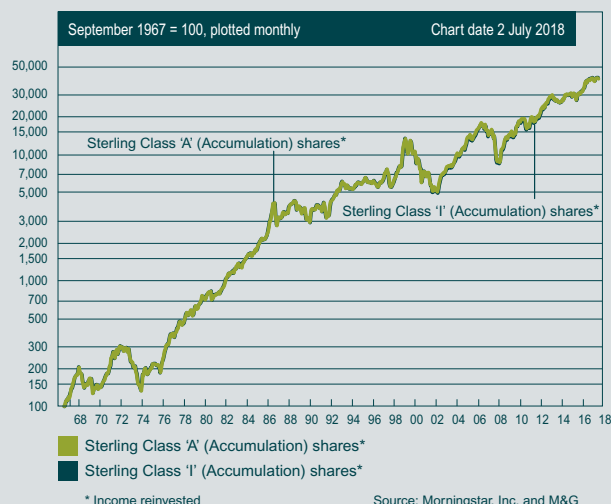
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at 30 June	2018 £'000	2017 £'000	2016 £'000
Fund net asset value (NAV)	449,970	432,033	328,412

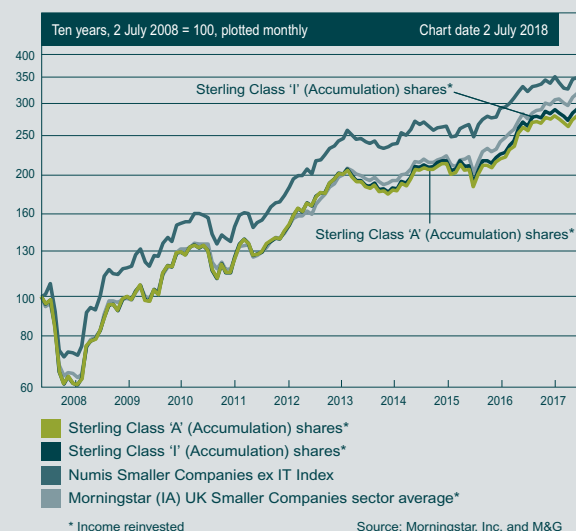
Performance since launch

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



Ten-year performance

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



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

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.

M&G Smaller Companies Fund

Financial highlights

Fund performance

Ten-year performance (continued)

Long-term performance by share class				
	One year 03.07.17 % ^[a]	Three years 02.07.15 % p.a.	Five years 02.07.13 % p.a.	Since launch % p.a.
Sterling ^[b]				
Class 'A'	+8.4	+10.3	+10.5	+12.5 ^[c]
Class 'C'	+10.0	+12.0	+12.2	+11.5 ^[d]
Class 'I'	+9.2	+11.1	+11.4	+14.7 ^[e]
Class 'R'	+8.9	+10.8	+11.1	+14.4 ^[e]
Class 'X'	+8.4	+10.3	+10.5	+13.9 ^[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.

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs				
for the year to 30 June	2018	2017	2016	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.03	0.04	0.07	0.05
Taxes	0.11	0.11	0.09	0.10
Costs before dilution adjustments	0.14	0.15	0.16	0.15
Dilution adjustments ^[c]	0.00	(0.01)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.14	0.14	0.15	0.14
as at 30 June	2018	2017	2016	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.67	0.50	0.75	0.64

^[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 6 July 2018.

Sterling Class 'A' Income share performance

The share class was launched on 27 September 1967.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	348.07	256.37	288.01
Return before operating charges and after direct portfolio transaction costs	35.78	105.09	(24.29)
Operating charges	(6.10)	(5.14)	(4.81)
Return after operating charges	29.68	99.95	(29.10)
Distributions	(8.72)	(8.25)	(2.54)
Closing NAV	369.03	348.07	256.37

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.49	0.45	0.47
Dilution adjustments ^[a]	(0.02)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.47	0.43	0.44

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.14	0.14	0.15
Operating charges	1.66	1.66	1.66
Return after operating charges	+8.53	+38.99	-10.11
Historic yield ^[c]	2.37	2.36	1.00
Effect on yield of charges offset against capital	1.65	1.65	0.00

Other information

Closing NAV (£'000)	122,473	130,658	102,760
Closing NAV percentage of total fund NAV (%)	27.22	30.24	31.29
Number of shares	33,187,811	37,537,892	40,083,309
Highest share price (UK p)	385.20	362.84	301.00
Lowest share price (UK p)	346.37	247.53	252.81

Sterling Class 'A' Accumulation share performance

The share class was launched on 27 September 1967.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	875.06	628.59	699.65
Return before operating charges and after direct portfolio transaction costs	89.97	259.15	(59.36)
Operating charges	(15.39)	(12.68)	(11.70)
Return after operating charges	74.58	246.47	(71.06)
Distributions	(6.76)	(7.74)	(6.18)
Retained distributions	6.76	7.74	6.18
Closing NAV	949.64	875.06	628.59

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.24	1.11	1.14
Dilution adjustments ^[a]	(0.04)	(0.06)	(0.07)
Total direct portfolio transaction costs	1.20	1.05	1.07

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.14	0.14	0.15
Operating charges	1.66	1.66	1.66
Return after operating charges	+8.52	+39.21	-10.16
Historic yield	0.71	0.88	0.99
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (£'000)	38,151	40,706	31,245
Closing NAV percentage of total fund NAV (%)	8.48	9.42	9.51
Number of shares	4,017,459	4,651,811	4,970,752
Highest share price (UK p)	977.55	900.46	731.16
Lowest share price (UK p)	870.78	606.86	616.20

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 Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	360.88	261.79	294.30
Return before operating charges and after direct portfolio transaction costs	37.27	108.09	(24.96)
Operating charges	(0.62)	(0.51)	(0.48)
Return after operating charges	36.65	107.58	(25.44)
Distributions	(9.12)	(8.49)	(7.07)
Closing NAV	388.41	360.88	261.79

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.51	0.46	0.48
Dilution adjustments ^[a]	(0.02)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.49	0.44	0.45

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.14	0.14	0.15
Operating charges	0.16	0.16	0.16
Return after operating charges	+10.16	+41.09	-8.64
Historic yield ^[c]	2.36	2.34	2.72
Effect on yield of charges offset against capital	0.15	0.15	0.00

Other information

Closing NAV (£'000)	187,664	178,146	133,037
Closing NAV percentage of total fund NAV (%)	41.71	41.23	40.51
Number of shares	48,316,209	49,364,337	50,817,659
Highest share price (UK p)	405.12	375.74	309.58
Lowest share price (UK p)	359.18	252.86	260.33

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 Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	1,901.88	1,390.20	1,562.32
Return before operating charges and after direct portfolio transaction costs	195.98	571.97	(132.15)
Operating charges	(18.37)	(15.37)	(14.33)
Return after operating charges	177.61	556.60	(146.48)
Distributions	(47.87)	(44.92)	(25.64)
Closing NAV	2,031.62	1,901.88	1,390.20

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	2.70	2.45	2.54
Dilution adjustments ^[a]	(0.09)	(0.13)	(0.16)
Total direct portfolio transaction costs	2.61	2.32	2.38

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.14	0.14	0.15
Operating charges	0.91	0.91	0.91
Return after operating charges	+9.34	+40.04	-9.38
Historic yield ^[c]	2.13	2.35	1.86
Effect on yield of charges offset against capital	0.90	0.90	0.00

Other information

Closing NAV (£'000)	57,307	50,774	37,335
Closing NAV percentage of total fund NAV (%)	12.73	11.75	11.37
Number of shares	2,820,730	2,669,660	2,685,583
Highest share price (UK p)	2,119.86	1,981.38	1,638.10
Lowest share price (UK p)	1,892.74	1,342.51	1,376.67

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	2,067.30	1,473.92	1,628.24
Return before operating charges and after direct portfolio transaction costs	213.08	609.77	(139.34)
Operating charges	(20.07)	(16.39)	(14.98)
Return after operating charges	193.01	593.38	(154.32)
Distributions	(32.55)	(31.73)	(26.83)
Retained distributions	32.55	31.73	26.83
Closing NAV	2,260.31	2,067.30	1,473.92

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	2.95	2.61	2.66
Dilution adjustments ^[a]	(0.10)	(0.14)	(0.16)
Total direct portfolio transaction costs	2.85	2.47	2.50

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.14	0.14	0.15
Operating charges	0.91	0.91	0.91
Return after operating charges	+9.34	+40.26	-9.48
Historic yield	1.44	1.53	1.84
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (£'000)	26,197	21,077	15,453
Closing NAV percentage of total fund NAV (%)	5.82	4.88	4.71
Number of shares	1,158,983	1,019,549	1,048,446
Highest share price (UK p)	2,325.89	2,126.07	1,707.07
Lowest share price (UK p)	2,057.36	1,423.15	1,444.80

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	189.69	139.01	156.20
Return before operating charges and after direct portfolio transaction costs	19.55	57.13	(13.20)
Operating charges	(2.35)	(1.96)	(1.82)
Return after operating charges	17.20	55.17	(15.02)
Distributions	(4.77)	(4.49)	(2.17)
Closing NAV	202.12	189.69	139.01

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.27	0.25	0.25
Dilution adjustments ^[a]	(0.01)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.26	0.24	0.23

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.14	0.14	0.15
Operating charges	1.16	1.16	1.16
Return after operating charges	+9.07	+39.69	-9.62
Historic yield ^[c]	2.37	2.35	1.57
Effect on yield of charges offset against capital	1.15	1.15	0.00

Other information

Closing NAV (£'000)	2,427	538	319
Closing NAV percentage of total fund NAV (%)	0.54	0.13	0.10
Number of shares	1,200,768	283,787	229,108
Highest share price (UK p)	210.93	197.66	163.60
Lowest share price (UK p)	188.77	134.23	137.46

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	204.13	145.90	161.58
Return before operating charges and after direct portfolio transaction costs	21.05	60.26	(13.79)
Operating charges	(2.55)	(2.03)	(1.89)
Return after operating charges	18.50	58.23	(15.68)
Distributions	(2.69)	(2.69)	(2.25)
Retained distributions	2.69	2.69	2.25
Closing NAV	222.63	204.13	145.90

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.29	0.25	0.26
Dilution adjustments ^[a]	(0.01)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.28	0.24	0.24

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.14	0.14	0.15
Operating charges	1.16	1.16	1.16
Return after operating charges	+9.06	+39.91	-9.70
Historic yield	1.21	1.31	1.56
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (£'000)	7,569	74	77
Closing NAV percentage of total fund NAV (%)	1.68	0.02	0.02
Number of shares	3,399,718	36,061	53,089
Highest share price (UK p)	229.12	209.97	169.22
Lowest share price (UK p)	203.14	140.87	143.02

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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 Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	347.91	256.25	287.88
Return before operating charges and after direct portfolio transaction costs	35.75	105.04	(24.28)
Operating charges	(6.09)	(5.13)	(4.81)
Return after operating charges	29.66	99.91	(29.09)
Distributions	(8.71)	(8.25)	(2.54)
Closing NAV	368.86	347.91	256.25
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.49	0.45	0.47
Dilution adjustments ^[a]	(0.02)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.47	0.43	0.44
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.14	0.14	0.15
Operating charges	1.66	1.66	1.66
Return after operating charges	+8.53	+38.99	-10.11
Historic yield ^[c]	2.37	2.36	1.00
Effect on yield of charges offset against capital	1.65	1.65	0.00
Other information			
Closing NAV (£'000)	5,094	6,711	5,563
Closing NAV percentage of total fund NAV (%)	1.13	1.55	1.69
Number of shares	1,381,035	1,928,862	2,170,910
Highest share price (UK p)	385.02	362.67	300.86
Lowest share price (UK p)	346.21	247.41	252.69

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 30 June Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	864.71	621.15	691.37
Return before operating charges and after direct portfolio transaction costs	88.91	256.08	(58.66)
Operating charges	(15.21)	(12.52)	(11.56)
Return after operating charges	73.70	243.56	(70.22)
Distributions	(6.68)	(7.65)	(6.11)
Retained distributions	6.68	7.65	6.11
Closing NAV	938.41	864.71	621.15
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.23	1.09	1.12
Dilution adjustments ^[a]	(0.04)	(0.06)	(0.07)
Total direct portfolio transaction costs	1.19	1.03	1.05
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.14	0.14	0.15
Operating charges	1.66	1.66	1.66
Return after operating charges	+8.52	+39.21	-10.16
Historic yield	0.71	0.88	0.99
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	3,088	3,349	2,623
Closing NAV percentage of total fund NAV (%)	0.69	0.78	0.80
Number of shares	329,122	387,234	422,224
Highest share price (UK p)	965.99	889.81	722.52
Lowest share price (UK p)	860.49	599.68	608.91

^[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	2018		2017	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		33,270		121,804
Revenue	5	10,825		10,671	
Expenses	6	(4,051)		(3,599)	
Net revenue / (expense) before taxation		6,774		7,072	
Taxation	7	0		0	
Net revenue / (expense) after taxation			6,774		7,072
Total return before distributions			40,044		128,876
Distributions	8		(9,743)		(9,543)
Change in net assets attributable to shareholders from investment activities			30,301		119,333

Statement of change in net assets attributable to shareholders					
for the year to 30 June		2018		2017	
		£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			432,033		328,412
Amounts received on issue of shares	23,164			9,614	
Amounts paid on cancellation of shares	(36,341)			(26,140)	
			(13,177)		(16,526)
Dilution adjustments			53		81
Change in net assets attributable to shareholders from investment activities (see above)			30,301		119,333
Retained distributions on Accumulation shares			751		731
Unclaimed distributions			9		2
Closing net assets attributable to shareholders			449,970		432,033

Balance sheet				
as at 30 June	Note	2018	2017	
		£'000	£'000	
Assets				
Fixed assets				
Investments		431,980	417,982	
Current assets				
Debtors	9	1,901	1,362	
Cash and bank balances	10	4,149	641	
Cash equivalents		18,204	17,528	
Total assets		456,234	437,513	
Liabilities				
Creditors				
Distribution payable		(5,251)	(4,769)	
Other creditors	11	(1,013)	(711)	
Total liabilities		(6,264)	(5,480)	
Net assets attributable to shareholders		449,970	432,033	

Notes to the financial statements

1 Accounting policies

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

2 Distribution policy

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

In determining the amount available for distribution, 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	2018	2017
	£'000	£'000
Non-derivative securities	33,276	121,811
Currency gains / (losses)	0	(2)
Transaction charges	(6)	(5)
Net capital gains / (losses)	33,270	121,804

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4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 163.

for the year to 30 June	2018 £'000	% of transaction	2017 £'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	132,176		105,972	
Commissions	51	0.04	49	0.05
Taxes	490	0.37	426	0.40
Equities after transaction costs	132,717		106,447	
Other transaction types				
Corporate actions	2,436		0	
Total purchases after transaction costs	135,153		106,447	
b) Sales				
Equities				
Equities before transaction costs	148,560		131,650	
Commissions	(65)	0.04	(91)	0.07
Equities after transaction costs	148,495		131,559	
Other transaction types				
Corporate actions	5,936		0	
Total sales after transaction costs	154,431		131,559	
c) Direct portfolio transaction costs				
	2018 £'000	% of average NAV	2017 £'000	% of average NAV
Commissions paid				
Equities	116	0.03	140	0.04
Taxes paid				
Equities	490	0.11	426	0.11
Total direct portfolio transaction costs [a]	606	0.14	566	0.15
d) Indirect portfolio transaction costs				
		%		%
Portfolio dealing spread [b]		0.67		0.50

[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	2018 £'000	2017 £'000
Bank interest	1	1
Dividends from equity investments: non-taxable	9,939	9,756
Dividends from equity investments: taxable	761	611
Interest distributions	59	40
Stock dividends	65	262
Underwriting commission	0	1
Total revenue	10,825	10,671

6 Expenses

for the year to 30 June	2018 £'000	2017 £'000
Payable to the ACD or associate		
Annual management charge	3,333	2,976
Administration charge	677	585
	4,010	3,561
Payable to the Depositary or associate		
Depositary's charge (including VAT)	32	28
Other expenses		
Audit fee (including VAT)	9	9
Interest payable	0	1
	9	10
Total expenses	4,051	3,599

7 Taxation

for the year to 30 June	2018 £'000	2017 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	0	0
Deferred tax (note 7c)	0	0
Total taxation	0	0
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	6,774	7,072
Corporation tax at 20%	1,355	1,414
Effects of:		
Dividends from equity investments: non-taxable	(1,988)	(1,951)
Stock dividends not taxable	(13)	(52)
Current year expenses not utilised	764	589
Prior year adjustment to expenses not utilised	(118)	0
Total tax charge (note 7a)	0	0
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	0	0

The fund has not recognised a deferred tax asset of £10,205,000 (2017: £9,441,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

for the year to 30 June	2018		2017	
	Inc [a] £'000	Acc [b] £'000	Inc [a] £'000	Acc [b] £'000
Dividend distributions				
Interim	3,657	219	3,960	326
Final	5,251	532	4,769	405
Total net distributions		9,659		9,460
Income deducted on cancellation of shares		160		129
Income received on issue of shares		(76)		(46)
Distributions		9,743		9,543
Net revenue / (expense) per statement of total return				
		6,774		7,072
Expenses offset against capital		3,034		2,733
Stock dividends not distributed		(65)		(262)
Distributions		9,743		9,543

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

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9 Debtors

as at 30 June	2018 £'000	2017 £'000
Amounts receivable on issues of shares	105	32
Distributions receivable	6	3
Dividends receivable	1,790	1,327
Total debtors	1,901	1,362

10 Cash and bank balances

as at 30 June	2018 £'000	2017 £'000
Cash held as bank balances	4,149	641
Total cash and bank balances	4,149	641

11 Other creditors

as at 30 June	2018 £'000	2017 £'000
ACD's annual management charge payable	100	101
Administration charge payable	21	20
Amounts payable on cancellation of shares	627	223
Expenses payable	11	11
Purchases awaiting settlement	254	356
Total other creditors	1,013	711

12 Contingent assets, liabilities and outstanding commitments

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

13 Shares in issue

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

Share class	Opening 01.07.17	Movements		Closing 30.06.18
		Issued	Cancelled	
Sterling				
Class 'A' Income	37,537,892	315,485	(4,665,566)	33,187,811
Class 'A' Accumulation	4,651,811	42,599	(676,951)	4,017,459
Class 'C' Income	49,364,337	258,095	(1,306,223)	48,316,209
Class 'I' Income	2,669,660	228,393	(77,323)	2,820,730
Class 'I' Accumulation	1,019,549	263,843	(124,409)	1,158,983
Class 'R' Income	283,787	1,060,804	(143,823)	1,200,768
Class 'R' Accumulation	36,061	3,400,446	(36,789)	3,399,718
Class 'X' Income	1,928,862	115,963	(663,790)	1,381,035
Class 'X' Accumulation	387,234	32,171	(90,283)	329,122

14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %
Sterling			
Class 'A'	nil	n/a	1.50
Class 'C'	nil	n/a	nil
Class 'I'	nil	n/a	0.75
Class 'R'	nil	n/a	1.00
Class 'X'	nil	n/a	1.50

15 Related parties

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

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

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 57.99% (2017: 57.85%) 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.

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17 Fair value analysis (continued)

as at 30 June Basis of valuation	Assets 2018 £'000	Liabilities 2018 £'000	Assets 2017 £'000	Liabilities 2017 £'000
Level 1	431,980	0	417,982	0
Level 2	0	0	0	0
Level 3	0	0	0	0
	431,980	0	417,982	0

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

18 Risk management policies

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

19 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by £21,599,000 (2017: £20,899,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity and exposure

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

21 Interest rate risk sensitivity and exposure

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

22 Credit risk

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

23 Dividend distribution tables

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

Semi-annual distribution periods				
	Start	End	Xd	Payment
Interim	01.07.17	31.12.17	02.01.18	28.02.18
Final	01.01.18	30.06.18	02.07.18	31.08.18

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

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

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

Sterling Class 'A' Income shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	2.2352	1.3078	3.5430	3.7152
Final	3.7114	1.4641	5.1755	4.5341

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	0.5468	0.9752	1.5220	3.2723
Final	4.3669	0.8708	5.2377	4.4668

Sterling Class 'C' Income shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	2.4852	1.2024	3.6876	3.8087
Final	4.1324	1.3003	5.4327	4.6847

Sterling Class 'I' Income shares

Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution 2018	2017
	p	p	p	p
Interim	10.6575	8.7389	19.3964	20.1858
Final	20.3576	8.1170	28.4746	24.7318

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23 Dividend distribution tables (continued)

Sterling Class 'I' Accumulation shares				
Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution	
	2018	2018	2018	2017
	p	p	p	p
Interim	7.8338	3.7152	11.5490	14.0704
Final	13.1449	7.8540	20.9989	17.6559

Sterling Class 'R' Income shares				
Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution	
	2018	2018	2018	2017
	p	p	p	p
Interim	0.5410	1.3924	1.9334	2.0172
Final	1.3865	1.4512	2.8377	2.4680

Sterling Class 'R' Accumulation shares				
Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution	
	2018	2018	2018	2017
	p	p	p	p
Interim	0.1604	0.7189	0.8793	1.1895
Final	1.0045	0.8076	1.8121	1.5024

Sterling Class 'X' Income shares				
Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution	
	2018	2018	2018	2017
	p	p	p	p
Interim	2.9452	0.5960	3.5412	3.7136
Final	3.8353	1.3320	5.1673	4.5319

Sterling Class 'X' Accumulation shares				
Ordinary distributions for the year to 30 June	Income 2018	Group 2 Equalisation 2018	Group 1 & 2 Distribution	
	2018	2018	2018	2017
	p	p	p	p
Interim	1.0966	0.4075	1.5041	3.2336
Final	4.4037	0.7731	5.1768	4.4145

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M&G Investment Funds (3)

Other regulatory disclosures

Remuneration

In line with the requirements of the Undertakings for Collective Investment in Transferable Securities (UCITS) V, the UCITS Manager is subject to a remuneration policy which is consistent with the principles outlined in SYSC19E of the FCA Handbook (UCITS Remuneration Code).

The remuneration policies are designed to ensure that any relevant conflicts of interest can be managed appropriately at all times and that the remuneration of its staff is in line with the risk policies and objectives of the UCITS funds it manages. Further details of the remuneration policy applicable at an M&G Limited level can be found here www.mandg.com/en/corporate/about-mg/our-people. M&G's remuneration policy is reviewed on an annual basis, or more frequently where required, and approved by the M&G Remuneration Committee.

The UCITS management company is required under UCITS to make quantitative disclosures of remuneration. These disclosures are made in line with M&G's interpretation of currently available guidance on quantitative remuneration disclosures. As market or regulatory guidance evolves, M&G may consider it appropriate to make changes to the way in which quantitative disclosures are calculated. Members of staff and senior management typically provide both UCITS and non-UCITS related services and have a number of areas of responsibility. Therefore, only the portion of remuneration for those individuals' services which may be attributable to UCITS is included in the remuneration figures disclosed. Accordingly the figures are not representative of any individual's actual remuneration.

M&G Securities Limited does not directly employ any staff members. However, for the financial year ended 31 December 2017, aggregate remuneration of £39,245,473 (£4,916,932 in respect of fixed remuneration and £34,328,541 in respect of variable remuneration) was paid to individuals whose actions may have a material impact on the risk profile of the UCITS Manager, of which £1,812,300 related to senior management.

Swiss investor information

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

For these funds the TERs are the same as the operating charges disclosed in each fund's financial highlights section under 'Performance and charges'.

Accumulation shares: A type of share where distributions are automatically reinvested and reflected in the value of the shares.

Accumulation units: A type of unit where distributions are automatically reinvested and reflected in the value of the units.

Asset: Anything having commercial or exchange value that is owned by a business, institution or individual.

Asset allocation: Apportioning a portfolio's assets according to risk tolerance and investment goals.

Asset class: Category of assets, such as cash, company shares, fixed income securities and their sub-categories, as well as tangible assets such as real estate.

Bond: A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

Bond issue: A set of fixed income securities offered for sale to the public by a company or government. If the bonds are sold for the first time, it is called a 'new issue'.

Bottom-up selection: Selecting stocks based on the attractiveness of a company.

Bunds: Fixed income securities issued by the German government.

Capital: Refers to the financial assets, or resources, that a company has to fund its business operations.

Capital growth: Occurs when the current value of an investment is greater than the initial amount invested.

Capital return: The term for the gain or loss derived from an investment over a particular period. Capital return includes capital gain or loss only and excludes income (in the form of interest or dividend payments).

Cash equivalents: Deposits or investments with similar characteristics to cash.

Comparative sector: A group of funds with similar investment objectives and/or types of investment, as classified by bodies such as the Investment Association (IA) or Morningstar™. Sector definitions are mostly based on the main assets a fund should invest in, and may also have a geographic focus. Sectors can be the basis for comparing the different characteristics of similar funds, such as their performance or charging structure.

Consumer Prices Index (CPI): An index used to measure inflation, which is the rate of change in prices for a basket of goods and services. The contents of the basket are meant to be representative of products and services we typically spend our money on.

Convertible bonds: Fixed income securities that can be exchanged for predetermined amounts of company shares at certain times during their life.

Corporate bonds: Fixed income securities issued by a company. They are also known as bonds and can offer higher interest payments than bonds issued by governments as they are often considered more risky.

Coupon: The interest paid by the government or company that has raised a loan by selling bonds.

Credit: The borrowing capacity of an individual, company or government. More narrowly, the term is often used as a synonym for fixed income securities issued by companies.

Credit default swaps (CDS): Are a type of derivative, namely financial instruments whose value, and price, are dependent on one or more underlying assets. CDS are insurance-like contracts that allow investors to transfer the risk of a fixed income security defaulting to another investor.

Credit rating: An independent assessment of a borrower's ability to repay its debts. A high rating indicates that the credit rating agency considers the issuer to be at low risk of default; likewise, a low rating indicates high risk of default. Standard & Poor's, Fitch and Moody's are the three most prominent credit rating agencies. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

Credit rating agency: A company that analyses the financial strength of issuers of fixed income securities and attaches a rating to their debt. Examples include Standard & Poor's and Moody's.

Credit risk: Risk that a financial obligation will not be paid and a loss will result for the lender.

Credit selection: The process of evaluating a fixed income security, also called a bond, in order to ascertain the ability of the borrower to meet its debt obligations. This research seeks to identify the appropriate level of default risk associated with investing in that particular bond.

Credit spread: The difference between the yield of a corporate bond, a fixed income security issued by a company, and a government bond of the same life span. Yield refers to the income received from an investment and is expressed as a percentage of the investment's current market value.

Default: When a borrower does not maintain interest payments or repay the amount borrowed when due.

Default risk: Risk that a debtholder will not receive interest and full repayment of the loan when due.

Derivatives: Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded over the counter.

Developed economy/market: Well-established economies with a high degree of industrialisation, standard of living and security.

Dilution adjustments: The dilution adjustment is used to protect ongoing investors against the transaction charges incurred in investing or divesting in respect of creations and cancellations. The dilution adjustment is made up of the direct and indirect transaction charges. In the financial statements the direct transaction charges as a percentage of average NAV will be disclosed. This percentage will take account of those direct transaction charges that have been recovered through the dilution adjustment leaving a percentage that just represents the costs incurred in portfolio management.

Distribution: Distributions represent a share in the income of the fund and are paid out to Income shareholders or reinvested for Accumulation shareholders at set times of the year (monthly, quarterly, half-yearly or annually). They may either be in the form of interest distributions or dividend distributions.

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

Glossary

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

Dividend: Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.

Duration: A measure of the sensitivity of a fixed income security, also called a bond, or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

Duration risk: The longer a fixed income security, also called a bond, or bond fund's duration, the more sensitive and therefore at risk it is to changes in interest rates.

Emerging economy or market: Economies in the process of rapid growth and increasing industrialisation. Investments in emerging markets are generally considered to be riskier than those in developed markets.

Equities: Shares of ownership in a company.

Exchange traded: Usually refers to investments traded on an exchange, such as company shares on a stock exchange.

Ex-dividend, ex-distribution or XD date: The date on which declared distributions officially belong to underlying investors.

Exposure: The proportion of a fund invested in a particular share/fixed income security, sector/region, usually expressed as a percentage of the overall portfolio.

Fixed income security: A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid. Also referred to as a bond.

Floating rate notes (FRNs): Securities whose interest (income) payments are periodically adjusted depending on the change in a reference interest rate.

Foreign exchange: The exchange of one currency for another, or the conversion of one currency into another currency. Foreign exchange also refers to the global market where currencies are traded virtually around the clock. The term foreign exchange is usually abbreviated as 'forex' and occasionally as 'FX'.

Foreign exchange (FX) strategy: Currencies can be an asset class in its own right, along with company shares, fixed income securities, property and cash. Foreign exchange strategy can therefore be a source of investment returns.

Forward contract: A contract between two parties to buy or sell a particular commodity or financial instrument at a pre-determined price at a future date. Examples include forward currency contracts.

Fundamentals (company): A basic principle, rule, law, or the like, that serves as the groundwork of a system. A company's fundamentals pertain specifically to that company, and are factors such as its business model, earnings, balance sheet and debt.

Fundamentals (economic): A basic principle, rule, law, or the like, that serves as the groundwork of a system. Economic fundamentals are factors such as inflation, employment, economic growth.

Futures: A futures contract is a contract between two parties to buy or sell a particular commodity or financial instrument at a pre-determined price at a future date. Futures are traded on a regulated exchange.

Gilts: Fixed income securities issued by the UK government.

Government bonds: Fixed income securities issued by governments, that normally pay a fixed rate of interest over a given time period, at the end of which the initial investment is repaid.

Hedging: A method of reducing unnecessary or unintended risk.

High water mark (HWM): The highest level that a fund's NAV (net asset value) has reached at the end of any 12-month accounting period.

High yield bonds: Fixed income securities issued by companies with a low credit rating from a recognised credit rating agency. They are considered to be at higher risk of default than better quality, ie higher-rated fixed income securities but have the potential for higher rewards. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

Historic yield: The historic yield reflects distributions declared over the past 12 months as a percentage of the share price, as at the date shown.

Income yield: Refers to the income received from an investment and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.

Index: An index represents a particular market or a portion of it, serving as a performance indicator for that market.

Income shares: A type of share where distributions are paid out as cash on the payment date.

Income units: A type of unit where distributions are paid out as cash on the payment date.

Index tracking: A fund management strategy that aims to match the returns from a particular index.

Index-linked bonds: Fixed income securities where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. Also referred to as inflation-linked bonds.

Inflation: The rate of increase in the cost of living. Inflation is usually quoted as an annual percentage, comparing the average price this month with the same month a year earlier.

Inflation risk: The risk that inflation will reduce the return of an investment in real terms.

Initial public offering (IPO): The first sale of shares by a private company to the public.

Interest rate risk: The risk that a fixed income investment will lose value if interest rates rise.

Interest rate swap: An agreement between two parties to swap a fixed interest payment with a variable interest payment over a specified period of time.

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

Glossary

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

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

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

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

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

Long position: Refers to ownership of a security held in the expectation that the security will rise in value.

Macroeconomic: Refers to the performance and behaviour of an economy at the regional or national level. Macroeconomic factors such as economic output, unemployment, inflation and investment are key indicators of economic performance. Sometimes abbreviated to 'macro'.

Maturity: The length of time until the initial investment amount of a fixed income security is due to be repaid to the holder of the security.

Modified duration: A measure of the sensitivity of a fixed income security, called a bond, or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

Monetary easing: When central banks lower interest rates or buy securities on the open market to increase the money in circulation.

Monetary policy: A central bank's regulation of money in circulation and interest rates.

Monetary tightening: When central banks raise interest rates or sell securities on the open market to decrease the money in circulation.

Morningstar™: A provider of independent investment research, including performance statistics and independent fund ratings.

Near cash: Deposits or investments with similar characteristics to cash.

Net asset value (NAV): A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.

Ongoing Charge Figure: The Ongoing Charge Figure includes charges for the following items: management of the fund (also known as Annual Management Charge), administration services, services provided by external parties which include depository, custody and audit, as well as incorporating the ongoing charge figure from funds held in the portfolio (taking into account any rebates).

Open-ended investment company (OEIC): A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

Options: Financial contracts that offer the right, but not the obligation, to buy or sell an asset at a given price on or before a given date in the future.

Over-the-counter (OTC): Whereby financial assets are traded directly between two parties. This is in contrast to exchange trading, which is carried out through exchanges set up specifically for the purpose of trading. OTC is also known as off-exchange trading.

Overweight: If a fund is 'overweight' a stock, it holds a larger proportion of that stock than the comparable index or sector.

Payment date: The date on which distributions will be paid by the fund to investors, usually the last business day of the month.

Physical assets: An item of value that has tangible existence, for example, cash, equipment, inventory or real estate. Physical assets can also refer to securities, such as company shares or fixed income securities.

Portfolio transaction cost: The cost of trading, such as brokerage, clearing, exchange fees and bid-offer spread as well as taxes such as stamp duty.

Preference shares: Preference shares are a loan to a company that may be traded in the same way as ordinary shares, but generally have a higher yield and pay dividends on fixed dates. Preference shares have varying characteristics as to the treatment of the principal and the dividend payment, which includes ranking them above ordinary shares when it comes to dividend payments.

Principal: The face value of a fixed income security, which is the amount due back to the investor by the borrower when the security reaches the end of its life.

Private placement: An offer of sale of securities to a relatively small number of investors selected by the company, generally investment banks, mutual funds, insurance companies or pension funds.

Property Expense Ratio (PER): Property expenses are the operating expenses that relate to the management of the property assets in the portfolio. These include: insurance and rates, rent review and lease renewal costs and maintenance and repairs, but not improvements. They depend on the level of activity taking place within the fund. The Property Expense Ratio is the ratio of property expenses to the fund's net asset value.

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

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

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

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

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

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

Glossary

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

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

Security: Financial term for a paper asset – usually a share in a company or a fixed income security also known as a bond.

Share class: Each M&G fund has different share classes, such as A, R and I. Each has a different level of charges and minimum investment. Details on charges and minimum investments can be found in the Key Investor Information Documents.

Share class hedging: Activities undertaken in respect of hedged shares to mitigate the impact on performance of exchange rate movements between the fund's currency exposure and the investor's chosen currency.

Short position: A way for a fund manager to express his or her view that the market might fall in value.

Short selling: This often refers to the practice whereby an investor sells an asset they do not own. The investor borrows the asset from someone who does own it and pays a fee. The investor must eventually return the borrowed asset by buying it in the open market. If the asset has fallen in price, the investor buys it for less than they sold it for, thus making a profit. The contrary may also occur.

Short-dated corporate bonds: Fixed income securities issued by companies and repaid over relatively short periods.

Short-dated government bonds: Fixed income securities issued by governments and repaid over relatively short periods.

Sovereign debt: Debt of a government. Also referred to as government bonds.

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

Top-down investing: An investment approach that analyses economic factors, ie surveys the 'big picture', before selecting which companies to invest in. The top-down investor will look at which industries are likely to generate the best returns in certain economic conditions and limit the search to that area.

Total return: The term for the gain or loss derived from an investment over a particular period. Total return includes income (in the form of interest or dividend payments) and capital gains.

Treasuries: Fixed income securities issued by the US government.

Triple A or AAA rated: The highest possible rating a fixed income security, also called a bond, can be assigned by credit rating agencies. Bonds that are rated AAA are perceived to have the lowest risk of default. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

UCITS: Stands for Undertakings for Collective Investment in Transferable Securities. This is the European regulatory framework for an investment vehicle that can be marketed across the European Union and is designed to enhance the single market in financial assets while maintaining high levels of investor protection.

Unconstrained: The term used to describe the mandate of a fund whereby the manager has the freedom to invest according to his or her own strategy, not being obliged to allocate capital according to the weightings of any index, for example.

Underlying value: The fundamental value of a company, reflecting both tangible and intangible assets, rather than the current market value.

Underlying yield: Refers to the income received by a managed fund, and is usually expressed annually as a percentage based on the fund's current value.

Underweight: If a portfolio is 'underweight' a stock, it holds a smaller proportion of that stock than the comparable index or sector.

Unit trust: A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

Unit/share type: Type of units/shares held by investors in a trust or fund (unit/share types differ by features such as whether income is to be paid out as cash or reinvested on the payment date).

Valuation: The worth of an asset or company based on its current price.

Volatile: When the value of a particular share, market or sector swings up and down fairly frequently and/or significantly, it is considered volatile.

Volatility: The degree to which a given security, fund, or index rapidly changes. It is calculated as the degree of deviation from the norm for that type of investment over a given time period. The higher the volatility, the riskier the security tends to be.

Warrant: A security issued by a company that gives the holder the right to buy shares in that company at a specified price and within a certain timeframe.

Yield: This refers to either the interest received from a fixed income security or to the dividends received from a share. It is usually expressed as a percentage based on the investment's costs, its current market value or its face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

Yield (equity): Refers to the dividends received by a holder of company shares and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

Yield (bonds): This refers to the interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

Yield (income): Refers to the income received from an investment and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.

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