



M&G Investment Funds (3)

Interim Long Report and unaudited Financial Statements
for the six months ended 31 December 2017



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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 Interim Long Report and unaudited Financial Statements for the six months ended 31 December 2017.

The unaudited financial statements of M&G Investment Funds (3) and the investment report and unaudited 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 31 December 2017 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

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

* Appointed 9 June 2017.

W J Nott resigned with effect from 31 December 2017.

Investment manager

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

(Authorised and regulated by the Financial Conduct Authority)

Registrar

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

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

Depositary

National Westminster Bank Plc, Trustee & Depositary Services,
Younger Building, 3 Redheughs Avenue, Edinburgh EH12 9RH, UK
(Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority)

Independent auditor

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

Important information

The investment objective and policy were changed for the M&G Smaller Companies Fund and the M&G Fund of Investment Trust Shares on 30 January 2018.

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 accounting period, 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,
Via Ansperto 5, 20123 Milano, Italy

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

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

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

Luxembourg paying and information agent:

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

Portuguese distributor:

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

Spanish representative:

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

Swedish paying agent:

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

Swiss paying agent and representative:

Société Générale, Paris, Zurich Branch,
Talacker 50, P.O. Box 5070, 8021 Zurich, Switzerland

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 the Long Report, for each of the funds are prepared in accordance with the Investment Association Statement of Recommended Practice for Financial Statements of UK Authorised Funds (SORP) and UK Financial Reporting Standards, and give a true and fair view of the net revenue or expenses and net capital gains or losses for the accounting period, and the financial position at the end of that period.

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

Directors' statement

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

G W MACDOWALL
L J MUMFORD

} Directors

13 February 2018

M&G Investment Funds (3)

Financial statements and notes

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

Notes to the financial statements

Accounting policies

The interim financial statements have been prepared on the same basis as the audited financial statements for the year ended 30 June 2017. They are prepared under the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice (SORP) for Authorised Funds issued by the Investment Association in May 2014.

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 January 2018, for the six months ended 31 December 2017

Performance against objective

Between 3 July 2017 (the start of the review period) and 2 January 2018, the M&G Corporate Bond Fund delivered a positive total return (the combination of income and growth of capital) across all of its share classes.*

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

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. 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.

Investment performance

After a first half of the year in which financial markets were largely dominated by politics, attention turned in the latter stages of 2017 to the likelihood of central banks finally being able to move towards more 'normal' monetary policy. 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. The unemployment rate has fallen back below 10% for the first time since 2011, while business surveys suggest a further steady pick-up in economic growth over the

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

coming months. Political tensions also receded, with Emmanuel Macron's decisive victory in May's second-round French election helping to boost European markets.

The summer period was characterised by investor speculation that leading central banks (including the Bank of England, US Federal Reserve and European Central Bank) might be edging closer to the next stage in gradually withdrawing the support that they have been providing financial markets over the 10 years 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.

In this vein, the European Central Bank announced in 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.

Meanwhile, a speech by Bank of England governor, Mark Carney, in September, in which he signalled that "some withdrawal of monetary stimulus is likely in coming months" caused investors to judge that a first interest rate increase in some 10 years might take place before the end of 2017, and had the effect of pushing sterling higher. In November, the Bank confirmed investors' expectations, with a small rise of 0.25%, taking interest rates back to their level immediately before 2016's Brexit referendum vote.

The US Federal Reserve increased interest rates again in December 2017, making a total of four times it has raised rates since December 2016, with further increases expected in 2018.

This continued environment of relatively low interest rates and steady economic growth proved generally supportive for corporate bond markets. The fund rose over the review period, with its exposure to financial names and to asset-backed securities (bonds whose income payments are derived from a specified group of underlying assets) particularly helping performance.

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 6.8 years and 6.9 years, keeping it roughly the same amount short of a comparable index, the iBoxx £ Corporate Index.

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.

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.

To fund some of these transactions, we sold out of a number of bonds that had performed particularly strongly during the reporting period, including issues from EDF, Deutsche Telecom and the European Investment Bank.

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 look attractively priced compared to European corporate bonds with similar credit ratings.

Outlook

We expect to see a continuation of many of the key themes from 2017 – strong economics, falling unemployment – as we move further into 2018.

We believe the global economic picture is broadly encouraging. This is particularly the case in the US, where full employment, moderate wage growth and the potential for rising inflation have caused the US Federal Reserve to raise rates. In our view, Europe is also an improving economic story: its growth outlook has improved and political risk has receded. As the European Central Bank slowly begins to reduce the amount of support it provides to bond markets, this may have an impact on bond prices.

Investors face two main challenges this year, in our opinion. One is 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 relates to the next stage of the UK's Brexit negotiations with the European Union, what compromises both sides will have to make, and how 'hard' any eventual deal proves to be. 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.

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.

Company default rates have stayed low and we remain positive on corporate bonds. However, we are cautious on government bonds, believing that they are already expensive. With further interest rate rises in the US likely, we consider that they offer little more upside but considerable downside.

Richard Woolnough
Fund manager

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

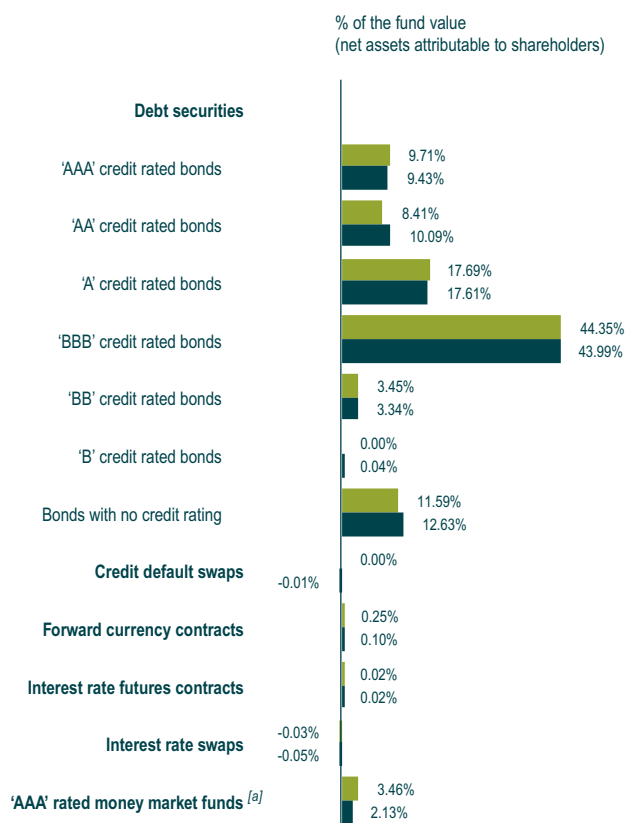
Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial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

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Investment review

Classification of investments



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

31 December 2017

30 June 2017

Source: M&G

Investments

Portfolio statement

as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %
Debt securities	3,814,404	95.20	97.13
'AAA' credit rated bonds	389,217	9.71	9.43
£1,124,616 Alba FRN 2049	1,132	0.03	
£10,000,000 Barclays Bank 4.25% 2022	11,259	0.28	
£196,718 BL Superstores Finance 4.482% 2030	225	0.00	
£3,840,000 Broadgate Financing 4.821% 2036	5,089	0.13	
£407,606 Broadgate Financing 4.949% 2031	484	0.01	
£7,943,937 Broadgate Financing FRN 2032	7,783	0.19	
£4,600,000 Cie de Financement Foncier 5.5% 2027	6,053	0.15	
£3,942,000 Delamare Cards FRN 2022	3,947	0.10	
£2,824,913 Dukinfield FRN 2052	2,861	0.07	
£298,529 E-Carat FRN 2023	299	0.01	
£640,000 European Coal and Steel 6.8875% 2019	678	0.02	
£5,000,000 European Investment Bank 1.125% 2021	5,047	0.13	
£2,500,000 European Investment Bank 4.25% 2021	2,818	0.07	
£5,000,000 European Investment Bank 4.5% 2029	6,482	0.16	
£25,000,000 European Investment Bank 5.5% 2025	32,301	0.81	
£5,000,000 European Investment Bank 6% 2028	7,186	0.18	
£30,000,000 European Investment Bank FRN 2021	30,166	0.75	
£5,000,000 European Investment Bank FRN 2022	5,002	0.12	
£302,672 First Flexible No.5 FRN 2034	299	0.01	
£15,360,275 Hawksmoor Mortgages FRN 2053	15,532	0.39	
£10,000,000 KFW 0.875% 2022	9,982	0.25	
£1,000,000 KFW 5.5% 2025	1,304	0.03	
£6,000,000 KFW 5.75% 2032	9,131	0.23	
£1,000,000 KFW 6% 2028	1,449	0.03	
£13,428,000 Lanark Master Issuer 1% 2069	13,472	0.33	
£12,807,520 Lanark Master Issuer FRN 2054	12,887	0.32	
\$20,000,000 Microsoft 3.45% 2036	15,130	0.38	
\$5,000,000 Microsoft 3.5% 2042	3,738	0.09	
\$17,500,000 Microsoft 3.75% 2043	13,467	0.34	
\$15,741,000 Microsoft 3.95% 2056	12,357	0.31	
\$25,000,000 Microsoft 4% 2055	19,717	0.49	
\$6,666,000 Microsoft 4.1% 2037	5,473	0.14	
\$7,000,000 Microsoft 4.5% 2040	6,012	0.15	
\$30,000,000 Microsoft 4.75% 2055	27,150	0.68	
\$500,000 Microsoft 5.2% 2039	465	0.01	
\$3,000,000 Microsoft 5.3% 2041	2,839	0.07	
£1,229,964 Moorgate Funding FRN 2050	1,232	0.03	
£361,477 Paragon Mortgages No.11 FRN 2041	349	0.01	
\$2,840,645 Paragon Mortgages No.15 FRN 2039	2,022	0.05	
£3,986,000 Penarth Master Issuer FRN 2022	3,995	0.10	
£542,731 Precise Mortgage Funding FRN 2048	544	0.01	
£2,291,251 Residential Mortgage Securities FRN 2046	2,311	0.06	
£4,967,758 Residential Mortgage Securities FRN 2050	4,985	0.12	
£1,814,155 Residential Mortgage Securities No.29 FRN 2046	1,825	0.05	
£9,405,034 Ripon Mortgages FRN 2056	9,460	0.24	
£1,686,082 Rochester Financing No.1 FRN 2046	1,687	0.04	
£16,250,000 Santander 5.125% 2021	18,401	0.46	
£10,000,000 Santander FRN 2020	10,030	0.25	
£4,944,000 Santander FRN 2022	4,951	0.12	
£5,579,995 Silverstone Master Issuer FRN 2070	5,585	0.14	
£2,751,788 Slate FRN 2052	2,770	0.07	
£1,773,475 THRONES 2014-1 FRN 2049	1,778	0.04	

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)				
as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %	
'AAA' credit rated bonds (continued)				
£4,437,511 Towd Point Mortgage Funding FRN 2045	4,459	0.11		
£3,769,166 Trinity Square FRN 2051	3,818	0.10		
£2,744,210 Warwick Finance Residential Mortgage FRN 2049 01-A	2,764	0.07		
£6,919,509 Warwick Finance Residential Mortgage FRN 2049 02-A	7,035	0.18		
'AA' credit rated bonds	337,076	8.41	10.09	
\$7,500,000 Apple 2.9% 2027	5,461	0.14		
£28,300,000 Apple 3.05% 2029	31,338	0.78		
£1,044,000 Autolink Concessionaires 8.39% 2022	1,222	0.03		
£815,000 Broadgate Financing 4.999% 2033	1,005	0.03		
£5,000,000 Deutsche Bahn Finance 3.125% 2026	5,569	0.14		
£626,551 Eurosail-UK FRN 2045	613	0.02		
£2,400,000 Federal National Mortgage Association 5.375% 2021	2,738	0.07		
£5,601,000 Federal National Mortgage Association 5.375% 2028	7,467	0.19		
£3,258,946 Integrated Accommodation 6.48% 2029	4,105	0.10		
£960,000 Investor 5.5% 2037	1,355	0.03		
£3,112,899 Juturna 5.0636% 2033	3,819	0.09		
£20,000,000 Land Securities Capital Markets Var. Rate 2026 (1.974%)	20,337	0.51		
£16,000,000 Land Securities Capital Markets Var. Rate 2027 (5.391%)	19,877	0.50		
£8,858,000 Land Securities Capital Markets Var. Rate 2031 (2.399%)	9,141	0.23		
£5,743,000 Land Securities Capital Markets Var. Rate 2039 (2.625%)	5,847	0.14		
£2,500,000 LCR Finance 4.5% 2028	3,222	0.08		
£6,807,000 Mercantile Investment Trust 6.125% 2030	8,896	0.22		
€462,950 Paragon Mortgages No.13 FRN 2039 A2B	397	0.01		
\$925,896 Paragon Mortgages No.13 FRN 2039 A2C	656	0.02		
£960,000 Places for People 8.625% 2020	1,062	0.03		
£2,530,000 Province of Quebec 12.25% 2020	3,099	0.08		
£10,000,000 Réseau Ferré de France 5% 2052	16,296	0.41		
£4,000,000 Réseau Ferré de France 5.25% 2028	5,311	0.13		
£6,000,000 Réseau Ferré de France 5.25% 2035	8,530	0.21		
£3,000,000 Réseau Ferré de France 5.5% 2021	3,494	0.09		
£3,400,000 Slate No.1 FRN 2051	3,440	0.08		
£4,000,000 SLM Student Loan Trust 5.15% 2039	3,856	0.09		
£14,000,000 SNCF 5.375% 2027	18,153	0.45		
£14,441,000 Towd Point Mortgage Funding FRN 2046	14,561	0.36		
£5,400,000 Trafford Centre Finance FRN 2038	5,125	0.13		
£25,000,000 Transport for London 2.25% 2022	26,234	0.65		
£5,000,000 Transport for London 3.875% 2042	6,386	0.16		
£10,000,000 Treasury 1.5% 2021	10,295	0.26		
£30,000,000 Treasury 3.25% 2044	39,166	0.98		
£10,000,000 Treasury 4.75% 2030	13,951	0.35		
£15,000,000 Treasury 4.75% 2038	23,045	0.57		
£2,000,000 Warwick Finance Residential Mortgage FRN 2049	2,007	0.05		

Portfolio statement (continued)

as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %
'A' credit rated bonds	708,768	17.69	17.61
£4,000,000 Amgen 4% 2029	4,599	0.11	
£7,500,000 Amgen 5.5% 2026	9,488	0.24	
£6,000,000 Anglian Water Services Var. Rate 2023 (6.875%)	7,697	0.19	
£2,000,000 Anheuser-Busch InBev 2.85% 2037	2,001	0.05	
£26,179,000 Anheuser-Busch InBev 2.25% 2029	25,708	0.64	
£14,000,000 Anheuser-Busch InBev 9.75% 2024	20,750	0.52	
£6,000,000 ASIF II Var. Rate 2020 (6.375%)	6,831	0.17	
£5,000,000 ASIF III Jersey 5% 2018	5,205	0.13	
£145,000 AusNet Services (formerly SPI Electricity & Gas 7.125% 2018	149	0.00	
£35,000,000 Bank of America 2.3% 2025	35,932	0.90	
£2,000,000 Bank of America 4.25% 2026	2,341	0.06	
£18,000,000 Bank of America 6.125% 2021	21,025	0.52	
£4,850,000 Bank of America 7% 2028	6,990	0.17	
\$8,571,000 Bank of America Var. Rate. 2028 (3.705%)	6,492	0.16	
£3,400,000 Bank of Scotland 2.64% IL 2020	5,791	0.14	
£1,072,020 BL Superstores Finance 5.27% 2030	1,191	0.03	
\$5,000,000 BNP Paribas 3.8% 2024	3,822	0.10	
£4,362,000 Brown-Forman 2.6% 2028	4,468	0.11	
£1,461,782 Clavis Securities FRN 2032	1,425	0.04	
\$3,474,000 Cloverie Var. Rate 2046 (5.625%)	2,826	0.07	
£20,000,000 Comcast 5.5% 2029	26,583	0.66	
£2,724,377 Eddystone Finance FRN 2021 A2	2,725	0.07	
£50,000 Eddystone Finance FRN 2021 B	50	0.00	
£6,650,000 ELM Var. Rate Perp. (6.3024%)	7,068	0.18	
€15,583,000 ENGIE 5.95% 2111	23,959	0.60	
£1,854,283 Eurosail FRN 2044	1,828	0.05	
£1,658,703 General Electric Capital 6.44% 2022	1,871	0.05	
\$3,206,810 Great Hall Mortgages No.1 FRN 2039	2,323	0.06	
£2,471,489 Greene King Finance 4.0643% 2035	2,741	0.07	
£2,364,902 Greene King Finance 5.318% 2031	2,836	0.07	
£23,600,000 Heathrow Funding 6.75% 2028	32,089	0.80	
£3,150,000 Heathrow Funding Var. Rate 2023 (9.2%)	3,921	0.10	
£2,500,000 Heathrow Funding Var. Rate 2025 (5.225%)	2,930	0.07	
£12,000,000 Heathrow Funding Var. Rate 2030 (7.075%)	17,082	0.43	
£2,000,000 Heathrow Funding Var. Rate 2033 (6.45%)	2,879	0.07	
£4,000,000 HSBC Bank 5.375% 2033	5,250	0.13	
£500,000 HSBC Bank 6.5% 2023	614	0.02	
£11,550,000 HSBC Bank Var. Rate 2030 (5.375%)	14,089	0.35	
£19,000,000 HSBC Holdings 2.625% 2028	19,372	0.48	
£10,000,000 HSBC Holdings Var. Rate 2026 (2.256%)	10,039	0.25	
\$10,000,000 HSBC Holdings Var. Rate 2028 (4.041%)	7,699	0.19	
£4,000,000 INTU Finance 3.875% 2023	4,316	0.11	
£8,431,000 INTU Finance 4.125% 2028	9,287	0.23	
£4,808,000 INTU Finance 4.25% 2030	5,511	0.14	
£5,500,000 INTU Finance 4.625% 2028	6,424	0.16	
£21,000,000 JPMorgan Chase 3.5% 2026	23,456	0.59	
£3,386,000 London & Quadrant Housing 2.625% 2026	3,528	0.09	
£5,902,000 London Merchant Securities 6.5% 2026	7,587	0.19	
£3,689,360 Mitchells & Butlers Finance 5.574% 2030	4,318	0.11	
£1,528,353 Mortgages No.7 FRN 2038	1,511	0.04	
£15,000,000 Munich Re Finance Var. Rate 2042 (6.625%)	17,951	0.45	
£4,500,000 National Grid Electricity Transmission 2.983% IL 2018	7,317	0.18	

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Portfolio statement (continued)				
as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %	
'A' credit rated bonds (continued)				
£3,000,000 National Grid Electricity Transmission 3.806% IL 2020	5,340	0.13		
£1,390,100 Newgate Funding FRN 2050	1,346	0.03		
£3,750,000 Northern Powergrid 4.375% 2032	4,607	0.11		
£2,000,000 Northern Powergrid 7.25% 2022	2,536	0.06		
£6,116,000 Notting Hill Housing Trust 3.25% 2048	6,281	0.16		
£1,339,000 Penarian Housing Finance 3.212% 2052	1,347	0.03		
£2,600,000 Quadrant Housing Var. Rate 2033 (7.93%)	3,748	0.09		
£2,049,528 RMAC 2006-Ns1 FRN 2044	1,973	0.05		
£3,361,804 RSL Finance No.1 6.625% 2038	4,724	0.12		
£19,802 Sandwell Commercial Finance No.2 FRN 2037	20	0.00		
\$1,000,000 Security Capital Group 7.7% 2028	996	0.03		
£2,888,000 Society of Lloyds Var. Rate 2047 (4.875%)	3,256	0.08		
£5,000,000 Southern Water Services Finance 5% 2021	5,590	0.14		
£10,000,000 Southern Water Services Finance 6.125% 2019	10,621	0.27		
£6,000,000 SSE 8.375% 2028	9,365	0.23		
£2,000,000 UNITE (USAF) II 3.374% 2023	2,146	0.05		
£1,152,000 UNITE (USAF) II 3.921% 2030	1,299	0.03		
£11,000,000 Wales & West Utilities 4.625% 2023	12,835	0.32		
£8,000,000 Wales & West Utilities 5% 2028	10,022	0.25		
£4,500,000 Wales & West Utilities 5.75% 2030	6,114	0.15		
£33,000,000 Wells Fargo & Company 2% 2025	32,971	0.82		
£4,246,000 Wells Fargo & Company 2.125% 2023	4,332	0.11		
\$2,500,000 Wells Fargo & Company 4.1% 2026	1,936	0.05		
£5,500,000 Wells Fargo & Company 4.875% 2035	7,002	0.18		
£40,000,000 Wells Fargo & Company 5.25% 2023	47,083	1.18		
£5,000,000 Western Power Distribution 3.875% 2024	5,580	0.14		
£10,000,000 Western Power Distribution 5.25% 2023	11,715	0.29		
£24,000,000 Western Power Distribution Var. Rate 2025 (6%)	30,529	0.76		
\$1,000,000 Willow No.2 (Ireland) Var. Rate 2045 (4.25%)	752	0.02		
£3,426,000 Yorkshire Power Finance 7.25% 2028	4,971	0.12		
£6,000,000 Yorkshire Water Services Odsal Finance 6.5876% 2023	7,422	0.19		
£5,420,000 Zurich Finance (UK) Var. Rate Perp. (6.625%)	6,424	0.16		
'BBB' credit rated bonds	1,777,002	44.35	43.99	
£1,721,000 3i Group Var. Rate 2032 (5.75%)	2,220	0.06		
£7,500,000 3i Group 6.875% 2023	9,184	0.23		
£4,965,000 Akelius Residential Property 2.375% 2025	4,892	0.12		
£3,666,000 Anglian Water Services 2.625% 2027	3,628	0.09		
£7,000,000 Anglian Water Services 4.5% 2026	7,984	0.20		
£2,972,000 Annington Funding 2.646% 2025	3,025	0.07		
£3,889,000 Annington Funding 3.184% 2029	3,991	0.10		
£3,703,000 Annington Funding 3.685% 2034	3,898	0.10		
£2,812,000 Annington Funding 3.935% 2047	3,050	0.08		
£2,750,000 AP Moller-Maersk 4% 2025	2,976	0.07		
£4,100,000 APT Pipelines 4.25% 2024	4,585	0.11		
£2,207,000 Aroundtown Property 3% 2029	2,216	0.05		
£11,800,000 AT&T 3.55% 2037	11,881	0.30		
£6,300,000 AT&T 4.25% 2043	6,847	0.17		
£9,800,000 AT&T 4.375% 2029	11,169	0.28		

Portfolio statement (continued)

as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %
'BBB' credit rated bonds (continued)			
\$15,000,000 AT&T 4.5% 2048	10,305	0.26	
£41,120,000 AT&T 4.875% 2044	48,887	1.22	
£3,450,000 AT&T 5.2% 2033	4,214	0.10	
\$3,000,000 AT&T 5.25% 2037	2,335	0.06	
£3,500,000 AT&T 5.5% 2027	4,315	0.11	
\$10,000,000 AT&T 5.65% 2047	8,089	0.20	
\$2,000,000 AT&T 6.35% 2040	1,749	0.04	
\$750,000 AT&T 6.375% 2041	657	0.02	
£4,100,000 AT&T 7% 2040	6,156	0.15	
£21,100,000 Aviva Var. Rate 2036 (6.125%)	25,497	0.64	
£7,584,000 Aviva Var. Rate 2041 (6.625%)	8,674	0.22	
£1,651,000 Aviva Var. Rate 2049 (4.375%)	1,772	0.04	
£11,500,000 Aviva Var. Rate 2058 (6.875%)	15,883	0.40	
£26,500,000 Aviva Var. Rate Perp. (6.125%)	30,400	0.76	
£11,000,000 AXA Var. Rate 2054 (5.625%)	13,402	0.33	
£6,500,000 AXA Var. Rate Perp. (5.453%)	7,423	0.19	
£14,630,000 AXA Var. Rate Perp. (6.6862%)	17,873	0.45	
£3,000,000 BAE Systems 4.125% 2022	3,336	0.08	
\$5,833,000 Bank of America 4.25% 2026	4,535	0.11	
£15,000,000 Bank of America 5.5% 2021	17,129	0.43	
£6,000,000 Barclays Bank 3.125% 2024	6,274	0.16	
£3,420,000 Barclays Var. Rate 2023 (2.375%)	3,459	0.09	
£9,654,000 BAT Capital 2.125% 2025	9,616	0.24	
\$8,000,000 BAT Capital 4.39% 2037	6,187	0.15	
\$5,000,000 BAT Capital 4.54% 2047	3,886	0.10	
£3,000,000 BAT International Finance 2.25% 2052	2,473	0.06	
£16,000,000 BAT International Finance 4% 2026	18,036	0.45	
£500,000 BAT International Finance 4% 2055	597	0.01	
£1,000,000 BAT International Finance 5.75% 2040	1,419	0.04	
£4,500,000 BAT International Finance 6% 2022	5,356	0.13	
€1,159,000 BNP Paribas 2.75% 2026	1,124	0.03	
\$1,143,000 BNP Paribas 4.375% 2025	883	0.02	
\$15,000,000 BNP Paribas 4.625% 2027	11,804	0.29	
£12,000,000 Bouygues 5.5% 2026	15,081	0.38	
£9,000,000 BPCE 5.25% 2029	10,945	0.27	
£14,569,000 British Telecommunications 3.125% 2031	14,925	0.37	
£6,264,000 British Telecommunications 3.5% IL 2025	13,093	0.33	
\$9,931,000 British Telecommunications Var. Rate 2030 (9.625%)	10,908	0.27	
£2,260,000 Bunzl Finance 2.25% 2025	2,279	0.06	
£13,455,000 Cadent Finance (formerly National Grid) 2.125% 2028	13,139	0.33	
£3,666,000 Channel Link Enterprises Finance 3.848% 2050	4,026	0.10	
£10,000,000 Channel Link Enterprises Finance Var. Rate 2050 (3.043%)	10,122	0.25	
£2,500,000 Cie De St-Gobain 4.625% 2029	3,004	0.07	
\$4,834,000 Citigroup 4.4% 2025	3,764	0.09	
\$7,500,000 Citigroup 4.45% 2027	5,840	0.14	
\$4,985,000 Citigroup 5.5% 2025	4,147	0.10	
£6,000,000 CPUK Finance 7.239% 2042	7,657	0.19	
\$2,500,000 Crédit Agricole 4.125% 2027	1,919	0.05	
£7,809,000 Credit Suisse Var. Rate 2025 (2.125%)	7,744	0.19	
£2,703,000 CRH Finance 4.125% 2029	3,111	0.08	
£3,000,000 CS Group Funding 2.75% 2025	3,105	0.08	
\$6,000,000 Deutsche Telekom International Finance 4.875% 2042	5,032	0.12	
\$10,000,000 Deutsche Telekom International Finance 8.75% 2030	10,751	0.27	
£13,000,000 Deutsche Telekom International Finance 8.875% 2028	20,966	0.52	

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Portfolio statement (continued)				
as at Holding		31.12.17 £'000	31.12.17 %	30.06.17 %
'BBB' credit rated bonds (continued)				
£4,000,000 Deutsche Telekom International Finance Var. Rate 2030 (7.625%)		6,138	0.15	
£1,776,000 Digital Stout Holding 2.75% 2024		1,821	0.05	
£3,806,000 Digital Stout Holding 3.3% 2029		3,934	0.10	
\$3,000,000 E.ON International Finance 6.65% 2038		2,938	0.07	
£1,000,000 Enel 5.75% 2037		1,374	0.03	
£500,000 Enel Var. Rate 2075 (7.75%)		576	0.01	
£3,500,000 Enel Var. Rate 2076 (6.625%)		4,017	0.10	
\$24,292,000 Enel Finance International 3.625% 2027		17,810	0.44	
£5,000,000 Enel Finance International 5.625% 2024		6,095	0.15	
£869,000 Enel Finance International 5.75% 2040		1,213	0.03	
\$500,000 Energy Transfer Partners 4.9% 2035		364	0.01	
\$1,000,000 Energy Transfer Partners 6.125% 2045		797	0.02	
\$3,572,000 Energy Transfer Partners 6.5% 2042		2,938	0.07	
£3,000,000 ENGIE Var. Rate Perp. (4.625%)		3,098	0.08	
£9,100,000 Eni Finance International 4.75% 2021		9,971	0.25	
£5,000,000 Eni Finance International 6.125% 2018		5,240	0.13	
£132,000 ENW Capital Finance 6.125% 2021		154	0.00	
£4,152,000 Eversholt Funding 3.529% 2042		4,202	0.10	
£13,113,000 Eversholt Funding 6.359% 2025		16,772	0.42	
£1,042,000 FCE Bank 2.625% 2018		1,057	0.03	
£7,116,000 FCE Bank 2.727% 2022		7,389	0.18	
£5,000,000 FCE Bank 2.759% 2019		5,145	0.13	
£8,000,000 FirstGroup 6.875% 2024		10,176	0.25	
\$10,000,000 Ford Motor Credit 4.389% 2026		7,737	0.19	
£6,000,000 G4S 7.75% 2019		6,516	0.16	
£5,500,000 Gatwick Funding 2.625% 2048		5,054	0.13	
£6,000,000 Gatwick Funding 3.125% 2041		6,118	0.15	
£16,000,000 Gatwick Funding 5.25% 2024		18,881	0.47	
£16,000,000 Gatwick Funding 6.125% 2028		20,532	0.51	
\$1,500,000 General Motors Financial 4% 2025		1,139	0.03	
\$2,500,000 General Motors Financial 4% 2026		1,876	0.05	
\$5,834,000 General Motors Financial 4.3% 2025		4,486	0.11	
\$2,500,000 General Motors Financial 5.15% 2038		1,962	0.05	
£4,000,000 GKN Holdings 3.375% 2032		3,941	0.10	
£3,500,000 Goldman Sachs Group 5.5% 2021		3,986	0.10	
£4,800,000 Goldman Sachs Group 6.875% 2038		7,326	0.18	
£4,200,000 Goldman Sachs Group 7.125% 2025		5,637	0.14	
£2,500,000 Goldman Sachs Group 7.25% 2028		3,547	0.09	
£3,010,000 Grainger 5% 2020		3,266	0.08	
£7,000,000 H.J. Heinz Finance 6.25% 2030		9,044	0.23	
\$955,000 HCA 5% 2024		737	0.02	
\$2,308,000 HCA 5.25% 2025		1,812	0.05	
\$2,000,000 HCA 5.5% 2047		1,485	0.04	
\$1,000,000 HCA 5.875% 2022		793	0.02	
£5,000,000 Heathrow Funding 6% 2020		5,507	0.14	
£2,500,000 Heathrow Funding 7.125% 2024		3,161	0.08	
\$1,163,000 HSBC Holdings 4.375% 2026		897	0.02	
£5,500,000 HSBC Holdings 5.75% 2027		6,911	0.17	
£7,500,000 HSBC Holdings 6% 2040		10,339	0.26	
£11,000,000 HSBC Holdings 6.75% 2028		14,715	0.37	
£4,000,000 HSBC Holdings 7% 2038		6,035	0.15	

Portfolio statement (continued)

as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %
'BBB' credit rated bonds (continued)			
£5,500,000 Iberdrola Finanzas 6% 2022	6,554	0.16	
£3,500,000 Iberdrola Finanzas 7.375% 2024	4,593	0.11	
£6,750,000 Imperial Brands Finance (formerly Imperial Tobacco Finance) 4.875% 2032	8,204	0.20	
£19,500,000 Imperial Brands Finance (formerly Imperial Tobacco Finance) 5.5% 2026	24,165	0.60	
£23,000,000 Imperial Brands Finance (formerly Imperial Tobacco Finance) 8.125% 2024	30,828	0.77	
£6,750,000 Imperial Brands Finance (formerly Imperial Tobacco Finance) Var. Rate 2022 (9%)	8,723	0.22	
£8,450,000 ING Bank Var. Rate 2023 (6.875%)	8,644	0.22	
£8,000,000 InterContinental Hotels 2.125% 2026	7,725	0.19	
\$4,000,000 International Paper 4.4% 2047	3,085	0.08	
£915,000 Italy (Republic of) 5.25% 2034	1,111	0.03	
£29,862,000 Italy (Republic of) 6% 2028	37,359	0.93	
\$5,000,000 JPMorgan Chase 3.625% 2027	3,723	0.09	
\$15,000,000 JPMorgan Chase 3.875% 2024	11,537	0.29	
\$6,000,000 JPMorgan Chase 4.125% 2026	4,668	0.12	
\$7,500,000 JPMorgan Chase 4.25% 2027	5,882	0.15	
\$3,500,000 Kinder Morgan 5.05% 2046	2,673	0.07	
\$6,000,000 Kinder Morgan Energy Partners 6.95% 2038	5,452	0.14	
£12,500,000 KPN 5% 2026	14,867	0.37	
£11,250,000 KPN 5.75% 2029	14,419	0.36	
\$7,000,000 KPN 8.375% 2030	7,107	0.18	
£10,000,000 Kraft Heinz Foods 4.125% 2027	11,140	0.28	
£6,247,000 LafargeHolcim Sterling Finance (Netherlands) 3% 2032	6,204	0.15	
£25,000,000 Legal & General Group 5.375% 2045	28,509	0.71	
\$5,000,000 Legal & General Group Var. Rate 2047 (5.25%)	3,911	0.10	
£18,000,000 Legal & General Group Var. Rate 2064 (5.5%)	20,952	0.52	
£10,000,000 Legal & General Group Var. Rate 2041 (10%)	12,757	0.32	
£2,270,000 Liberty Living 2.625% 2024	2,301	0.06	
£10,000,000 Lloyds Bank Var. Rate 2025 (5.75%)	10,960	0.27	
£10,000,000 Lloyds Bank 7.625% 2025	13,394	0.33	
£5,500,000 Lloyds Bank 9.625% 2023	7,460	0.19	
£1,750,000 Longstone Finance 4.896% 2036	1,995	0.05	
£885,000 Marston's Issuer Var. Rate 2027 (5.1576%)	880	0.02	
£2,000,000 Marston's Issuer Var. Rate 2032 (5.1774%)	2,260	0.06	
£2,625,000 McDonalds 5.875% 2032	3,588	0.09	
\$1,250,000 McDonalds 6.3% 2037	1,225	0.03	
\$2,000,000 McDonalds 6.3% 2038	1,965	0.05	
£10,000,000 McDonalds 6.375% 2020	11,062	0.28	
£5,541,000 McKesson 3.125% 2029	5,671	0.14	
£18,000,000 Mexico (United Mexican States) 5.625% 2114	19,688	0.49	
£681,933 Mitchells & Butlers Finance 5.965% 2025	760	0.02	
£1,291,924 Mitchells & Butlers Finance 6.013% 2030	1,543	0.04	
£3,000,000 Mitchells & Butlers Finance FRN 2033	2,521	0.06	
£1,000,000 Mondelez International 3.875% 2045	1,059	0.03	
£1,750,000 Mondelez International 4.5% 2035	2,018	0.05	
\$3,000,000 Monsanto 4.7% 2064	2,300	0.06	

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Portfolio statement (continued)				
as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %	
'BBB' credit rated bonds (continued)				
£15,000,000 Morgan Stanley 2.625% 2027	15,347	0.38		
\$7,500,000 Morgan Stanley 3.95% 2027	5,633	0.14		
\$1,000,000 Morgan Stanley 4.1% 2023	770	0.02		
\$8,500,000 Morgan Stanley 4.35% 2026	6,576	0.16		
\$1,141,000 Nationwide Building Society 4% 2026	853	0.02		
£12,500,000 Next 3.625% 2028	12,933	0.32		
£10,500,000 Next 4.375% 2026	11,654	0.29		
£11,250,000 NGG Finance Var. Rate 2073 (5.625%)	12,719	0.32		
£5,000,000 NIE Finance 6.375% 2026	6,640	0.17		
£2,000,000 Northern Gas Networks 5.875% 2019	2,144	0.05		
£7,000,000 Northumbrian Water 6.875% 2023	8,737	0.22		
£12,175,000 Orange 5.625% 2034	16,517	0.41		
£19,250,000 Orange 8.125% 2028	29,600	0.74		
\$10,000,000 Orange 8.5% 2031	11,131	0.28		
€7,500,000 Orange Var. Rate Perp. (5%)	7,896	0.20		
£6,500,000 Orange Var. Rate Perp. (5.75%)	7,257	0.18		
£1,500,000 Orange Var. Rate Perp. (5.875%)	1,677	0.04		
\$2,800,000 Rabobank 4% 2029	2,100	0.05		
£4,000,000 Rabobank 4.625% 2029	4,715	0.12		
£2,600,000 Reed Elsevier Investments 2.75% 2019	2,655	0.07		
\$1,000,000 Reynolds American 6.15% 2043	946	0.02		
€3,422,000 Royal Bank of Scotland 2.5% 2023	3,273	0.08		
£2,857,000 Royal Bank of Scotland FRN 2020	2,866	0.07		
€2,092,000 Royal Bank of Scotland Var. Rate 2023 (2%)	1,949	0.05		
£1,000,000 Scottish Widows 5.5% 2023	1,144	0.03		
£1,000,000 Severn Trent 1.3% IL 2022	1,232	0.03		
£4,160,000 Severn Trent Utilities Finance 2.75% 2031	4,289	0.11		
£6,000,000 Severn Trent Utilities Finance 3.625% 2026	6,648	0.17		
£1,250,000 Severn Trent Utilities Finance 6.125% 2024	1,554	0.04		
£10,000,000 Severn Trent Utilities Finance 6.25% 2029	13,856	0.35		
\$3,000,000 Société Générale 4% 2027	2,255	0.06		
\$2,500,000 Société Générale 5% 2024	1,968	0.05		
£3,000,000 South East Water Finance 5.6577% 2019	3,221	0.08		
£6,176,000 South Eastern Power Networks 5.5% 2026	7,737	0.19		
£8,100,000 South Eastern Power Networks Var. Rate 2031 (6.375%)	11,725	0.29		
£5,000,000 Southern Gas Networks 4.875% 2023	5,855	0.15		
£10,000,000 Southern Gas Networks 5.125% 2018	10,348	0.26		
£16,000,000 Spain (Kingdom of) 5.25% 2029	19,110	0.48		
£10,000,000 Standard Chartered 5.125% 2034	11,251	0.28		
£4,815,000 Student Finance 2.6663% 2024	4,840	0.12		
\$5,000,000 Telefónica (Europe) 8.25% 2030	5,185	0.13		
£6,500,000 Telefónica Emisiones 5.289% 2022	7,590	0.19		
£6,500,000 Telefónica Emisiones 5.375% 2026	7,852	0.20		
£11,500,000 Telefónica Emisiones 5.597% 2020	12,565	0.31		
\$8,000,000 Telefónica Emisiones 7.045% 2036	7,868	0.20		
£218,080 Telereal Securitisation 6.1645% 2033	268	0.01		
£1,967,000 Thames Water Utilities Cayman 2.375% 2023	1,957	0.05		
£3,543,000 Thames Water Utilities Cayman 2.875% 2027	3,522	0.09		

Portfolio statement (continued)

as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %
'BBB' credit rated bonds (continued)			
£1,485,000 Thames Water Utilities Cayman 3.5% 2028	1,621	0.04	
£7,000,000 Thames Water Utilities Cayman 4% 2025	7,899	0.20	
£10,000,000 Thames Water Utilities Cayman 4.375% 2034	11,946	0.30	
£5,000,000 Thames Water Utilities Cayman Var. Rate 2024 (1.875%)	4,939	0.12	
£6,500,000 Thames Water Utilities Cayman Var. Rate 2030 (5.75%)	7,461	0.19	
£3,727,000 Thames Water Utilities Finance 3.375% IL 2021	6,700	0.17	
£3,590,000 Thames Water Utilities Finance 5.125% 2037	4,765	0.12	
£10,000,000 Thames Water Utilities Finance 6.75% 2028	14,040	0.35	
£17,550,000 Time Warner Cable 5.25% 2042	19,895	0.50	
£4,950,000 Time Warner Cable 5.75% 2031	5,784	0.14	
\$4,000,000 United Business Media 5.75% 2020	3,072	0.08	
£3,813,000 Vector Group 7.625% 2019	4,036	0.10	
£4,000,000 Verizon Communications 3.125% 2035	3,950	0.10	
\$13,870,000 Verizon Communications 4.272% 2036	10,144	0.25	
\$14,000,000 Verizon Communications 4.4% 2034	10,500	0.26	
\$7,784,000 Verizon Communications 4.522% 2048	5,606	0.14	
\$35,000,000 Verizon Communications 4.672% 2022	24,914	0.62	
\$9,000,000 Verizon Communications 5.012% 2049	6,936	0.17	
\$43,000,000 Verizon Communications 5.012% 2054	32,402	0.81	
\$11,000,000 Verizon Communications 5.25% 2037	8,902	0.22	
£1,069,000 Vodafone Group 5.9% 2032	1,408	0.04	
£1,000,000 Wales & West Utilities Finance Var. Rate 2036 (6.75%)	1,046	0.03	
£8,000,000 Walgreens Boots Alliance 2.875% 2020	8,342	0.21	
£4,167,000 Walgreens Boots Alliance 3.6% 2025	4,546	0.11	
£7,500,000 Welltower 4.5% 2034	8,688	0.22	
£2,198,000 Welltower 4.8% 2028	2,582	0.06	
£3,500,000 Westfield America 2.125% 2025	3,500	0.09	
'BB' credit rated bonds			
£313,294 Coventry & Rugby Hospital 3.246% IL 2040	610	0.02	
\$1,000,000 Credit Agricole Var. Rate Perp (7.875%)	837	0.02	
£2,050,000 Daily Mail & General Trust 6.375% 2027	2,424	0.06	
£5,786,064 Delamare Finance 5.5457% 2029	6,521	0.16	
£2,000,000 Ei Group (formerly Enterprise Inns) 6.375% 2031	2,219	0.06	
£5,000,000 Ei Group (formerly Enterprise Inns) 6.875% 2025	5,541	0.14	
£1,250,000 KPN Var. Rate 2073 (6.875%)	1,370	0.03	
£3,000,000 Lloyds Bank Var. Rate Perp. (7.625%)	3,448	0.09	
£3,367,000 Lloyds Bank Var. Rate Perp. (7.875%)	4,090	0.10	
£3,000,000 National Westminster Bank 6.5% 2021	3,486	0.09	
£4,000,000 Nationwide Building Society Var. Rate Perp. (6.875%)	4,192	0.10	
£3,000,000 Petrobras Global Finance 5.375% 2029	3,043	0.08	
£814,000 Petrobras Global Finance 6.25% 2026	889	0.02	
£3,000,000 Petrobras Global Finance 6.625% 2034	3,244	0.08	
£82,645 Road Management Consolidated 9.18% 2021	94	0.00	
\$3,300,000 Royal Bank of Scotland 6% 2023	2,687	0.07	
\$7,059,000 Royal Bank of Scotland 6.1% 2023	5,731	0.14	
	137,861	3.45	3.34

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)				
as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %	
'BB' credit rated bonds (continued)				
\$7,000,000 Royal Bank of Scotland 6.125% 2022	5,670	0.14		
\$750,000 Société Générale Var. Rate Perp. (7.875%)	623	0.02		
£4,325,000 Société Générale Var. Rate Perp. (8.875%)	4,455	0.11		
£13,000,000 Telecom Italia 5.875% 2023	15,182	0.38		
£1,000,000 Telefónica (Europe) 6.75% Var. Rate Perp. (6.75%)	1,106	0.03		
£27,649,350 Tesco Property Finance 3 5.744% 2040	32,758	0.82		
£9,814,043 Tesco Property Finance 4 5.8006% 2040	11,738	0.29		
£9,860,845 Tesco Property Finance 5 5.6611% 2041	11,574	0.29		
€2,000,000 Unitymedia 3.5% 2027	1,832	0.05		
€1,000,000 Unitymedia 4% 2025	936	0.02		
£512,000 Virgin Media Secured Finance 4.875% 2027	521	0.01		
£1,000,000 Virgin Media Secured Finance 5.125% 2025	1,040	0.03		
'B' credit rated bonds	0	0.00	0.04	
Bonds with no credit rating	464,480	11.59	12.63	
£1,000,000 Admiral 5.5% 2024	1,142	0.03		
\$2,140,000 Aquarius Plus Investments 8.25% IL Perp.	1,637	0.04		
€1,822,000 Assicurazioni Generali Var. Rate 2047 (5.5%)	1,937	0.05		
£10,050,000 Assicurazioni Generali Var. Rate Perp. (6.269%)	11,171	0.28		
£1,774,000 Bazalgette Finance 2.375% 2027	1,768	0.04		
£3,984,000 Brass FRN 2060	3,987	0.10		
£1,308,000 British Land 5.264% 2035	1,684	0.04		
£902,000 British Land 5.264% 2035 2	1,155	0.03		
£3,699,000 BUPA Finance 5% 2026	4,316	0.11		
£10,000,000 Canadian Imperial Bank of Commerce FRN 2022	10,080	0.25		
£350,000 Cheltenham & Gloucester 11.75% Perp.	735	0.02		
£5,371,000 Coventry Building Society 1.875% 2023	5,365	0.13		
£2,500,000 Coventry Building Society FRN 2020	2,508	0.06		
£1,500,000 Credit Agricole Var. Rate Perp. (7.5%)	1,791	0.04		
£8,920,000 Delamare Finance 6.067% 2029	10,232	0.26		
£8,300,000 Deutsche Pfandbriefbank 1% 2020	8,292	0.21		
£2,474,738 Duncan Funding FRN 2063	2,490	0.06		
£5,000,000 FCE Bank 3.25% 2020	5,240	0.13		
£4,155,540 Feldspar 2016-1 FRN 2045	4,176	0.10		
£2,847,791 Finsbury Square Mortgage FRN 2059	2,856	0.07		
£3,277,647 Fintrust Debenture 9.25% 2023	4,293	0.11		
£208,918 Gemgarto 2015-1 FRN 2047	209	0.00		
£10,000,000 GESB 8.35% 2018	10,478	0.26		
£2,649,167 Gosforth Funding FRN 2058	2,658	0.07		
£7,423,000 Gosforth Funding FRN 2059	7,454	0.19		
£4,000,000 Grand Union 4.625% 2043	5,034	0.13		
£34,120 Great Portland Estates 5.625% 2029	43	0.00		
£5,000,000 Great Rolling Stock 6.25% 2020	5,598	0.14		
£1,795,376 Greater Gabbard Ofco 4.137% 2032	2,081	0.05		
£7,800,000 Grosvenor UK Finance 6.5% 2026	10,303	0.26		
£721,000 Guardian Royal Exchange 6.625% 2023	906	0.02		

Portfolio statement (continued)

as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %
Bonds with no credit rating (continued)			
£12,000,000 Hammerson 6% 2026	14,921	0.37	
£6,500,000 Hammerson 7.25% 2028	9,046	0.23	
£1,000,000 Heathrow Finance 5.75% 2025	1,131	0.03	
£4,223,589 Highbury Finance 7.017% 2023	4,957	0.12	
£2,192,000 Housing Finance 5% 2027	2,571	0.06	
£3,000,000 Housing Finance 8.625% 2023	4,031	0.10	
£8,271,321 Housing Securities 8.375% 2019	8,820	0.22	
£201,799 INTU Debenture 5.562% 2027	235	0.01	
£2,500,000 John Lewis 4.25% 2034	2,675	0.07	
£6,000,000 John Lewis 6.125% 2025	7,259	0.18	
£1,191,669 Kenrick FRN 2049	1,194	0.03	
£3,000,000 LAB Investments 7.125% 2019	3,181	0.08	
£553,000 Land Securities Capital Markets Var. Rate 2027 (5.391%)	678	0.02	
£3,726,000 LaSer ABS FRN 2030	3,735	0.09	
£7,500,000 Lend Lease Europe 6.125% 2021	8,636	0.21	
£50,000,000 Lloyds Bank 5.125% 2025	62,209	1.55	
£3,478,000 Midland Heart Capital 5.087% 2044	4,766	0.12	
£7,477,000 Moat Homes Finance 5% 2041	9,915	0.25	
£2,282,000 National Express 2.5% 2023	2,315	0.06	
£2,500,000 National Express 6.625% 2020	2,810	0.07	
£2,400,000 Nationwide Building Society 8.625% 2018	2,444	0.06	
£2,950,000 Old Mutual 8% 2021	3,434	0.09	
£4,984,000 Orbit Group 3.5% 2045	5,397	0.13	
£848,787 Orbita Funding FRN 2023	852	0.02	
£1,767,857 Paragon Mortgages No.22 FRN 2042	1,770	0.04	
£2,859,000 PCL Funding FRN 2023	2,862	0.07	
£9,300,000 Peel South East 10% 2026	13,433	0.34	
£5,000,000 Places for People 3.625% 2028	5,069	0.13	
£9,598,000 Places for People 5.875% 2031	11,966	0.30	
£4,331,000 Principality Building Society 2.375% 2023	4,336	0.11	
£406,474 Road Management Services 3.642% IL 2028	696	0.02	
£17,200,000 Segro 5.625% 2020	19,301	0.48	
£2,315,000 Skipton Building Society 1.75% 2022	2,307	0.06	
\$1,000,000 Société Générale Var. Rate Perp. (6%)	752	0.02	
£4,750,000 South West Water Finance 5.875% 2040	7,005	0.17	
£15,000,000 Suez Environnement 5.375% 2030	19,913	0.50	
£1,809,460 Summit Finance (Law) 6.484% 2028	2,126	0.05	
£422,826 THFC Social Housing 8.75% 2021	526	0.01	
£3,759,119 THRONES 2013-1 FRN 2044	3,772	0.09	
£2,927,864 Together Asset Backed Securitisation FRN 2049	2,933	0.07	
£33,000,000 Vodafone Group 3% 2056	29,071	0.73	
£12,500,000 Vodafone Group 3.375% 2049	11,855	0.30	
£250,000 Washington Mutual Bank 5.5% 2019 ^[a]	0	0.00	
£2,000,000 Westfield Stratford FRN 2024	1,991	0.05	
£1,900,000 Witan Investment Trust 6.125% 2025	2,394	0.06	
£2,600,000 Wm Morrison Supermarkets 3.5% 2026	2,804	0.07	
£5,000,000 Wm Morrison Supermarkets 4.625% 2023	5,689	0.14	
£7,000,000 Wm Morrison Supermarkets 4.75% 2029	8,240	0.21	
£2,525,000 Yorkshire Building Society 3.5% 2026	2,767	0.07	
£1,993,000 Yorkshire Building Society Var. Rate 2024 (4.125%)	2,071	0.05	

M&G Corporate Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %
Credit default swaps	116	0.00	(0.01)
€10,000,000 Imperial Brands Finance Jun 2018	(42)	0.00	
€(10,000,000) Markit iTraxx Europe Series 27 10 Year Jun 2027	178	0.00	
€(10,000,000) Markit iTraxx Europe Sub Fin Series 28 5 Year Dec 2022	(20)	0.00	
Forward currency contracts	9,910	0.25	0.10
€695,142 Bought for £615,135 (expires 10.01.18)	2	0.00	
€(13,386,826) Sold for £11,902,955 (expires 10.01.18)	23	0.00	
€(16,800,431) Sold for £14,988,355 (expires 07.02.18)	68	0.00	
€(21,053,488) Sold for £18,630,922 (expires 07.03.18)	(81)	0.00	
\$ (239,244,748) Sold for £179,887,380 (expires 10.01.18)	2,859	0.07	
\$ (260,270,076) Sold for £198,181,947 (expires 07.02.18)	5,764	0.15	
\$ (189,422,187) Sold for £141,193,432 (expires 07.03.18)	1,275	0.03	
Interest rate futures contracts	881	0.02	0.02
(192) Euro Bund Mar 2017	218	0.01	
1,000 Long Gilt Bond Mar 2017	864	0.02	
(1,600) US Ultra Bond CBT Mar 17	(201)	(0.01)	
Interest rate swaps	(1,178)	(0.03)	(0.05)
£10,000,000 Pay 1.5425% Receive VAR Mar 2047	(307)	0.00	
\$35,000,000 Pay 2.6575% Receive VAR Feb 2047	(871)	(0.03)	
Portfolio of investments	3,824,133	95.44	97.19
'AAA' rated money market funds ^[b]	138,840	3.46	2.13
138,840,000 Northern Trust Global Fund - Sterling	138,840	3.46	
Total portfolio	3,962,973	98.90	99.32
Net other assets / (liabilities)	43,946	1.10	0.68
Net assets attributable to shareholders	4,006,919	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.

Portfolio transactions		
for the six months to 31 December	2017	2016
Portfolio transactions	£'000	£'000
Total purchases	376,338	817,433
Total sales	579,343	1,109,520

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

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.

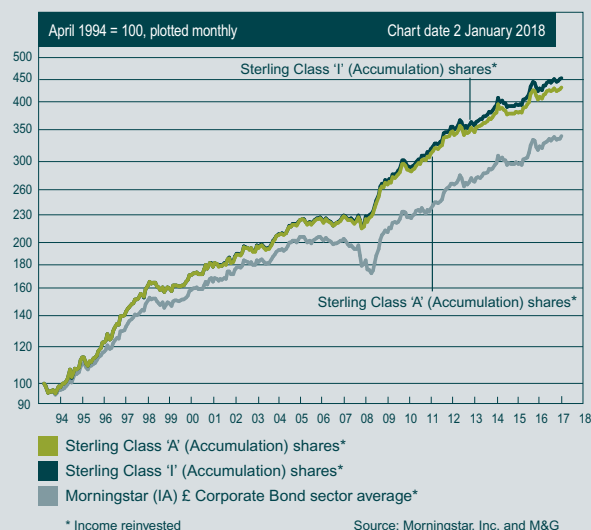
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer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

Fund level performance

Fund net asset value			
as at	31.12.17 £'000	30.06.17 £'000	30.06.16 £'000
Fund net asset value (NAV)	4,006,919	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.



The fund's Sterling Class 'I' (Accumulation) shares were launched on 2 July 2007. 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				
	Six months 03.07.17 % [a]	Three years 02.01.15 % p.a.	Five years 02.01.13 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+0.2	-0.2	+3.1	+4.2 [c]
Class 'C'	+0.6	+0.5	+3.9	+4.7 [c]
Sterling [d]				
Class 'A'	+1.7	+4.1	+4.7	+6.3 [e]
Class 'I'	+2.0	+4.5	+5.1	+7.1 [f]
Class 'R'	+1.9	+4.3	+4.9	+5.0 [g]
Class 'X'	+1.7	+3.9	+4.5	+6.2 [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 wholly in fixed interest securities no direct portfolio transaction costs are applicable. To give an indication of the indirect portfolio dealing costs the table below shows the average portfolio dealing spread.

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

Portfolio transaction costs

as at	31.12.17	30.06.17	30.06.16	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.69	0.70	0.85	0.75

^[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.

	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Change in NAV per share			
Opening NAV	1,869.07	1,884.71	2,052.07
Return before operating charges and after direct portfolio transaction costs	29.00	10.91	(139.21)
Operating charges	(11.69)	(26.55)	(28.15)
Return after operating charges	17.31	(15.64)	(167.36)
Distributions	(20.59)	(45.87)	(54.91)
Retained distributions	20.59	45.87	54.91
Closing NAV	1,886.38	1,869.07	1,884.71
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.01	0.02	0.03
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	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	+0.93	-0.83	-8.16
Distribution yield	2.15	2.27	2.61
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	16,764	19,148	28,653
Closing NAV percentage of total fund NAV (%)	0.42	0.46	0.64
Number of shares	1,001,561	1,165,891	1,839,784
Highest share price (Euro ¢)	1,902.76	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.

	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Change in NAV per share			
Opening NAV	1,985.70	1,987.37	2,147.91
Return before operating charges and after direct portfolio transaction costs	32.45	11.47	(146.90)
Operating charges	(6.54)	(13.14)	(13.64)
Return after operating charges	25.91	(1.67)	(160.54)
Distributions	(29.30)	(63.47)	(72.75)
Retained distributions	29.30	63.47	72.75
Closing NAV	2,011.61	1,985.70	1,987.37
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
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	0.66	0.66	0.66
Return after operating charges	+1.30	-0.08	-7.47
Distribution yield	2.90	3.02	3.36
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	3,363	3,021	3,551
Closing NAV percentage of total fund NAV (%)	0.08	0.07	0.08
Number of shares	188,392	173,121	216,258
Highest share price (Euro ¢)	2,028.03	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	41.21	40.50	39.05
Return before operating charges and after direct portfolio transaction costs	1.07	2.79	3.13
Operating charges	(0.24)	(0.48)	(0.46)
Return after operating charges	0.83	2.31	2.67
Distributions	(0.74)	(1.60)	(1.22)
Closing NAV	41.30	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	+2.01	+5.70	+6.84
Distribution yield ^[c]	3.55	3.67	2.86
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (£'000)	252,839	302,208	348,247
Closing NAV percentage of total fund NAV (%)	6.31	7.32	7.76
Number of shares	612,172,536	733,359,260	859,822,404
Highest share price (UK p)	41.95	43.16	40.74
Lowest share price (UK p)	40.94	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	69.24	65.67	61.78
Return before operating charges and after direct portfolio transaction costs	1.82	4.54	5.01
Operating charges	(0.41)	(0.79)	(0.73)
Return after operating charges	1.41	3.75	4.28
Distributions	(0.86)	(1.84)	(1.95)
Retained distributions	0.86	1.66	1.56
Closing NAV	70.65	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	+2.04	+5.71	+6.93
Distribution yield	2.40	2.52	2.86
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	431,773	459,881	508,135
Closing NAV percentage of total fund NAV (%)	10.77	11.14	11.32
Number of shares	611,172,196	664,216,712	773,805,749
Highest share price (UK p)	70.68	70.07	65.67
Lowest share price (UK p)	69.00	66.07	61.38

Sterling Class 'I' Income share performance

The share class was launched on 2 July 2007.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	41.44	40.52	39.07
Return before operating charges and after direct portfolio transaction costs	1.08	2.80	3.13
Operating charges	(0.14)	(0.27)	(0.26)
Return after operating charges	0.94	2.53	2.87
Distributions	(0.75)	(1.61)	(1.42)
Closing NAV	41.63	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	+2.27	+6.24	+7.35
Distribution yield ^[c]	3.55	3.68	3.36
Effect on yield of charges offset against capital	0.65	0.65	0.00
Other information			
Closing NAV (£'000)	2,214,265	2,235,091	2,429,683
Closing NAV percentage of total fund NAV (%)	55.26	54.16	54.11
Number of shares	5,318,463,207	5,394,151,045	5,996,199,649
Highest share price (UK p)	42.22	43.22	40.80
Lowest share price (UK p)	41.22	40.51	38.67

Sterling Class 'I' Accumulation share performance

The share class was launched on 2 July 2007.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	72.12	68.09	63.81
Return before operating charges and after direct portfolio transaction costs	1.89	4.73	5.18
Operating charges	(0.24)	(0.47)	(0.43)
Return after operating charges	1.65	4.26	4.75
Distributions	(1.07)	(2.27)	(2.34)
Retained distributions	1.07	2.04	1.87
Closing NAV	73.77	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	+2.29	+6.26	+7.44
Distribution yield	2.90	3.02	3.36
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	616,175	618,336	654,547
Closing NAV percentage of total fund NAV (%)	15.38	14.98	14.58
Number of shares	835,295,086	857,427,451	961,297,408
Highest share price (UK p)	73.79	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	110.46	108.29	104.41
Return before operating charges and after direct portfolio transaction costs	2.89	7.47	8.36
Operating charges	(0.51)	(1.01)	(0.96)
Return after operating charges	2.38	6.46	7.40
Distributions	(1.99)	(4.29)	(3.52)
Closing NAV	110.85	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	+2.15	+5.97	+7.09
Distribution yield ^[c]	3.55	3.68	3.11
Effect on yield of charges offset against capital	0.90	0.90	0.00
Other information			
Closing NAV (£'000)	7,442	4,014	4,171
Closing NAV percentage of total fund NAV (%)	0.19	0.10	0.09
Number of shares	6,714,149	3,633,768	3,851,873
Highest share price (UK p)	112.50	115.46	108.98
Lowest share price (UK p)	109.81	108.16	103.33

M&G Corporate Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	127.78	120.92	113.54
Return before operating charges and after direct portfolio transaction costs	3.35	8.38	9.22
Operating charges	(0.59)	(1.14)	(1.06)
Return after operating charges	2.76	7.24	8.16
Distributions	(1.74)	(3.72)	(3.88)
Retained distributions	1.74	3.34	3.10
Closing NAV	130.54	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	+2.16	+5.99	+7.19
Distribution yield	2.65	2.77	3.11
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	9,850	1,913	6,220
Closing NAV percentage of total fund NAV (%)	0.25	0.05	0.14
Number of shares	7,545,218	1,496,999	5,143,782
Highest share price (UK p)	130.60	129.31	120.92
Lowest share price (UK p)	127.34	121.77	112.80

Sterling Class 'X' Income share performance

The share class was launched on 15 April 1994.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	41.17	40.51	39.06
Return before operating charges and after direct portfolio transaction costs	1.07	2.79	3.13
Operating charges	(0.24)	(0.53)	(0.56)
Return after operating charges	0.83	2.26	2.57
Distributions	(0.74)	(1.60)	(1.12)
Closing NAV	41.26	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	+2.02	+5.58	+6.58
Distribution yield ^[c]	3.55	3.67	2.61
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (£'000)	433,367	457,161	479,592
Closing NAV percentage of total fund NAV (%)	10.81	11.08	10.68
Number of shares	1,050,217,209	1,110,390,963	1,183,823,837
Highest share price (UK p)	41.91	43.16	40.73
Lowest share price (UK p)	40.90	40.38	38.64

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

Sterling Class 'X' Accumulation share performance

The share class was launched on 15 April 1994.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	67.20	63.79	60.14
Return before operating charges and after direct portfolio transaction costs	1.76	4.42	4.86
Operating charges	(0.39)	(0.85)	(0.86)
Return after operating charges	1.37	3.57	4.00
Distributions	(0.83)	(1.71)	(1.74)
Retained distributions	0.83	1.55	1.39
Closing NAV	68.57	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	+2.04	+5.60	+6.65
Distribution yield	2.28	2.29	2.61
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	21,081	26,392	27,390
Closing NAV percentage of total fund NAV (%)	0.53	0.64	0.60
Number of shares	30,745,085	39,274,822	42,936,027
Highest share price (UK p)	68.60	68.01	63.79
Lowest share price (UK p)	66.96	64.14	59.75

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

^[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 Corporate Bond Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 31 December	2017		2016	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		31,599		72,589
Revenue	74,219		89,785	
Expenses	(16,428)		(19,341)	
Net revenue / (expense) before taxation	57,791		70,444	
Taxation	(213)		(84)	
Net revenue / (expense) after taxation		57,578		70,360
Total return before distributions		89,177		142,949
Distributions		(68,128)		(83,979)
Change in net assets attributable to shareholders from investment activities		21,049		58,970

Statement of change in net assets attributable to shareholders

for the six months to 31 December	2017		2016	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		4,127,165		4,490,189
Amounts received on issue of shares	67,824		300,627	
Amounts paid on cancellation of shares	(224,722)		(586,310)	
		(156,898)		(285,683)
Dilution adjustments		565		3,036
Change in net assets attributable to shareholders from investment activities (see above)		21,049		58,970
Retained distributions on Accumulation shares		15,024		14,619
Unclaimed distributions		14		12
Closing net assets attributable to shareholders		4,006,919		4,281,143

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	31 December 2017	30 June 2017
	£'000	£'000
Assets		
Fixed assets		
Investments	3,964,495	4,102,527
Current assets		
Debtors	59,838	72,576
Cash and bank balances	12,316	9,730
Total assets	4,036,649	4,184,833
Liabilities		
Investment liabilities	(1,522)	(3,269)
Creditors		
Overdrawn positions at futures clearing houses and collateral manager	(139)	(520)
Distribution payable	(26,091)	(29,033)
Other creditors	(1,978)	(24,846)
Total liabilities	(29,730)	(57,668)
Net assets attributable to shareholders	4,006,919	4,127,165

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

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.

M&G Corporate Bond Fund

Financial statements and notes

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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 January 2018, for the six months ended 31 December 2017

Distribution summary

Over the six-month review period, the fund distributed income of 0.8005 pence per Sterling Class 'A' (Income) share. This is the same distribution as the payment made in the same period last year. The payout represented a yield (distributed income as a percentage of the share price) of 4.58% versus a yield of 3.60% for the FTSE All-Share Index, a comparative index.

In our previous reports, 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.) Companies such as Royal Dutch Shell and HSBC have struggled to increase their dividends* in a meaningful way as their underlying businesses showed little signs of growth. At the same time, multinationals with significant US dollar earnings are no longer benefiting from the Brexit-induced weakness in sterling. That said, the UK market has benefited from the re-emergence of the mining sector where dividend growth has resumed during the period under review. Dividends from the likes of Rio Tinto and BHP Billiton were slashed in early 2016 in response to falling commodity prices and our focus on long-term growth allowed us to avoid those pitfalls at the time. We have a natural aversion to companies whose dividends are volatile as a result of their sensitivity to external factors which are ultimately beyond their control.

Against this background, we are pleased that the majority of the fund's holdings continued to deliver healthy dividend growth, in line with their long-term commitment. Imperial Brands, the tobacco company, and Britvic, the soft drinks manufacturer, raised their full-year dividends by 10% and 8% respectively, while food service group Compass increased its payment by 6%. Dividend growth of 5-15% from these stable business models is consistent with their history as well as our long-term expectations. Outside this range, McCarthy & Stone reported a 20% dividend increase for the financial year ended August. The UK's leading developer of retirement homes is ramping up its payments after rejoining the stockmarket in November 2015. Countryside Properties reported the biggest dividend increase during the review period under similar circumstances. The housebuilder and urban regeneration specialist more than doubled its payment for the 12 months ended September, the magnitude of the increase reflecting the robust performance of the underlying businesses as well as the large step-up in dividends following the company's initial public offering (IPO) in February 2016.

* Underlying basis, excluding currency.

M&G Dividend Fund

Authorised Corporate Director's Report

Investment review

Distribution summary (continued)

The reporting season for the first half of 2017 also gave rise to higher dividends, particularly in financials. Jupiter Fund Management (51%) and Intermediate Capital (20%) delivered impressive dividend increases among our holdings in asset managers, while Prudential and Aviva, our largest insurance holdings, reported double-digit growth. The majority of the fund's holdings continued to raise their dividends in the region of 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 interim dividend by 14% in sterling, while British American Tobacco reported a 10% increase in consumer goods. DS Smith, the packaging company, raised its half-year dividend by 7%.

Not all of our holdings delivered growth, however. BP and AstraZeneca were among a handful of large-cap holdings that held their dividends flat, although in the case of AstraZeneca, we are optimistic that dividend growth can resume over time. Lower down the market capitalisation spectrum, Essentra (industrials) and Golar LNG (oil & gas) also held their dividends flat. Both stocks have sufficient valuation backing to merit their place in the portfolio.

As a trend, we saw less special dividends so far this year. Admiral, the specialist in car insurance, continued in its vein of paying special dividends on a regular basis, but was the only holding to do so during the review period. Micro Focus in the technology sector returned a significant amount of cash, equivalent to more than 7% of the company's market value, as it completed the acquisition of Hewlett Packard Enterprise (HPE)'s software business. This was done, however, as a return of capital. This was somewhat disappointing as it cannot be distributed as income. We do however applaud the discipline of returning excess cash to shareholders.

Against this backdrop, we also maintained a yield above that of the FTSE All-Share Index. The challenges presented by the concentration of yield in the UK stockmarket have been well documented, and the assessment of potential risks associated with individual high-yielding stocks remains 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. We continue to be selective about 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 valuation in full recognition of the fact 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 the 'Financial highlights' section of 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 reporting period. In keeping with prior years under the fund manager's tenure, special dividends formed a key component of the fund's income and these dividends should be seen as special and not necessarily recurring.

Performance against objective

Between 3 July 2017 (the start of the review period) and 2 January 2018, the fund delivered a small positive total return (the combination of income and growth of capital) across its share classes. However, the fund's returns in all share classes lagged the FTSE All-Share Index, which returned 6% over the six-month period.

While the fund has achieved its objective in terms of delivering a dividend yield above that of the FTSE All-Share Index and generating capital growth, it did not increase distributions during the six-month review period for all share classes. Over a longer period of five years, the fund has achieved all aspects of its objective.*

* 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 in the past six months, but trailed the FTSE All-Share Index. Relative performance suffered from negative sector allocation. The positive effect of having limited exposure to utilities and healthcare, which underperformed, was more than offset by the fund's small weighting in basic materials and oil & gas which led the markets higher during the review period. Not owning Glencore, Rio Tinto and BHP Billiton, which collectively account for 5% of the FTSE All-Share Index, detracted as these mining stocks generated returns well in excess of 20%. The zero exposure to Royal Dutch Shell, which accounts for more than 8% of the index, also proved detrimental as the oil major returned 25%.

From a stock-specific perspective, SES was the biggest detractor during the review period. The satellite company came under pressure following the announcement of third-quarter results which fell short of market expectations. The stock is under review.

Provident Financial underperformed in response to a profit warning, and the cancelling of the dividend. The UK consumer finance company warned that the transition to a new operating model was experiencing greater disruption than planned, as a result of which the deterioration in operating performance will reduce profits in the consumer credit division in 2017. The stock has been sold as a source of cash for better ideas.

ConvaTec delivered a negative return in a rising market after the manufacturer of medical equipment lowered its revenue guidance for 2017 as a result of supply issues and a lower-than-anticipated contribution from new products. Despite this setback, the company announced its maiden dividend in August and we maintain our conviction in the long-term prospects.

Turning to the positive contributors, Intermediate Capital added the most value after the asset manager returned more than 30% during the six months under review, helped by strong inflows. Jupiter Fund Management was also among the top 10 positive contributors as a result of considerable operational progress. We have been taking some profits in both these holdings to take advantage of the sharp share price increase.

M&G Dividend Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

Methanex returned more than 30% in sterling and outperformed a rising basic materials sector after the methanol producer benefited from a favourable combination of higher coal prices, higher gas prices, solid demand growth, an environmental clampdown in China and higher energy prices. The stock's valuation discount has narrowed considerably, but we continue to see further upside. In the oil & gas sector which benefited from a higher oil price, Golar LNG and BP made positive contributions.

Technology was another strong sector during the period under review and Micro Focus performed well accordingly. The stock recovered from a disappointing start when the announcement of full-year results in July led to expectations being revised down. We added to our holding on weakness at this time as the company endorsed its confidence in its long-term growth prospects with a 32% dividend increase. Subsequently, the shares rose more than 30% from their lows as the company completed the acquisition of HPE's software business and the operational performance of the acquired business showed an improvement. We reduced the holding again as the shares rallied, in keeping with our discipline on stock valuation.

Investment activities

We made five new purchases and four complete sales during the six months under review, consistent with our long-term investment horizon of three years or more. Investment decisions are based on the detailed analysis of company fundamentals and the thorough assessment of valuation to determine whether a stock merits its place in the fund. Dialogue with companies is integral to our approach and we aim to make informed judgments through human engagement. Understanding corporate culture and strategy is a prerequisite to understanding the value creation which a company can potentially deliver. This entails regular meetings with senior management as well as site visits to operational facilities, and through the consistent application of this routine, we aim to identify new ideas.

Domino's Pizza, our most recent purchase, is a good illustration of our disciplined process working in practice. While the structural threat of online aggregators such as Just Eat and Deliveroo cannot be ignored, Domino's Pizza has a key competitive advantage in the form of scale – a strength which we feel more comfortable about following a site visit to the company's production and logistics facilities in Milton Keynes. The investment case is not without its controversies, but we have scrutinised the business model in much detail, including several meetings with the management team, and we will be looking to add to the holding on opportunities.

We also bought Unite Group, the UK's leading manager and developer of student accommodation, on a share price setback. It is a beneficiary of structural growth and has a strong development pipeline with an increasing number of university partnerships. We bought back WPP in October when the share price was 25% lower than when we sold it in February. The stock underperformed significantly during the

intervening months after the advertising group cut its guidance following a slow start to 2017. The underperformance has been overdone, in our view, and we took advantage of an opportunity to invest in a company capable of sustaining growth, contrary to its valuation today.

Hilton Food, which is expanding geographically with a focus on fresh foods, and jewellery company Pandora were the other new purchases.

The fund's biggest purchase was not a new holding, however. The recipient of most new capital was BP where we doubled the fund's exposure to narrow the large underweight position in oil & gas. The oil industry is demonstrating a new-found discipline that the fund manager had not seen since the turn of the century. We trimmed some of our holding in Golar LNG to compensate.

We also added to Imperial Brands which looks cheap as a result of regulatory concerns in the US tobacco industry and the market's lack of faith in the company's ability to deliver growth. Coupled with the new purchases of Hilton Food and Pandora mentioned above, the fund's exposure to the consumer goods sector increased from an underweight to an overweight position relative to the FTSE All-Share Index. In industrials, we bought more BAE Systems in defence, and added to the fund's exposure to construction and housing by topping up on VolkerWessels, Countryside Properties and McCarthy & Stone. We also increased the weighting in AstraZeneca, although the healthcare exposure declined overall as we reduced the holding in GlaxoSmithKline.

Turning to the other major sales, we sold property company Hansteen in its entirety after a strong run. In addition to the sale of Provident Financial, we also exited Ranger Direct Lending and trimmed our holding in Aviva. The fund's overweight position in financials has been removed as a consequence. We also completed the sale of Saga in September. We were unconvinced about Saga's growth expectations and its ability to capitalise on its leading brand for the over 50s. After the sale, the shares dropped more than 20% in December as the company reported a profit warning.

On a more positive note, we took profits in GVC, the sports betting and gaming company, which rallied as a result of continued operational progress. The proposed acquisition of Ladbrokes Coral has been well received by the market and the stock remains a core holding.

As a result of these transactions, the number of holdings rose to 46. We believe a concentrated portfolio of best ideas is an excellent way to capture the opportunities for stock selection in the UK.

Outlook

The UK stockmarket continues to defy the critics. The FTSE All-Share Index ended 2017 at an all-time high despite the ongoing uncertainties at the macroeconomic level: forecasts for economic growth have been lowered, interest rates have been raised for the first time in 10 years and inflation has been on the rise following Brexit and the sterling weakness that ensued. The stockmarket, however, is not a reflection of the domestic economy; it is an amalgam of companies from a variety of sectors with varying degrees of geographic diversity that happen to be listed on the London Stock Exchange.

M&G Dividend Fund

Authorised Corporate Director's Report

Investment review

Outlook (continued)

With this in mind, we remain focused on the analysis of company fundamentals and valuation, in the belief that these factors 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. The UK is also home to a multitude of global businesses which are not reliant on the fortunes of the UK economy. We seek to invest in companies with greater control over their own destiny. Even among more domestically biased businesses, there are attractive opportunities for growth. The importance of being selective cannot be emphasised enough.

At the same time we also need to be mindful of potential headwinds. The recent pronounced weakness in the US dollar, coupled with the marked decrease in the number of special dividends present a challenge to growing the income this year.

We remain committed to our dividend growth strategy and our conviction-based approach, and believe that the cash-generative nature of the fund's holdings, their ability to grow dividends over the long term and their attractive valuation in the stockmarket stand us in good stead for the future. The fund's current yield of 4.58%, which we aim to grow over time, offers a favourable proposition for long-term investors, in our view. We appreciate your continued support.

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.

Investments

Portfolio statement

as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %
Equities	1,303,774	100.72	102.10
Oil & gas producers	85,862	6.63	3.28
16,527,838 BP	85,862	6.63	
Oil equipment, services & distribution	22,291	1.72	2.78
856,819 Golar LNG	18,916	1.46	
2,990,875 Prosafe	3,375	0.26	
Chemicals	31,499	2.43	1.82
700,000 Methanex	31,499	2.43	
Construction & materials	16,184	1.25	0.99
775,834 VolkerWessels	16,184	1.25	
Aerospace & defence	37,313	2.88	2.42
6,523,288 BAE Systems	37,313	2.88	
General industrials	43,159	3.33	3.30
8,356,084 DS Smith	43,159	3.33	
Industrial engineering	98,072	7.58	6.86
3,216,036 IMI	42,773	3.31	
786,648 Kone	31,200	2.41	
428,437 Spirax-Sarco Engineering	24,099	1.86	
Support services	85,523	6.61	6.95
9,194,500 Essentra	48,501	3.75	
3,810,809 Howden Joinery Group	17,846	1.38	
7,522,751 IWG	19,176	1.48	
Beverages	24,587	1.90	1.62
3,020,502 Britvic	24,587	1.90	
Food producers	4,847	0.37	0.00
577,076 Hilton Food Group	4,847	0.37	
Household goods & home construction	48,735	3.77	1.34
7,598,950 Countryside Properties	26,832	2.08	
13,818,971 McCarthy & Stone	21,903	1.69	
Leisure goods	0	0.00	2.82
Personal goods	5,913	0.46	0.00
73,725 Pandora	5,913	0.46	
Tobacco	140,640	10.87	10.18
1,750,726 British American Tobacco	86,818	6.71	
1,703,497 Imperial Brands	53,822	4.16	
Healthcare equipment & services	18,087	1.40	2.19
8,822,962 ConvaTec	18,087	1.40	
Pharmaceuticals & biotechnology	66,084	5.11	6.00
1,174,860 AstraZeneca	59,601	4.61	
493,933 GlaxoSmithKline	6,483	0.50	
General retailers	24,868	1.92	2.88
3,627,744 Dunelm Group	24,868	1.92	
Media	89,088	6.88	7.89
1,903,670 Ascential	7,327	0.56	
2,450,000 RELX	42,410	3.28	
2,860,834 SES FDR (formerly SES Global)	32,961	2.55	
477,946 WPP	6,390	0.49	
Travel & leisure	67,195	5.19	2.08
2,209,326 Compass Group	35,327	2.73	
1,549,293 Domino's Pizza	5,382	0.41	
2,857,107 GVC Holdings	26,486	2.05	

M&G Dividend Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %
Electricity	16,383	1.27	1.37
1,255,395 SSE	16,383	1.27	
Banks	25,551	1.97	2.21
2,854,165 Nordea Bank	25,551	1.97	
Non-life insurance	82,975	6.41	5.48
1,356,288 Admiral Group	26,773	2.07	
2,032,719 Hiscox	29,515	2.28	
660,176 Sampo	26,687	2.06	
Life insurance	134,258	10.37	11.04
8,490,938 Aviva	42,710	3.30	
4,232,110 Phoenix Group	33,074	2.55	
3,101,256 Prudential ^[a]	58,474	4.52	
Real estate investment trusts	43,253	3.34	5.02
4,840,611 NewRiver REIT	16,056	1.24	
11,109,503 Tritax Big Box REIT	16,520	1.28	
1,334,560 UNITE Group	10,677	0.82	
Financial services	54,666	4.22	7.30
2,960,425 Intermediate Capital Group	33,749	2.61	
3,336,065 Jupiter Fund Management	20,917	1.61	
Equity investment instruments	13,110	1.01	1.44
1,150,000 Honeycomb Investment Trust	13,110	1.01	
Software & computer services	23,631	1.83	2.84
942,582 Micro Focus	23,631	1.83	
Unlisted	0	0.00	0.00
377,518 Izodia ^[b]	0	0.00	
Forward currency contracts	398	0.03	0.08
\$(53,219,438) Sold for £39,700,000 (expires 13.03.18)	398	0.03	
Portfolio of investments	1,304,172	100.75	102.18
'AAA' rated money market funds ^[c]	816	0.06	0.67
816,000 Northern Trust Global Fund - Sterling	816	0.06	
Total portfolio	1,304,988	100.81	102.85
Net other assets / (liabilities)	(10,514)	(0.81)	(2.85)
Net assets attributable to shareholders	1,294,474	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.

Top ten portfolio transactions

for the six months to 31 December 2017

Largest purchases	£'000
BP	33,654
Micro Focus	15,948
Imperial Brands	13,710
BAE Systems	10,247
UNITE Group	9,112
VolkerWessels	6,866
WPP	6,663
AstraZeneca	6,418
Countryside Properties	5,716
McCarthy & Stone	5,454
Other purchases	60,594
Total purchases	174,382
Largest sales	£'000
Micro Focus	30,612
Hansteen Holdings REIT	22,942
Jupiter Fund Management	19,861
Saga	16,511
Golar LNG	12,389
Provident Financial	11,623
GlaxoSmithKline	9,351
GVC Holdings	7,827
Aviva	7,355
Intermediate Capital Group	6,835
Other sales	33,106
Total sales	178,412

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.

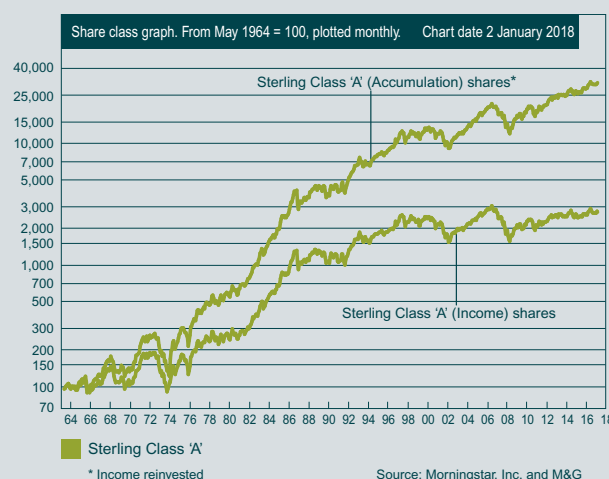
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer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

Fund level performance

Fund net asset value			
as at	31.12.17 £'000	30.06.17 £'000	30.06.16 £'000
Fund net asset value (NAV)	1,294,474	1,288,318	1,212,080

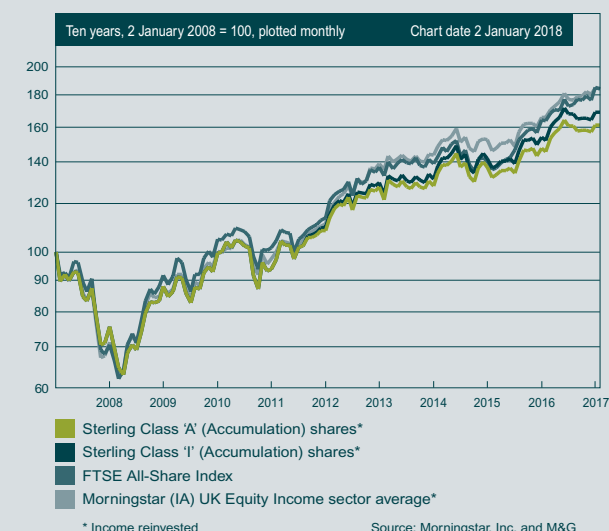
Share class performance since launch

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



Ten-year performance

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



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.

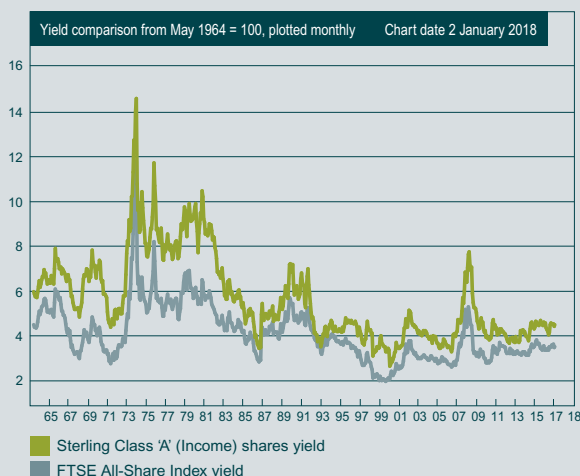
M&G Dividend Fund

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.

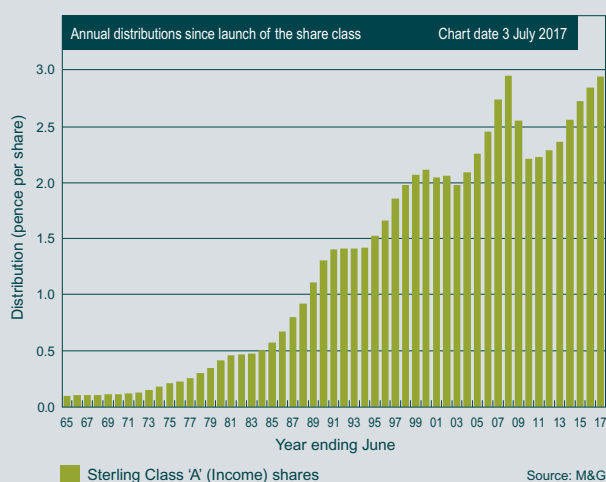


Source: Morningstar, Inc. and M&G

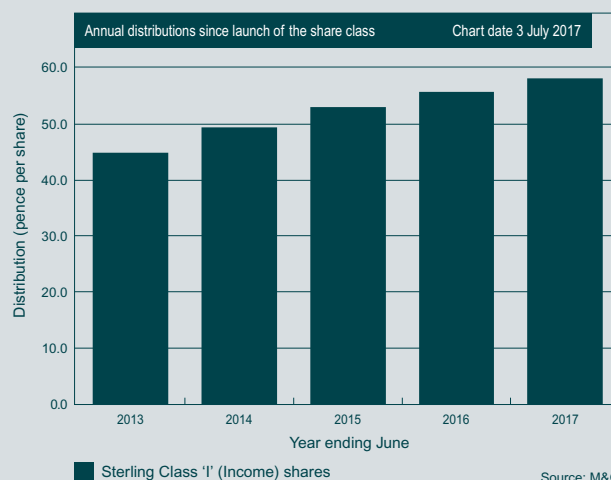
Historic yield: The historic yield reflects distributions declared over the past twelve months as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions.

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

	Six months 03.07.17 % [a]	Three years 02.01.15 % p.a.	Five years 02.01.13 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	+0.3	+7.9	+7.7	+11.2 [c]
Class 'C'	+1.1	+9.5	+9.3	+7.0 [d]
Class 'I'	+0.7	+8.7	+8.5	+9.3 [e]
Class 'R'	+0.6	+8.4	+8.2	+9.0 [e]
Class 'X'	+0.3	+7.9	+7.7	+7.9 [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

	Six months to 31.12.17 %	Year to 30.06.17 %	Year to 30.06.16 %	Average ^[a] %
Direct portfolio transaction costs ^[b]				
Broker commission	0.02	0.04	0.05	0.04
Taxes	0.11	0.10	0.15	0.12
Costs before dilution adjustments	0.13	0.14	0.20	0.16
Dilution adjustments ^[c]	(0.03)	(0.02)	(0.03)	(0.03)
Total direct portfolio transaction costs	0.10	0.12	0.17	0.13
as at	31.12.17	30.06.17	30.06.16	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.11	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 period are calculated as at 12 January 2018.

Sterling Class 'A' Income share performance

The share class was launched on 6 May 1964.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	65.01	56.52	61.14
Return before operating charges and after direct portfolio transaction costs	0.66	12.49	(0.79)
Operating charges	(0.53)	(1.05)	(0.99)
Return after operating charges	0.13	11.44	(1.78)
Distributions	(0.80)	(2.95)	(2.84)
Closing NAV	64.34	65.01	56.52
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.04	0.09	0.12
Dilution adjustments ^[a]	(0.01)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.03	0.08	0.10
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.12	0.17
Operating charges	1.66	1.66	1.66
Return after operating charges	+0.20	+20.24	-2.91
Historic yield ^[c]	4.58	4.55	4.91
Effect on yield of charges offset against capital	1.66	1.66	1.66
Other information			
Closing NAV (£'000)	339,941	364,142	331,842
Closing NAV percentage of total fund NAV (%)	26.26	28.27	27.38
Number of shares	528,345,321	560,171,148	587,109,164
Highest share price (UK p)	65.92	69.22	62.94
Lowest share price (UK p)	62.30	57.24	53.65

Sterling Class 'A' Accumulation share performance

The share class was launched on 6 May 1964.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	714.80	594.58	612.62
Return before operating charges and after direct portfolio transaction costs	7.46	131.29	(8.10)
Operating charges	(5.81)	(11.07)	(9.94)
Return after operating charges	1.65	120.22	(18.04)
Distributions	(4.01)	(20.18)	(28.70)
Retained distributions	4.01	20.18	28.70
Closing NAV	716.45	714.80	594.58
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.45	0.93	1.23
Dilution adjustments ^[a]	(0.11)	(0.13)	(0.19)
Total direct portfolio transaction costs	0.34	0.80	1.04
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.12	0.17
Operating charges	1.66	1.66	1.66
Return after operating charges	+0.23	+20.22	-2.94
Historic yield	2.69	2.83	4.72
Effect on yield of charges offset against capital	0.01	0.01	1.66
Other information			
Closing NAV (£'000)	82,347	88,701	80,425
Closing NAV percentage of total fund NAV (%)	6.36	6.89	6.64
Number of shares	11,493,837	12,409,112	13,526,383
Highest share price (UK p)	724.97	736.85	630.43
Lowest share price (UK p)	685.24	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	77.96	66.76	71.13
Return before operating charges and after direct portfolio transaction costs	0.80	14.83	(0.93)
Operating charges	(0.06)	(0.12)	(0.11)
Return after operating charges	0.74	14.71	(1.04)
Distributions	(0.96)	(3.51)	(3.33)
Closing NAV	77.74	77.96	66.76
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.10	0.14
Dilution adjustments ^[a]	(0.01)	(0.02)	(0.02)
Total direct portfolio transaction costs	0.04	0.08	0.12
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.12	0.17
Operating charges	0.16	0.16	0.16
Return after operating charges	+0.95	+22.03	-1.46
Historic yield ^[c]	4.53	4.52	4.88
Effect on yield of charges offset against capital	0.16	0.16	0.16
Other information			
Closing NAV (£'000)	710,119	687,746	674,464
Closing NAV percentage of total fund NAV (%)	54.86	53.38	55.65
Number of shares	913,429,627	882,227,059	1,010,299,299
Highest share price (UK p)	79.12	82.90	73.32
Lowest share price (UK p)	74.95	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	1,290.34	1,113.45	1,195.32
Return before operating charges and after direct portfolio transaction costs	13.31	246.53	(15.49)
Operating charges	(5.76)	(11.34)	(10.59)
Return after operating charges	7.55	235.19	(26.08)
Distributions	(15.92)	(58.30)	(55.79)
Closing NAV	1,281.97	1,290.34	1,113.45
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.82	1.74	2.39
Dilution adjustments ^[a]	(0.20)	(0.25)	(0.37)
Total direct portfolio transaction costs	0.62	1.49	2.02
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.12	0.17
Operating charges	0.91	0.91	0.91
Return after operating charges	+0.59	+21.12	-2.18
Historic yield ^[c]	4.55	4.53	4.89
Effect on yield of charges offset against capital	0.91	0.91	0.91
Other information			
Closing NAV (£'000)	89,610	86,799	77,633
Closing NAV percentage of total fund NAV (%)	6.92	6.74	6.41
Number of shares	6,989,998	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)	1,238.68	1,127.65	1,053.70

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	1,608.51	1,327.98	1,358.02
Return before operating charges and after direct portfolio transaction costs	16.92	294.13	(17.92)
Operating charges	(7.18)	(13.60)	(12.12)
Return after operating charges	9.74	280.53	(30.04)
Distributions	(13.96)	(56.52)	(63.88)
Retained distributions	13.96	56.52	63.88
Closing NAV	1,618.25	1,608.51	1,327.98
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.02	2.09	2.74
Dilution adjustments ^[a]	(0.25)	(0.30)	(0.42)
Total direct portfolio transaction costs	0.77	1.79	2.32
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.12	0.17
Operating charges	0.91	0.91	0.91
Return after operating charges	+0.61	+21.12	-2.21
Historic yield	3.45	3.52	4.70
Effect on yield of charges offset against capital	0.01	0.01	0.91
Other information			
Closing NAV (£'000)	22,809	19,636	16,664
Closing NAV percentage of total fund NAV (%)	1.76	1.52	1.37
Number of shares	1,409,497	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)	1,544.43	1,343.61	1,213.02

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	127.45	110.26	118.67
Return before operating charges and after direct portfolio transaction costs	1.31	24.47	(1.54)
Operating charges	(0.73)	(1.52)	(1.34)
Return after operating charges	0.58	22.95	(2.88)
Distributions	(1.57)	(5.76)	(5.53)
Closing NAV	126.46	127.45	110.26
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.08	0.18	0.24
Dilution adjustments ^[a]	(0.02)	(0.03)	(0.04)
Total direct portfolio transaction costs	0.06	0.15	0.20
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.12	0.17
Operating charges	1.16	1.16	1.16
Return after operating charges	+0.46	+20.81	-2.43
Historic yield ^[c]	4.56	4.54	4.90
Effect on yield of charges offset against capital	1.16	1.16	1.16
Other information			
Closing NAV (£'000)	13,574	8,925	1,017
Closing NAV percentage of total fund NAV (%)	1.05	0.69	0.08
Number of shares	10,733,651	7,002,965	922,826
Highest share price (UK p)	129.28	135.66	122.18
Lowest share price (UK p)	122.28	111.66	104.44

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	158.85	131.47	134.79
Return before operating charges and after direct portfolio transaction costs	1.67	29.12	(1.79)
Operating charges	(0.91)	(1.74)	(1.53)
Return after operating charges	0.76	27.38	(3.32)
Distributions	(1.22)	(5.22)	(6.34)
Retained distributions	1.22	5.22	6.34
Closing NAV	159.61	158.85	131.47
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.10	0.21	0.27
Dilution adjustments ^[a]	(0.03)	(0.03)	(0.04)
Total direct portfolio transaction costs	0.07	0.18	0.23
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.12	0.17
Operating charges	1.16	1.16	1.16
Return after operating charges	+0.48	+20.83	-2.46
Historic yield	3.20	3.29	4.71
Effect on yield of charges offset against capital	0.01	0.01	1.16
Other information			
Closing NAV (£'000)	8,898	396	173
Closing NAV percentage of total fund NAV (%)	0.69	0.03	0.01
Number of shares	5,574,926	249,149	131,843
Highest share price (UK p)	161.16	163.69	138.74
Lowest share price (UK p)	152.44	133.01	120.21

M&G Dividend Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	65.30	56.78	61.43
Return before operating charges and after direct portfolio transaction costs	0.67	12.53	(0.80)
Operating charges	(0.53)	(1.05)	(0.99)
Return after operating charges	0.14	11.48	(1.79)
Distributions	(0.80)	(2.96)	(2.86)
Closing NAV	64.64	65.30	56.78
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.04	0.09	0.12
Dilution adjustments ^[a]	(0.01)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.03	0.08	0.10
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.12	0.17
Operating charges	1.66	1.66	1.66
Return after operating charges	+0.21	+20.22	-2.92
Historic yield ^[c]	4.57	4.55	4.91
Effect on yield of charges offset against capital	1.66	1.66	1.66
Other information			
Closing NAV (£'000)	23,270	27,807	26,226
Closing NAV percentage of total fund NAV (%)	1.80	2.16	2.16
Number of shares	36,001,387	42,580,816	46,187,806
Highest share price (UK p)	66.22	69.54	63.23
Lowest share price (UK p)	62.59	57.50	53.89

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	707.10	588.17	606.02
Return before operating charges and after direct portfolio transaction costs	7.38	129.89	(8.01)
Operating charges	(5.75)	(10.96)	(9.84)
Return after operating charges	1.63	118.93	(17.85)
Distributions	(3.97)	(19.97)	(28.39)
Retained distributions	3.97	19.97	28.39
Closing NAV	708.73	707.10	588.17
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.45	0.92	1.21
Dilution adjustments ^[a]	(0.11)	(0.13)	(0.19)
Total direct portfolio transaction costs	0.34	0.79	1.02
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.12	0.17
Operating charges	1.66	1.66	1.66
Return after operating charges	+0.23	+20.22	-2.95
Historic yield	2.69	2.83	4.72
Effect on yield of charges offset against capital	0.01	0.01	1.66
Other information			
Closing NAV (£'000)	3,906	4,166	3,636
Closing NAV percentage of total fund NAV (%)	0.30	0.32	0.30
Number of shares	551,135	589,155	618,235
Highest share price (UK p)	717.16	728.91	623.63
Lowest share price (UK p)	677.86	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

Financial statements and notes

Financial statements

Statement of total return

for the six months to 31 December	2017		2016	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		(6,629)		114,252
Revenue	20,042		24,266	
Expenses	(4,976)		(4,982)	
Net revenue / (expense) before taxation	15,066		19,284	
Taxation	(79)		(33)	
Net revenue / (expense) after taxation		14,987		19,251
Total return before distributions		8,358		133,503
Distributions		(15,494)		(16,392)
Change in net assets attributable to shareholders from investment activities		(7,136)		117,111

Statement of change in net assets attributable to shareholders

for the six months to 31 December	2017		2016	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		1,288,318		1,212,080
Amounts received on issue of shares	75,217		37,538	
Amounts paid on cancellation of shares	(63,105)		(106,887)	
		12,112		(69,349)
Dilution adjustments		296		266
Change in net assets attributable to shareholders from investment activities (see above)		(7,136)		117,111
Retained distributions on Accumulation shares		748		848
Unclaimed distributions		136		105
Closing net assets attributable to shareholders		1,294,474		1,261,061

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	31 December 2017	30 June 2017
	£'000	£'000
Assets		
Fixed assets		
Investments	1,304,988	1,325,079
Current assets		
Debtors	4,166	4,853
Cash and bank balances	1,012	919
Total assets	1,310,166	1,330,851
Liabilities		
Creditors		
Distribution payable	(14,599)	(38,693)
Other creditors	(1,093)	(3,840)
Total liabilities	(15,692)	(42,533)
Net assets attributable to shareholders	1,294,474	1,288,318

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

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.

In order to conduct a controlled dividend flow to shareholders, interim distributions will be at the fund manager's discretion, up to the maximum of the distributable income available for the period.

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 is fully flexible and 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 January 2018, for the six months ended 31 December 2017

Performance against objective

Between 3 July 2017 (the start of the review period) and 2 January 2018, the M&G Emerging Markets Bond Fund produced positive total returns (the combination of income and growth of capital) across its different share classes, with the exception of its unhedged euro share classes*. For the latter share classes, the marked decline of the US dollar against the euro provided a headwind to performance, given the fund's maintenance of a sizeable (although reduced) exposure to the US dollar. The performance of the fund's unhedged sterling share classes was also adversely affected by the decline of the US dollar against sterling during the period. However, this US dollar/sterling movement was less significant than the change in the US dollar/euro exchange rate and, in turn, the fund's unhedged sterling share classes delivered modestly positive returns.

Positive returns were generally recorded across the main segments of the emerging bond markets, which helped the fund's overall performance. The fund's objective is to maximise total returns.

* 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

A number of key global themes continued to influence sentiment in global financial markets during the six-month period to 31 December 2017. These included the prospect of further interest rate rises by the US Federal Reserve (Fed), as well as firmer inflation trends in the US and Europe. This backdrop largely reflected a strengthening global economic outlook, as interest rates and inflation often correlate with economic growth rates. The Fed confirmed a 0.25% interest rate increase in December, which followed two other 0.25% rises during the first half of 2017.

M&G Emerging Markets Bond Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

Higher interest rates typically dampen sentiment towards bonds and, given the importance of the US market, the effects of increased US rates can be felt internationally, including in the emerging markets. (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'.)

However, other factors were supportive for the performance of emerging market bonds. For example, while interest rates increased in the US, they remained at very low levels in the UK and Europe (although the Bank of England implemented a 0.25% rise in November, which edged up UK interest rates to 0.5%).

Against this low interest rate environment, investors remained attracted to areas of the global bond universe that can offer higher yields, such as in emerging markets. (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.)

This helped emerging bond markets show resilience against some potential concerns among investors, such as increased tension caused by North Korea's armaments testing activity. As the review period progressed, there was also less concern that the recently elected President Trump would engage in significant trade restrictions between the US and important emerging countries such as China. Indeed, better-than-expected performance from the Chinese economy was seen as beneficial for the many emerging nations that export to the country.

Among other regions, there were also improving economic signals in some larger markets in Latin America, including Brazil and Mexico. In Brazil, economic growth picked up in 2017, despite some renewed political turmoil in the country, and low local inflation has helped the country's central bank to lower interest rates. In the fund, we maintained exposures to both of these countries that ranked among its largest country allocations during the review period.

In terms of the overall performance of emerging bond markets, while solid returns were delivered during the first half of the year, the performance of these assets moderated, but remained positive, in the six-month period to 31 December 2017.

Throughout the period, we maintained the belief that a key performance contributor when investing in emerging bond markets is the right allocation of a portfolio's assets between corporate bonds and government bonds, denominated in either local currencies or 'hard' currencies such as the US dollar and euro. We continued to favour investing the portfolio in a diversified way across emerging market regions, with allocations to each of these different segments of the market.

This positioning supported the fund's performance as each area registered gains and contributed to the delivery of positive returns across its various share classes, except its unhedged euro share classes. As we maintained a sizeable (although reduced) exposure to the US dollar, this exposure detracted from the returns of the fund's unhedged euro share classes as the US currency decreased in value versus the euro. To a lesser extent, the US dollar also depreciated against sterling, which hampered the returns of the fund's unhedged sterling share classes.

Investment activities

During the period, we maintained a globally diversified portfolio of emerging market government and corporate bonds, with a higher overall exposure to bonds denominated in US dollars rather than local emerging market currencies. However, during 2017, our main themes in the fund included increasing its allocation to local currency-denominated bonds. In our view, the appeal of this segment of the market was helped by factors such as weaker performance from the US dollar and the higher yields that could be found in this area.

In the opening month of the review period, for example, the fund's transaction activity included purchases of local currency-denominated bonds from the governments of the Czech Republic, Philippines, Poland, and Singapore. In September, we added some peso-denominated bonds issued by the Mexican government, which partly reflected our belief that yields were appealing in the country's bond market.

Elsewhere in Latin America, the fund participated in a new issue of US dollar-denominated bonds from the government of Brazil. Sentiment towards this important emerging market has improved, helped by the economy's climb out of recession, as well as lower interest rates and inflation. In other regions, we purchased newly issued hard currency government bonds from Jordan and Abu Dhabi, which were funded by selling hard currency government bonds from Israel that had performed well.

The fund's flexible approach also allows us to invest in emerging market corporate bonds and we continued to seek attractive opportunities in this area of the market. Our transaction activity included adding bonds from Colombia's Banco Davivienda and Oil & Gas Holding, a services and equipment group based in Bahrain. In contrast, a position was sold in Credit Bank of Moscow as we felt more attractive value could be found elsewhere.

In the final month of 2017, we also took some profits from the fund's allocation to local currency-denominated government bonds after the recent solid performance of this area of the market.

M&G Emerging Markets Bond Fund

Authorised Corporate Director's Report

Investment review

Outlook

We believe that a variety of factors continue to underline the relative attraction of emerging market bonds. These include the higher yields available from these assets compared to their developed market counterparts, as well as the diversity of both the emerging market government and corporate bond universes.

We also believe the creditworthiness of emerging market governments and corporations should be supportive as economic growth forecasts edge upwards across most developed and developing countries. This synchronised global economic outlook is encouraging for emerging bond markets, as changes to the credit ratings of governments and corporations in emerging markets tend to correlate with growth rates.

At the same time, the relevant risks need to be monitored closely. These include higher US interest rates, although so far the Fed has tightened at a relatively slow and gradual pace that was widely anticipated. In turn, reactions among emerging bond markets to the Fed's hikes have been fairly muted. Also relevantly, the higher US interest rate environment is less challenging for many emerging market economies than in previous rising rate cycles, partly due to factors such as 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 potential concerns for the outlook for emerging markets appeared to start receding as 2017 progressed. These included the more pessimistic scenarios regarding the development of US/China relations under President Trump's administration. The US has not, for example, engaged in a trade war with China. However, the current renegotiation of the North American Free Trade Agreement (NAFTA) has yet to be finalised, with any moves by the US to reduce free trade likely to dampen sentiment towards some sectors in emerging markets.

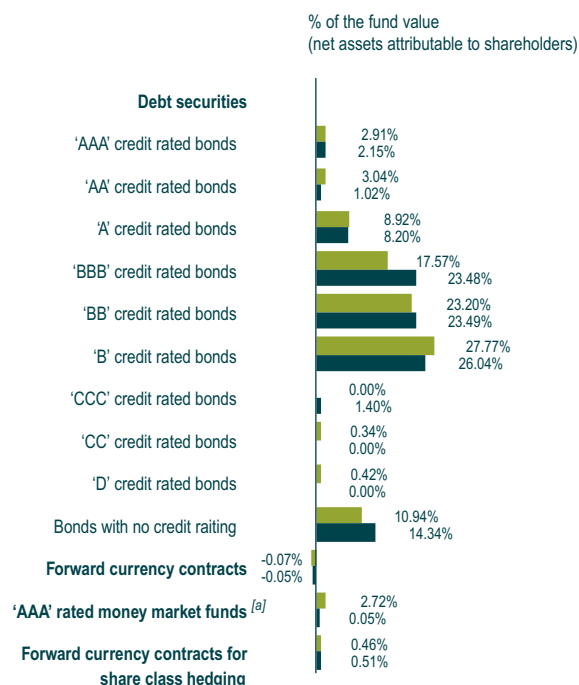
Overall, we continue to believe that flexibility remains key for successfully investing in the emerging bond markets, as this provides the freedom to hold those bonds and currencies that offer the best relative value and avoid countries or industries where the outlook is unfavourable.

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.

31 December 2017
30 June 2017

Source: M&G

M&G Emerging Markets Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement

as at Holding	31.12.17 \$'000	31.12.17 %	30.06.17 %
Debt securities	957,080	95.11	100.12
'AAA' credit rated bonds	29,268	2.91	2.15
SGD38,500,000 Singapore (Republic of) 4% 2018	29,268	2.91	
'AA' credit rated bonds	30,613	3.04	1.02
CZK250,000,000 Czech (Republic of) 1.5% 2019	11,952	1.19	
\$8,500,000 Emirate of Abu Dhabi 4.125% 2047	8,414	0.84	
\$8,000,000 Qatar (State of) 6.4% 2040	10,247	1.01	
'A' credit rated bonds	89,793	8.92	8.20
ILS61,000,000 Israel (State of) 4% 2018	17,632	1.75	
MXN135,000,000 Mexico (United Mexican States) 8% 2047	6,944	0.69	
MXN184,000,000 Mexico (United Mexican States) 10% 2024	10,497	1.04	
PEN55,500,000 Peru (Republic of) 8.2% 2026	21,067	2.10	
PLN50,000,000 Poland (Republic of) 2.5% 2026	13,604	1.35	
THB300,000,000 Thailand (Kingdom of) 1.2% IL 2021	9,851	0.98	
THB333,000,000 Thailand (Kingdom of) 1.25% IL 2028	10,198	1.01	
'BBB' credit rated bonds	176,817	17.57	23.48
\$10,556,054 Aeropuerto Internacional 5.75% 2023	11,312	1.12	
COP13,200,000,000 Banco Davivienda 7.5% 2022	4,467	0.44	
\$5,500,000 Banco Inbursa 4.375% 2027	5,489	0.55	
\$5,000,000 Bharti Airtel International 5.35% 2024	5,374	0.54	
COP10,000,000,000 Bogota Distrito Capital 9.75% 2028	3,558	0.35	
COP10,285,000,000 Findeter 7.875% 2024	3,506	0.35	
IDR308,000,000,000 Indonesia (Republic of) 8.25% 2036	25,274	2.51	
£3,350,000 Mexico (United Mexican States) 5.625% 2114	4,951	0.49	
\$6,016,000 Mexico City Airport 5.5% 2047	5,928	0.59	
INR1,400,000,000 National Highways 7.3% 2022	22,153	2.20	
\$4,000,000 Peru (Republic of) 8.75% 2033	6,295	0.63	
PHP570,000,000 Philippines (Republic of) 6.25% 2036	12,852	1.28	
\$8,700,000 Portugal (Republic of) 5.125% 2024	9,338	0.93	
€4,600,000 Romania (Republic of) 3.875% 2035	6,050	0.60	
RUB1,395,000,000 Russia (Federation of) 8.15% 2027	25,358	2.52	
\$3,750,000 Southern Copper 6.75% 2040	4,854	0.48	
UYU125,000,000 Uruguay (Republic of) 4.375% 2028	7,956	0.79	
UYU201,359,000 Uruguay (Republic of) 8.5% 2028	6,953	0.69	
UYU140,290,000 Uruguay (Republic of) 9.875% 2022	5,149	0.51	
'BB' credit rated bonds	233,430	23.20	23.49
\$4,000,000 Bahamas (Commonwealth of) 6% 2028	4,231	0.42	
\$4,700,000 Banco de Bogotá 6.25% 2026	5,057	0.50	
\$5,833,000 Brazil (Federal Republic of) 4.625% 2028	5,854	0.58	
\$7,500,000 Brazil (Federal Republic of) 8.25% 2034	9,825	0.98	
BRL71,500,000 Brazil (Federal Republic of) 10% 2025	21,486	2.14	
\$6,250,000 C&W Senior Financing Designated 6.875% 2027	6,555	0.65	
\$4,000,000 Cemex 7.75% 2026	4,529	0.45	
\$5,000,000 Croatia (Republic of) 5.5% 2023	5,514	0.55	
KZT2,500,000,000 Development Bank of Kazakhstan 9.5% 2020	7,569	0.75	
\$8,000,000 Dominican Republic 7.45% 2044	9,554	0.95	
DOP37,000,000 Dominican Republic 10.4% 2019	795	0.08	
DOP220,900,000 Dominican Republic 15% 2019	4,983	0.50	

Portfolio statement (continued)

as at Holding	31.12.17 \$'000	31.12.17 %	30.06.17 %
'BB' credit rated bonds (continued)			
DOP87,900,000 Dominican Republic 15.95% 2021	2,261	0.22	
DOP75,000,000 Dominican Republic 16.95% 2022	2,033	0.20	
\$4,050,000 Gaz Capital 7.288% 2037	4,992	0.50	
\$7,000,000 Grupo Kuo SAB de 5.75% 2027	7,217	0.72	
\$3,850,000 Grupo Unicomer 7.875% 2024	4,174	0.41	
\$11,500,000 Guatemala (Republic of) 4.5% 2026	11,622	1.15	
\$11,500,000 Honduras (Republic of) 7.5% 2024	12,854	1.28	
\$3,200,000 InRetail Consumer 5.25% 2021	3,296	0.33	
€6,750,000 Macedonia (Govt. of) 5.625% 2023	9,344	0.93	
\$8,100,000 MAF Global Securities 5.5% Perp.	8,261	0.82	
\$7,000,000 Paraguay (Republic of) 6.1% 2044	7,984	0.79	
\$7,333,000 Perusahaan Listrik Negara 4.125% 2027	7,330	0.73	
\$2,000,000 Petrobras Global Finance 7.25% 2044	2,074	0.21	
\$11,044,000 Petrobras Global Finance 7.375% 2027	12,133	1.21	
\$7,000,000 Shimao Property 4.75% 2022	6,966	0.69	
ZAR158,000,000 South Africa (Republic of) 8.75% 2048	11,618	1.15	
\$5,750,000 Transnet SOC 4% 2022	5,626	0.56	
\$6,115,000 Turkey (Republic of) 6% 2027	6,523	0.65	
TRY35,000,000 Turkey (Republic of) 11% 2027	8,985	0.89	
\$7,200,000 Veon 4.95% 2024	7,289	0.72	
\$4,900,000 Yapı ve Kredi Bankası 5.85% 2024	4,896	0.49	
'B' credit rated bonds	279,383	27.77	26.04
€6,500,000 Albania (Republic of) 5.75% 2020	8,630	0.86	
\$6,000,000 Angola (Republic of) 9.5% 2025	6,908	0.69	
ARS109,000,000 Argentina (Republic of) 21.2% 2018	5,503	0.55	
ARS150,000,000 Argentina (Republic of) 22.75% 2018	7,751	0.77	
€5,366,804 Argentina (Republic of) Var. Rate 2033 (7.82%)	7,500	0.75	
\$6,324,000 Buenos Aires (Province of) 7.875% 2027	7,001	0.70	
\$7,000,000 Cameroon (Republic of) 9.5% 2025	8,366	0.83	
\$8,000,000 Córdoba (Province of) 7.125% 2027	8,490	0.84	
\$10,900,000 Ecuador (Republic of) 8.75% 2023	12,026	1.20	
\$5,000,000 Ecuador (Republic of) 8.875% 2027	5,476	0.54	
EGP60,000,000 Egypt (Arab Republic of) 0% 2018 (13 Feb)	3,288	0.33	
EGP84,000,000 Egypt (Arab Republic of) 0% 2018 (24 Apr)	4,463	0.44	
EGP75,000,000 Egypt (Arab Republic of) 0% 2018 (10 Jul)	3,843	0.38	
EGP51,500,000 Egypt (Arab Republic of) 0% 2018 (30 Oct)	2,518	0.25	
\$8,000,000 Egypt (Arab Republic of) 8.5% 2047	9,188	0.91	
\$7,000,000 Ethiopia 6.625% 2024	7,317	0.73	
\$3,900,000 Georgian Oil & Gas 6.75% 2021	4,187	0.42	
\$6,100,000 Ghana (Republic of) 9.25% 2022	6,908	0.69	
\$8,500,000 Jamaica (Govt. of) 8% 2039	10,382	1.03	
\$6,071,000 Jordan (Kingdom of) 6.125% 2026	6,250	0.62	
\$6,000,000 Jordan (Kingdom of) 7.375% 2047	6,253	0.62	
\$8,150,000 Kenya (Republic of) 6.875% 2024	8,673	0.86	
\$2,500,000 Kernel 8.75% 2022	2,751	0.27	
\$6,100,000 Marfrig Holdings 7% 2024	6,118	0.61	
\$5,000,000 MHP 7.75% 2024	5,417	0.54	
NGN2,040,178,000 Nigeria (Federal Republic of) 0% 2018	5,171	0.51	
NGN1,229,000,000 Nigeria (Federal Republic of) 0% 2018	3,135	0.31	
\$6,300,000 Nigeria (Federal Republic of) 6.375% 2023	6,686	0.67	
\$4,767,000 Nigeria (Federal Republic of) 6.5% 2027	4,964	0.49	

M&G Emerging Markets Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)				
as at Holding	31.12.17 \$'000	31.12.17 %	30.06.17 %	
'B' credit rated bonds (continued)				
\$4,333,000 Nigeria (Federal Republic of) 7.625% 2047	4,646	0.46		
\$2,931,250 Northern Lights III 7% 2019	3,013	0.30		
\$5,950,000 Pakistan (Islamic Republic of) 7.875% 2036	6,148	0.61		
\$11,400,000 Rwanda (Republic of) 6.625% 2023	11,919	1.19		
\$7,000,000 Senegal (Republic of) 8.75% 2021	8,069	0.80		
\$10,200,000 Sri Lanka (Republic of) 6.85% 2025	11,224	1.12		
\$6,867,000 Tajiki (Republic of) 7.125% 2027	6,565	0.65		
\$4,800,000 Topaz Marine 9.125% 2022	4,967	0.49		
\$6,698,000 Ukraine (Republic of) 7.375% 2032	6,574	0.65		
\$12,100,000 Ukraine (Republic of) 7.75% 2022	12,878	1.28		
\$5,000,000 United Bank for Africa 7.75% 2022	5,136	0.51		
\$5,100,000 YPF Sociedad Anónima 8.5% 2025	5,905	0.59		
\$6,500,000 Zambia (Republic of) 8.5% 2024	7,176	0.71		
'CCC' credit rated bonds	0	0.00	1.40	
'CC' credit rated bonds	3,466	0.34	0.00	
\$17,000,000 Venezuela (Republic of) 7% 2038	3,466	0.34		
'D' credit rated bonds	4,188	0.42	0.00	
\$18,000,000 PDVSA 5.375% 2027	4,188	0.42		
Bonds with no credit rating	110,122	10.94	14.34	
\$7,350,000 Armenia (Republic of) 7.15% 2025	8,387	0.84		
€7,500,000 Central Bank Tunisia 5.625% 2024	9,454	0.94		
€8,500,000 Cote d'Ivoire 5.125% 2025	11,095	1.10		
\$4,825,000 Cote d'Ivoire Var. Rate 2032 (5.75%)	4,823	0.48		
\$8,200,000 Debt and Asset Trading 1% 2025	5,764	0.57		
\$5,350,000 DP World 6.85% 2037	6,578	0.65		
\$5,000,000 Fibra Uno Administración 6.95% 2044	5,444	0.54		
\$6,375,000 Gabonese (Republic of) 6.95% 2025	6,608	0.66		
\$3,700,000 Genneia 8.75% 2022	4,057	0.40		
\$5,500,000 GTLK Europe DAC 5.125% 2024	5,578	0.55		
\$5,800,000 Liquid Telecom Finance 8.5% 2022	6,101	0.61		
\$6,000,000 Oil & Gas Holdings 7.5% 2027	6,138	0.61		
\$6,000,000 Puma International 5.125% 2024	6,119	0.61		
\$5,500,000 Royal Capital Var. Rate Perp. (4.875%)	5,552	0.55		
\$5,900,000 Southern Gas Corridor 6.875% 2026	6,696	0.67		
\$3,766,667 Tanzania (United Republic of) FRN 2020	3,943	0.39		
\$8,000,000 TC Ziraat Bankasi 5.125% 2023	7,785	0.77		
Forward currency contracts	(739)	(0.07)	(0.05)	
€(38,880,000) Sold for \$45,929,916 (expires 10.01.18)	(700)	(0.07)		
£(2,800,000) Sold for \$3,745,566 (expires 10.01.18)	(39)	0.00		
Portfolio of investments	956,341	95.04	100.07	

Portfolio statement (continued)

as at Holding	31.12.17 \$'000	31.12.17 %	30.06.17 %
'AAA' rated money market funds ^[a]			
27,349,000 Northern Trust Global Fund - US dollar	27,349	2.72	0.05
Forward currency contracts for share class hedging	4,666	0.46	0.51
€271,920,330 Bought for \$321,994,528 (expires 10.01.18)	4,130	0.41	
€(323,011) Sold for \$383,738 (expires 10.01.18)	(4)	0.00	
£44,191,507 Bought for \$59,191,017 (expires 10.01.18)	532	0.05	
CHF759,877 Bought for \$771,215 (expires 10.01.18)	8	0.00	
Total portfolio	988,356	98.22	100.63
Net other assets / (liabilities)	17,882	1.78	(0.63)
Net assets attributable to shareholders	1,006,238	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.

Portfolio transactions

for the six months to 31 December	2017 \$'000	2016 \$'000
Portfolio transactions		
Total purchases	526,362	331,032
Total sales	104,767	164,487

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

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.

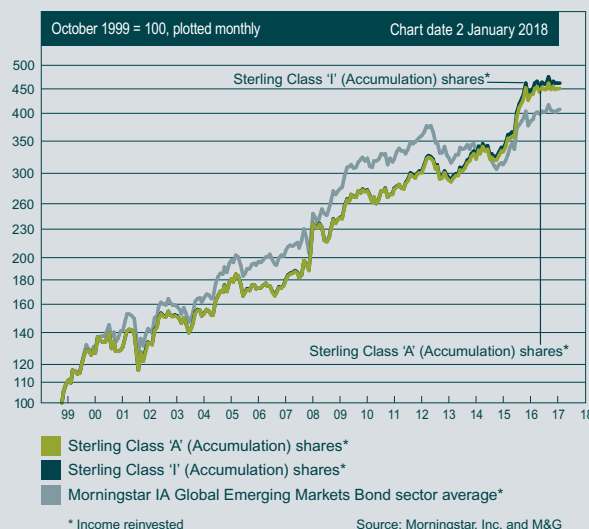
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer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

Fund level performance

Fund net asset value			
as at	31.12.17 \$'000	30.06.17 \$'000	30.06.16 \$'000
Fund net asset value (NAV)	1,006,238	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				
	Six months 03.07.17 % ^[a]	Three years 02.01.15 % p.a.	Five years 02.01.13 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A'	-1.2	+7.3	+7.2	+7.8 ^[c]
Class 'A-H'	+3.5	+5.8	n/a	+4.5 ^[d]
Class 'B'	-1.4	+6.7	n/a	+8.3 ^[e]
Class 'B-H'	+3.2	n/a	n/a	+7.6 ^[f]
Class 'C'	-0.9	+7.9	+7.8	+8.3 ^[c]
Class 'C-H'	+3.8	+6.3	n/a	+5.0 ^[d]
Sterling ^[g]				
Class 'A'	+0.1	+11.4	+8.4	+8.9 ^[h]
Class 'I'	+0.5	+11.9	+8.9	+9.1 ^[c]
Class 'I-H'	+4.4	n/a	n/a	+7.9 ^[i]
Class 'R'	+0.3	+11.6	+8.7	+8.0 ^[j]
Class 'X'	+0.1	+11.4	+8.4	+8.6 ^[k]
Swiss franc ^[b]				
Class 'A'	+5.8	+6.4	n/a	+7.6 ^[e]
Class 'A-H'	+3.3	n/a	n/a	+6.2 ^[i]
Class 'C'	+6.2	+7.0	n/a	+8.2 ^[e]
Class 'C-H'	+3.6	n/a	n/a	+6.8 ^[i]
US dollar ^[b]				
Class 'A'	+4.7	+7.3	+5.2	+6.2 ^[c]
Class 'C'	+5.1	+7.9	+5.7	+6.8 ^[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				
as at	31.12.17	30.06.17	30.06.16	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.60	0.65	0.80	0.68

[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.

Change in NAV per share	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Opening NAV	1,276.15	1,259.58	1,239.75
Return before operating charges and after direct portfolio transaction costs	0.55	114.62	97.85
Operating charges	(9.12)	(19.37)	(17.91)
Return after operating charges	(8.57)	95.25	79.94
Distributions	(36.05)	(78.68)	(60.11)
Closing NAV	1,231.53	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	1.43	1.44	1.44
Return after operating charges	-0.67	+7.56	+6.45
Distribution yield ^[c]	6.12	6.66	4.59
Effect on yield of charges offset against capital	1.40	1.40	0.00
Other information			
Closing NAV (\$'000)	21,568	16,157	4,982
Closing NAV percentage of total fund NAV (%)	2.14	3.09	2.21
Number of shares	1,460,803	1,110,158	354,898
Highest share price (Euro ¢)	1,300.88	1,390.41	1,314.17
Lowest share price (Euro ¢)	1,243.26	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.

	Six months to 31.12.17 Euro €	Year to 30.06.17 Euro €	Year to 30.06.16 Euro €
Change in NAV per share			
Opening NAV	1,539.01	1,431.23	1,342.93
Return before operating charges and after direct portfolio transaction costs	0.49	130.32	107.73
Operating charges	(10.98)	(22.54)	(19.43)
Return after operating charges	(10.49)	107.78	88.30
Distributions	(33.21)	(69.34)	(65.77)
Retained distributions	33.21	69.34	65.77
Closing NAV	1,528.52	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	1.43	1.44	1.45
Return after operating charges	-0.68	+7.53	+6.58
Distribution yield	4.72	5.26	4.58
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	63,427	61,484	10,627
Closing NAV percentage of total fund NAV (%)	6.30	11.75	4.71
Number of shares	3,461,284	3,503,064	666,181
Highest share price (Euro €)	1,568.68	1,625.71	1,444.60
Lowest share price (Euro €)	1,499.19	1,450.05	1,267.53

Euro Class 'A-H' Income share performance

The share class was launched on 10 November 2014.

	Six months to 31.12.17 Euro €	Year to 30.06.17 Euro €	Year to 30.06.16 Euro €
Change in NAV per share			
Opening NAV	943.68	927.01	924.35
Return before operating charges and after direct portfolio transaction costs	36.78	86.69	60.13
Operating charges	(7.01)	(13.98)	(13.48)
Return after operating charges	29.77	72.71	46.65
Distributions	(27.43)	(56.04)	(43.99)
Closing NAV	946.02	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	1.45	1.46	1.46
Return after operating charges	+3.15	+7.84	+5.05
Distribution yield ^[c]	6.03	6.54	4.62
Effect on yield of charges offset against capital	1.42	1.42	0.00
Other information			
Closing NAV (\$'000)	4,503	2,008	854
Closing NAV percentage of total fund NAV (%)	0.45	0.38	0.38
Number of shares	397,078	186,595	82,630
Highest share price (Euro €)	979.47	984.95	956.52
Lowest share price (Euro €)	939.17	913.41	861.67

Euro Class 'A-H' Accumulation share performance

The share class was launched on 10 November 2014.

	Six months to 31.12.17 Euro €	Year to 30.06.17 Euro €	Year to 30.06.16 Euro €
Change in NAV per share			
Opening NAV	1,104.43	1,022.27	970.39
Return before operating charges and after direct portfolio transaction costs	43.23	97.56	66.49
Operating charges	(8.24)	(15.40)	(14.61)
Return after operating charges	34.99	82.16	51.88
Distributions	(24.41)	(47.89)	(46.83)
Retained distributions	24.41	47.89	46.83
Closing NAV	1,139.42	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	1.45	1.46	1.45
Return after operating charges	+3.17	+8.04	+5.35
Distribution yield	4.64	5.13	4.62
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	54,049	20,783	4,128
Closing NAV percentage of total fund NAV (%)	5.37	3.97	1.83
Number of shares	3,956,793	1,650,000	362,325
Highest share price (Euro €)	1,146.45	1,118.44	1,030.35
Lowest share price (Euro €)	1,099.42	1,016.30	927.51

Euro Class 'B' Income share performance

The share class was launched on 11 September 2015.

	Six months to 31.12.17 Euro €	Year to 30.06.17 Euro €	Year to 30.06.16 Euro €
Change in NAV per share			
Opening NAV	1,046.58	1,038.16	1,000.00
Return before operating charges and after direct portfolio transaction costs	0.36	94.76	98.43
Operating charges	(10.08)	(21.64)	(15.75)
Return after operating charges	(9.72)	73.12	82.68
Distributions	(29.53)	(64.70)	(44.52)
Closing NAV	1,007.33	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	1.93	1.95	1.95
Return after operating charges	-0.93	+7.04	+8.27
Distribution yield ^[c]	6.11	6.67	4.10
Effect on yield of charges offset against capital	1.90	1.90	0.00
Other information			
Closing NAV (\$'000)	3,165	2,418	127
Closing NAV percentage of total fund NAV (%)	0.31	0.46	0.06
Number of shares	262,075	202,551	11,000
Highest share price (Euro €)	1,064.88	1,141.50	1,081.20
Lowest share price (Euro €)	1,018.69	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.

	Six months to 31.12.17 Euro €	Year to 30.06.17 Euro €	Year to 30.06.16 Euro €
Change in NAV per share			
Opening NAV	1,433.36	1,339.52	1,263.21
Return before operating charges and after direct portfolio transaction costs	0.50	122.13	101.05
Operating charges	(13.79)	(28.29)	(24.74)
Return after operating charges	(13.29)	93.84	76.31
Distributions	(27.49)	(57.59)	(55.39)
Retained distributions	27.49	57.59	55.39
Closing NAV	1,420.07	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	1.93	1.95	1.94
Return after operating charges	-0.93	+7.01	+6.04
Distribution yield	4.22	4.76	4.10
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	11,948	10,843	2,323
Closing NAV percentage of total fund NAV (%)	1.19	2.07	1.03
Number of shares	701,785	663,282	155,563
Highest share price (Euro €)	1,458.41	1,515.82	1,352.25
Lowest share price (Euro €)	1,395.15	1,357.21	1,191.32

Euro Class 'B-H' Income share performance

The share class was launched on 11 September 2015.

	Six months to 31.12.17 Euro €	Year to 30.06.17 Euro €	Year to 30.06.16 Euro €
Change in NAV per share			
Opening NAV	1,030.89	1,017.65	1,000.00
Return before operating charges and after direct portfolio transaction costs	40.15	95.34	76.82
Operating charges	(10.30)	(20.82)	(15.64)
Return after operating charges	29.85	74.52	61.18
Distributions	(29.96)	(61.28)	(43.53)
Closing NAV	1,030.78	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	+2.90	+7.32	+6.12
Distribution yield ^[c]	6.00	6.54	4.12
Effect on yield of charges offset against capital	1.92	1.92	0.00
Other information			
Closing NAV (\$'000)	5,260	2,414	34
Closing NAV percentage of total fund NAV (%)	0.52	0.46	0.02
Number of shares	425,651	205,296	3,005
Highest share price (Euro €)	1,068.50	1,076.12	1,047.45
Lowest share price (Euro €)	1,025.86	999.95	945.59

Euro Class 'B-H' Accumulation share performance

The share class was launched on 11 September 2015.

	Six months to 31.12.17 Euro €	Year to 30.06.17 Euro €	Year to 30.06.16 Euro €
Change in NAV per share			
Opening NAV	1,142.87	1,063.05	1,000.00
Return before operating charges and after direct portfolio transaction costs	44.45	101.67	78.96
Operating charges	(11.45)	(21.85)	(15.91)
Return after operating charges	33.00	79.82	63.05
Distributions	(22.41)	(44.14)	(43.99)
Retained distributions	22.41	44.14	43.99
Closing NAV	1,175.87	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	1.95	1.97	1.96
Return after operating charges	+2.89	+7.51	+6.31
Distribution yield	4.14	4.63	4.12
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	5,974	2,048	60
Closing NAV percentage of total fund NAV (%)	0.59	0.39	0.03
Number of shares	423,798	157,111	5,078
Highest share price (Euro €)	1,184.71	1,157.48	1,071.45
Lowest share price (Euro €)	1,137.58	1,054.64	967.26

Euro Class 'C' Income share performance

The share class was launched on 8 August 2014.

	Six months to 31.12.17 Euro €	Year to 30.06.17 Euro €	Year to 30.06.16 Euro €
Change in NAV per share			
Opening NAV	1,344.79	1,318.90	1,298.04
Return before operating charges and after direct portfolio transaction costs	0.61	120.14	102.34
Operating charges	(5.18)	(11.30)	(12.12)
Return after operating charges	(4.57)	108.84	90.22
Distributions	(38.16)	(82.95)	(69.36)
Closing NAV	1,302.06	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	0.77	0.81*	0.94
Return after operating charges	-0.34	+8.25	+6.95
Distribution yield ^[c]	6.13	6.67	5.08
Effect on yield of charges offset against capital	0.75	0.75	0.00
Other information			
Closing NAV (\$'000)	22	22	21
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.01
Number of shares	1,434	1,434	1,434
Highest share price (Euro €)	1,374.14	1,463.16	1,378.56
Lowest share price (Euro €)	1,311.55	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 period to 30.06.17 ongoing charges.

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.

	Six months to 31.12.17 Euro €	Year to 30.06.17 Euro €	Year to 30.06.16 Euro €
Change in NAV per share			
Opening NAV	1,582.14	1,462.29	1,365.07
Return before operating charges and after direct portfolio transaction costs	0.62	132.77	110.20
Operating charges	(6.19)	(12.92)	(12.98)
Return after operating charges	(5.57)	119.85	97.22
Distributions	(39.09)	(80.78)	(74.06)
Retained distributions	39.09	80.78	74.06
Closing NAV	1,576.57	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	0.78	0.80	0.94
Return after operating charges	-0.35	+8.20	+7.12
Distribution yield	5.36	5.87	5.08
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	61,313	51,564	4,125
Closing NAV percentage of total fund NAV (%)	6.09	9.86	1.83
Number of shares	3,243,924	2,857,779	253,108
Highest share price (Euro €)	1,616.42	1,668.92	1,475.88
Lowest share price (Euro €)	1,542.89	1,481.60	1,289.37

Euro Class 'C-H' Income share performance

The share class was launched on 10 November 2014.

	Six months to 31.12.17 Euro €	Year to 30.06.17 Euro €	Year to 30.06.16 Euro €
Change in NAV per share			
Opening NAV	946.21	923.51	921.44
Return before operating charges and after direct portfolio transaction costs	37.03	86.46	59.57
Operating charges	(4.09)	(7.52)	(8.67)
Return after operating charges	32.94	78.94	50.90
Distributions	(27.63)	(56.24)	(48.83)
Closing NAV	951.52	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	0.80	0.83*	0.95
Return after operating charges	+3.48	+8.55	+5.52
Distribution yield ^[c]	6.04	6.55	5.14
Effect on yield of charges offset against capital	0.77	0.77	0.00
Other information			
Closing NAV (\$'000)	15,394	279	10
Closing NAV percentage of total fund NAV (%)	1.53	0.05	0.00
Number of shares	1,349,509	25,896	1,000
Highest share price (Euro €)	985.16	987.18	955.43
Lowest share price (Euro €)	941.88	912.82	859.17

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

Euro Class 'C-H' Accumulation share performance

The share class was launched on 10 November 2014.

	Six months to 31.12.17 Euro €	Year to 30.06.17 Euro €	Year to 30.06.16 Euro €
Change in NAV per share			
Opening NAV	1,116.73	1,027.37	971.09
Return before operating charges and after direct portfolio transaction costs	43.96	98.42	65.73
Operating charges	(4.62)	(9.06)	(9.45)
Return after operating charges	39.34	89.36	56.28
Distributions	(28.31)	(54.82)	(51.88)
Retained distributions	28.31	54.82	51.88
Closing NAV	1,156.07	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	0.80	0.83*	0.96
Return after operating charges	+3.52	+8.70	+5.80
Distribution yield	5.26	5.74	5.12
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	239,380	82,780	4,299
Closing NAV percentage of total fund NAV (%)	23.79	15.82	1.90
Number of shares	17,271,828	6,499,831	375,402
Highest share price (Euro €)	1,163.18	1,130.50	1,035.66
Lowest share price (Euro €)	1,111.87	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 period to 30.06.17 ongoing charges.

Sterling Class 'A' Income share performance

The share class was launched on 1 October 2002.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	98.68	91.59	77.62
Return before operating charges and after direct portfolio transaction costs	1.01	14.58	19.30
Operating charges	(0.72)	(1.45)	(1.17)
Return after operating charges	0.29	13.13	18.13
Distributions	(2.81)	(6.04)	(4.16)
Closing NAV	96.16	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	+0.29	+14.34	+23.36
Distribution yield ^[c]	6.12	6.66	4.59
Effect on yield of charges offset against capital	1.40	1.40	0.00
Other information			
Closing NAV (\$'000)	3,409	4,399	3,114
Closing NAV percentage of total fund NAV (%)	0.34	0.84	1.38
Number of shares	2,624,039	3,434,988	2,520,881
Highest share price (UK p)	102.42	106.26	95.08
Lowest share price (UK p)	98.11	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	221.99	194.94	158.96
Return before operating charges and after direct portfolio transaction costs	2.25	31.12	40.11
Operating charges	(1.61)	(3.13)	(2.41)
Return after operating charges	0.64	27.99	37.70
Distributions	(4.84)	(9.95)	(8.58)
Retained distributions	4.84	9.01	6.86
Closing NAV	222.63	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	+0.29	+14.36	+23.72
Distribution yield	4.72	5.27	4.59
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	3,039	3,387	2,342
Closing NAV percentage of total fund NAV (%)	0.30	0.65	1.04
Number of shares	1,010,295	1,175,620	890,630
Highest share price (UK p)	230.38	229.28	198.50
Lowest share price (UK p)	220.70	200.31	153.28

Sterling Class 'I' Income share performance

The share class was launched on 19 April 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	133.08	122.73	104.02
Return before operating charges and after direct portfolio transaction costs	1.36	19.57	25.89
Operating charges	(0.53)	(1.10)	(1.03)
Return after operating charges	0.83	18.47	24.86
Distributions	(3.80)	(8.12)	(6.15)
Closing NAV	130.11	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	0.78	0.81*	0.94
Return after operating charges	+0.62	+15.05	+23.90
Distribution yield ^[c]	6.12	6.66	5.08
Effect on yield of charges offset against capital	0.75	0.75	0.00
Other information			
Closing NAV (\$'000)	104,873	73,978	32,244
Closing NAV percentage of total fund NAV (%)	10.42	14.14	14.29
Number of shares	59,656,157	42,832,068	19,477,416
Highest share price (UK p)	138.27	142.65	127.65
Lowest share price (UK p)	132.49	126.17	100.39

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

Sterling Class 'I' Accumulation share performance

The share class was launched on 19 April 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	162.75	142.11	115.43
Return before operating charges and after direct portfolio transaction costs	1.65	22.71	29.22
Operating charges	(0.65)	(1.29)	(1.16)
Return after operating charges	1.00	21.42	28.06
Distributions	(4.06)	(8.26)	(6.89)
Retained distributions	4.06	7.48	5.51
Closing NAV	163.75	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	0.78	0.81*	0.94
Return after operating charges	+0.61	+15.07	+24.31
Distribution yield	5.35	5.87	5.08
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	191,341	133,202	41,633
Closing NAV percentage of total fund NAV (%)	19.02	25.46	18.45
Number of shares	86,482,218	63,063,127	21,719,701
Highest share price (UK p)	169.09	168.06	144.71
Lowest share price (UK p)	162.02	146.03	111.38

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

Sterling Class 'I-H' Income share performance

The share class was launched on 24 July 2015.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	104.06	100.35	100.00
Return before operating charges and after direct portfolio transaction costs	4.61	10.80	6.60
Operating charges	(0.43)	(0.88)	(0.88)
Return after operating charges	4.18	9.92	5.72
Distributions	(3.05)	(6.21)	(5.37)
Closing NAV	105.19	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	0.80	0.82*	0.96
Return after operating charges	+4.02	+9.89	+5.72
Distribution yield ^[c]	6.06	6.56	5.34
Effect on yield of charges offset against capital	0.77	0.77	0.00
Other information			
Closing NAV (\$'000)	16,418	8,354	27
Closing NAV percentage of total fund NAV (%)	1.63	1.60	0.01
Number of shares	11,551,912	6,185,809	20,000
Highest share price (UK p)	108.87	108.60	103.33
Lowest share price (UK p)	103.60	100.04	92.57

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

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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	114.88	104.83	100.00
Return before operating charges and after direct portfolio transaction costs	5.10	11.49	6.81
Operating charges	(0.48)	(0.91)	(0.89)
Return after operating charges	4.62	10.58	5.92
Distributions	(2.93)	(5.71)	(5.43)
Retained distributions	2.93	5.18	4.34
Closing NAV	119.50	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	0.80	0.82	0.96
Return after operating charges	+4.02	+10.09	+5.92
Distribution yield	5.30	5.78	5.34
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	43,021	984	28
Closing NAV percentage of total fund NAV (%)	4.28	0.19	0.01
Number of shares	26,645,629	659,831	20,000
Highest share price (UK p)	120.20	116.25	105.65
Lowest share price (UK p)	114.38	104.94	94.65

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	124.34	115.11	97.55
Return before operating charges and after direct portfolio transaction costs	1.31	18.34	24.27
Operating charges	(0.75)	(1.51)	(1.22)
Return after operating charges	0.56	16.83	23.05
Distributions	(3.55)	(7.60)	(5.49)
Closing NAV	121.35	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	1.18	1.19	1.19
Return after operating charges	+0.45	+14.62	+23.63
Distribution yield ^[c]	6.12	6.66	4.84
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (\$'000)	532	137	134
Closing NAV percentage of total fund NAV (%)	0.05	0.03	0.06
Number of shares	324,534	84,847	86,453
Highest share price (UK p)	129.10	133.65	119.61
Lowest share price (UK p)	123.68	118.33	94.12

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	150.09	131.44	106.96
Return before operating charges and after direct portfolio transaction costs	1.54	21.06	27.05
Operating charges	(0.92)	(1.73)	(1.35)
Return after operating charges	0.62	19.33	25.70
Distributions	(3.46)	(7.12)	(6.10)
Retained distributions	3.46	6.44	4.88
Closing NAV	150.71	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	1.18	1.18	1.19
Return after operating charges	+0.41	+14.71	+24.03
Distribution yield	4.98	5.53	4.84
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	1,355	19	30
Closing NAV percentage of total fund NAV (%)	0.14	0.00	0.01
Number of shares	665,505	9,971	17,000
Highest share price (UK p)	155.83	155.00	133.85
Lowest share price (UK p)	149.29	135.07	103.17

Sterling Class 'X' Income share performance

The share class was launched on 15 October 1999.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	97.23	90.24	76.48
Return before operating charges and after direct portfolio transaction costs	0.99	14.37	19.01
Operating charges	(0.71)	(1.43)	(1.16)
Return after operating charges	0.28	12.94	17.85
Distributions	(2.77)	(5.95)	(4.09)
Closing NAV	94.74	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	+0.29	+14.34	+23.34
Distribution yield ^[c]	6.12	6.66	4.59
Effect on yield of charges offset against capital	1.40	1.40	0.00
Other information			
Closing NAV (\$'000)	8,847	10,426	9,281
Closing NAV percentage of total fund NAV (%)	0.88	1.99	4.11
Number of shares	6,911,276	8,262,050	7,624,722
Highest share price (UK p)	100.92	104.69	93.68
Lowest share price (UK p)	96.67	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	222.49	195.39	159.32
Return before operating charges and after direct portfolio transaction costs	2.25	31.15	40.22
Operating charges	(1.61)	(3.10)	(2.43)
Return after operating charges	0.64	28.05	37.79
Distributions	(4.85)	(9.97)	(8.61)
Retained distributions	4.85	9.02	6.89
Closing NAV	223.13	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	1.43	1.43	1.44
Return after operating charges	+0.29	+14.36	+23.72
Distribution yield	4.73	5.27	4.59
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	6,317	5,402	91,898
Closing NAV percentage of total fund NAV (%)	0.63	1.03	40.72
Number of shares	2,095,487	1,870,725	34,870,263
Highest share price (UK p)	230.90	229.81	198.97
Lowest share price (UK p)	221.19	200.78	153.67

Swiss franc Class 'A' Accumulation share performance

The share class was launched on 26 July 2013.

	Six months to 31.12.17 Swiss ¢	Year to 30.06.17 Swiss ¢	Year to 30.06.16 Swiss ¢
Change in NAV per share			
Opening NAV	1,296.33	1,199.02	1,075.65
Return before operating charges and after direct portfolio transaction costs	90.54	115.93	139.78
Operating charges	(9.71)	(18.62)	(16.41)
Return after operating charges	80.83	97.31	123.37
Distributions	(29.92)	(57.90)	(55.03)
Retained distributions	29.92	57.90	55.03
Closing NAV	1,377.16	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	1.43	1.45	1.44
Return after operating charges	+6.24	+8.12	+11.47
Distribution yield	4.71	5.26	4.59
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	686	552	177
Closing NAV percentage of total fund NAV (%)	0.07	0.11	0.08
Number of shares	48,605	40,847	14,434
Highest share price (Swiss ¢)	1,405.73	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.

	Six months to 31.12.17 Swiss ¢	Year to 30.06.17 Swiss ¢	Year to 30.06.16 Swiss ¢
Change in NAV per share			
Opening NAV	1,114.19	1,036.22	1,000.00
Return before operating charges and after direct portfolio transaction costs	41.51	93.71	49.65
Operating charges	(8.30)	(15.74)	(13.43)
Return after operating charges	33.21	77.97	36.22
Distributions	(24.82)	(48.45)	(47.50)
Retained distributions	24.82	48.45	47.50
Closing NAV	1,147.40	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	+2.98	+7.52	+3.62
Distribution yield	4.65	5.15	4.64
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	722	253	32
Closing NAV percentage of total fund NAV (%)	0.07	0.05	0.01
Number of shares	61,364	21,750	3,000
Highest share price (Swiss ¢)	1,155.66	1,128.53	1,044.42
Lowest share price (Swiss ¢)	1,109.01	1,027.83	942.88

Swiss franc Class 'C' Accumulation share performance

The share class was launched on 26 July 2013.

	Six months to 31.12.17 Swiss ¢	Year to 30.06.17 Swiss ¢	Year to 30.06.16 Swiss ¢
Change in NAV per share			
Opening NAV	1,323.85	1,216.85	1,086.06
Return before operating charges and after direct portfolio transaction costs	92.44	117.61	141.63
Operating charges	(5.45)	(10.61)	(10.84)
Return after operating charges	86.99	107.00	130.79
Distributions	(34.98)	(67.05)	(61.57)
Retained distributions	34.98	67.05	61.57
Closing NAV	1,410.84	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	0.78	0.81*	0.94
Return after operating charges	+6.57	+8.79	+12.04
Distribution yield	5.35	5.86	5.08
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	202	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 ¢)	1,439.69	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 period to 30.06.17 ongoing charges.

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.

Change in NAV per share	Six months to 31.12.17 Swiss ¢	Year to 30.06.17 Swiss ¢	Year to 30.06.16 Swiss ¢
Opening NAV	1,126.83	1,041.13	1,000.00
Return before operating charges and after direct portfolio transaction costs	41.93	94.83	50.01
Operating charges	(4.63)	(9.13)	(8.88)
Return after operating charges	37.30	85.70	41.13
Distributions	(28.74)	(55.44)	(52.53)
Retained distributions	28.74	55.44	52.53
Closing NAV	1,164.13	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	+3.31	+8.23	+4.11
Distribution yield	5.25	5.75	5.14
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	57	56	115
Closing NAV percentage of total fund NAV (%)	0.01	0.01	0.05
Number of shares	4,734	4,734	10,747
Highest share price (Swiss ¢)	1,172.23	1,140.99	1,049.37
Lowest share price (Swiss ¢)	1,121.71	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 period to 30.06.17 ongoing charges.

US dollar Class 'A' Income share performance

The share class was launched on 8 August 2014.

Change in NAV per share	Six months to 31.12.17 US ¢	Year to 30.06.17 US ¢	Year to 30.06.16 US ¢
Opening NAV	1,147.32	1,106.69	1,092.72
Return before operating charges and after direct portfolio transaction costs	59.10	125.33	81.90
Operating charges	(8.44)	(16.54)	(15.70)
Return after operating charges	50.66	108.79	66.20
Distributions	(34.07)	(68.16)	(52.23)
Closing NAV	1,163.91	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	1.43	1.44	1.44
Return after operating charges	+4.42	+9.83	+6.06
Distribution yield ^[c]	6.12	6.66	4.59
Effect on yield of charges offset against capital	1.40	1.40	0.00
Other information			
Closing NAV (\$'000)	1,225	823	327
Closing NAV percentage of total fund NAV (%)	0.12	0.16	0.14
Number of shares	105,242	71,706	29,550
Highest share price (US ¢)	1,205.01	1,197.01	1,142.21
Lowest share price (US ¢)	1,142.26	1,100.93	1,022.37

US dollar Class 'A' Accumulation share performance

The share class was launched on 19 April 2012.

Change in NAV per share	Six months to 31.12.17 US ¢	Year to 30.06.17 US ¢	Year to 30.06.16 US ¢
Opening NAV	1,336.66	1,216.19	1,143.30
Return before operating charges and after direct portfolio transaction costs	68.76	138.94	89.58
Operating charges	(9.85)	(18.47)	(16.69)
Return after operating charges	58.91	120.47	72.89
Distributions	(30.32)	(58.10)	(55.33)
Retained distributions	30.32	58.10	55.33
Closing NAV	1,395.57	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	1.43	1.44	1.44
Return after operating charges	+4.41	+9.91	+6.38
Distribution yield	4.72	5.27	4.59
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	15,242	13,349	7,637
Closing NAV percentage of total fund NAV (%)	1.52	2.55	3.38
Number of shares	1,092,146	998,719	627,984
Highest share price (US ¢)	1,403.76	1,352.09	1,224.31
Lowest share price (US ¢)	1,330.74	1,217.09	1,095.80

US dollar Class 'C' Income share performance

The share class was launched on 8 August 2014.

Change in NAV per share	Six months to 31.12.17 US ¢	Year to 30.06.17 US ¢	Year to 30.06.16 US ¢
Opening NAV	1,171.00	1,122.39	1,108.12
Return before operating charges and after direct portfolio transaction costs	60.40	127.48	83.51
Operating charges	(4.73)	(9.53)	(10.45)
Return after operating charges	55.67	117.95	73.06
Distributions	(34.83)	(69.34)	(58.79)
Closing NAV	1,191.84	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	+4.75	+10.51	+6.59
Distribution yield ^[c]	6.12	6.66	5.08
Effect on yield of charges offset against capital	0.75	0.75	0.00
Other information			
Closing NAV (\$'000)	8,837	8,973	3,812
Closing NAV percentage of total fund NAV (%)	0.88	1.72	1.69
Number of shares	741,492	766,299	339,654
Highest share price (US ¢)	1,233.87	1,221.33	1,161.30
Lowest share price (US ¢)	1,165.98	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 period to 30.06.17 ongoing charges.

M&G Emerging Markets Bond Fund

Financial highlights

Specific share class performance

US dollar Class 'C' Accumulation share performance

The share class was launched on 19 April 2012.

	Six months to 31.12.17 US ¢	Year to 30.06.17 US ¢	Year to 30.06.16 US ¢
Change in NAV per share			
Opening NAV	1,375.54	1,242.33	1,163.58
Return before operating charges and after direct portfolio transaction costs	70.89	143.93	89.83
Operating charges	(5.58)	(10.72)	(11.08)
Return after operating charges	65.31	133.21	78.75
Distributions	(35.73)	(67.76)	(62.26)
Retained distributions	35.73	67.76	62.26
Closing NAV	1,440.85	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	0.78	0.81*	0.94
Return after operating charges	+4.75	+10.72	+6.77
Distribution yield	5.35	5.87	5.08
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	114,112	6,053	1,214
Closing NAV percentage of total fund NAV (%)	11.34	1.16	0.54
Number of shares	7,919,776	440,025	97,706
Highest share price (US ¢)	1,449.30	1,391.08	1,252.15
Lowest share price (US ¢)	1,369.65	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 period to 30.06.17 ongoing charges.

^[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

Financial statements and notes

Financial statements

Statement of total return

for the six months to 31 December	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Income				
Net capital gains / (losses)		18,645		(9,880)
Revenue	22,298		9,549	
Expenses	(3,651)		(1,958)	
Net revenue / (expense) before taxation	18,647		7,591	
Taxation	(85)		(64)	
Net revenue / (expense) after taxation		18,562		7,527
Total return before distributions		37,207		(2,353)
Distributions		(18,661)		(7,877)
Change in net assets attributable to shareholders from investment activities		18,546		(10,230)

Statement of change in net assets attributable to shareholders

for the six months to 31 December	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders		523,208		225,690
Amounts received on issue of shares	497,592		198,494	
Amounts paid on cancellation of shares	(53,938)		(33,873)	
		443,654		164,621
Dilution adjustments		1,337		611
Change in net assets attributable to shareholders from investment activities (see above)		18,546		(10,230)
Retained distributions on Accumulation shares		19,493		6,147
Closing net assets attributable to shareholders		1,006,238		386,839

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	31 December 2017	30 June 2017
	\$'000	\$'000
Assets		
Fixed assets		
Investments	989,099	527,466
Current assets		
Debtors	25,148	18,311
Cash and bank balances	4,044	755
Total assets	1,018,291	546,532
Liabilities		
Investment liabilities	(743)	(969)
Creditors		
Bank overdrafts	0	(2,048)
Distribution payable	(5,664)	(4,077)
Other creditors	(5,646)	(16,230)
Total liabilities	(12,053)	(23,324)
Net assets attributable to shareholders	1,006,238	523,208

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

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.

M&G Emerging Markets Bond Fund

Financial statements and notes

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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 January 2018, for the six months ended 31 December 2017

Performance against objective

Between 3 July 2017 (the start of the review period) and 2 January 2018, the M&G European Corporate Bond Fund delivered a positive total return (the combination of income and growth of capital) across 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 the year in which financial markets were largely dominated by politics, attention turned in the latter stages of 2017 to the likelihood of central banks finally being able to move towards more 'normal' monetary policy. 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. The unemployment rate has fallen back below 10% for the first time since 2011, while business surveys suggest a further steady pick-up in economic growth over the coming months. Political tensions also receded, with Emmanuel Macron's decisive victory in May's second-round French election helping to boost European markets.

M&G European Corporate Bond Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

The summer period was characterised by investor speculation that leading central banks (including the Bank of England, US Federal Reserve and European Central Bank) might be edging closer to the next stage in gradually withdrawing the support that they have been providing financial markets over the 10 years 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.

In this vein, the European Central Bank announced in 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.

Meanwhile, a speech by Bank of England governor, Mark Carney, in September, in which he signalled that "some withdrawal of monetary stimulus is likely in coming months" caused investors to judge that a first interest rate increase in some 10 years might take place before the end of 2017, and had the effect of pushing sterling higher. In November, the Bank confirmed investors' expectations, with a small rise of 0.25%, taking interest rates back to their level immediately before 2016's Brexit referendum vote.

The US Federal Reserve increased interest rates again in December 2017, making a total of four times it has raised rates since December 2016, with further increases expected in 2018.

This continued environment of relatively low interest rates and steady economic growth proved generally supportive for corporate bond markets. The fund rose over the review period, with its exposure to financial names and to asset-backed securities (bonds whose income payments are derived from a specified group of underlying assets) particularly helping performance. Within financials, our exposure to bank bonds from lower down the capital structure (those that are lower priority for repayment should the issuer get into financial difficulty) was especially beneficial as these delivered strong returns.

Investment activities

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 six months under review. Where possible, we have preferred bank bonds from lower down the capital structure, as we believe 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 have partially sold out of some of these positions towards the end of the reporting period to slightly reduce risk.

We have grown increasingly nervous 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.

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 reduced the fund's duration, taking it from around 0.7 years short of a comparable index to around 0.9 years short by year-end.

Outlook

We expect to see a continuation of many of the key themes from 2017 – strong economics, falling unemployment – as we move further into 2018.

This is particularly the case in the US, where full employment, moderate wage growth and the potential for rising inflation have caused the US Federal Reserve to increase interest rates four times in recent months, with further rises likely in 2018. Meanwhile, Europe presents an improving economic story: its growth outlook has improved and political risk has receded. As the European Central Bank slowly begins to reduce the amount of support it provides to bond markets, this may have an impact on bond prices. However, we do not expect to see any interest rate rises imminently, nor do we expect to see significant inflation in the eurozone yet, as unlike in the US, there is still too much slack in the labour market.

The combination of an accelerating economic recovery, modest inflation and supportive central bank policy should continue to provide a supportive environment for European corporate bonds. We remain constructive on financials, with banks well placed to benefit from the continuing healing of the European economy and the gradual shift from deflation to reflation.

However, while opportunities remain in financials, we will watch this sector particularly carefully in 2018 after very strong performance over the past few years. We remain cautious on government bonds, believing that they are already expensive. With further interest rate rises in the US likely, we consider that they offer little further upside but considerable downside.

Stefan Isaacs

Fund manager

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

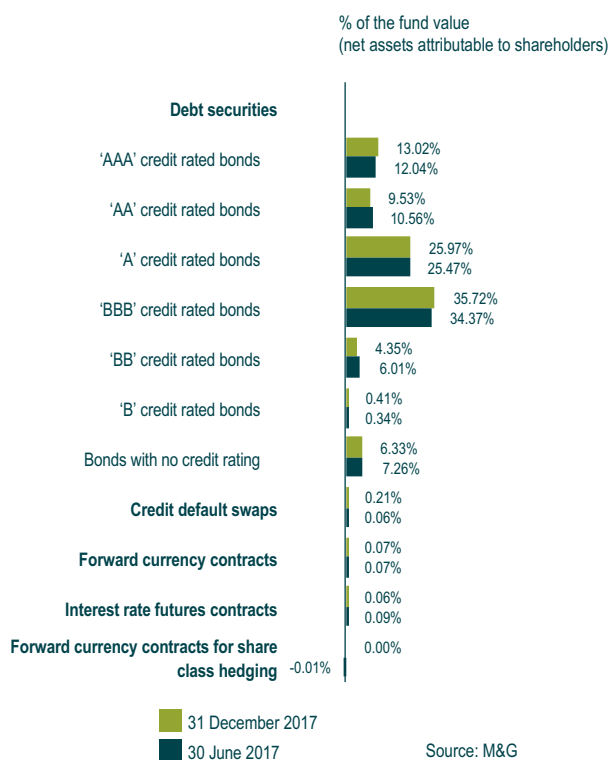
Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial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

M&G European Corporate Bond Fund

Authorised Corporate Director's Report

Investment review

Classification of investments



Investments

Portfolio statement

as at Holding	31.12.17 €'000	31.12.17 %	30.06.17 %
Debt securities	1,886,301	95.33	96.05
'AAA' credit rated bonds	257,704	13.02	12.04
£5,648,985 Dukinfield FRN 2052	6,449	0.33	
€8,000,000 Germany (Federal Republic of) 0% 2021	8,118	0.41	
€20,600,000 Germany (Federal Republic of) 0% 2022	20,855	1.05	
€2,800,000 Germany (Federal Republic of) 1% 2024	2,977	0.15	
€17,280,000 Germany (Federal Republic of) 1.75% 2024	19,151	0.97	
€30,000,000 Germany (Federal Republic of) 1.75% IL 2020	35,972	1.82	
€3,700,000 Germany (Federal Republic of) 2.25% 2021	4,062	0.21	
€38,500,000 Germany (Federal Republic of) 3.75% 2019	40,206	2.03	
€3,200,000 Germany (Federal Republic of) 5.5% 2031	5,135	0.26	
€10,136,000 Harvest CLO VIII FRN 2026	10,155	0.51	
£6,144,441 Hawksmoor Mortgages FRN 2053	7,003	0.35	
€5,000,000 Johnson & Johnson 0.25% 2022	5,028	0.26	
€23,000,000 Johnson & Johnson 0.65% 2024	23,138	1.17	
€18,000,000 Johnson & Johnson 4.75% 2019	19,641	0.99	
€10,000,000 KFW 0.125% 2024	9,929	0.50	
€10,000,000 Microsoft 2.125% 2021	10,740	0.54	
€1,750,000 Microsoft 2.625% 2033	2,055	0.10	
€5,000,000 Microsoft 3.125% 2028	6,065	0.31	
\$5,000,000 Microsoft 3.5% 2035	4,306	0.22	
€1,807,383 Paragon Mortgages No.11 FRN 2041	1,754	0.09	
£1,773,475 THRONES 2014-1 FRN 2049	2,005	0.10	
£4,437,511 Towd Point Mortgage Funding FRN 2045	5,025	0.25	
£2,512,777 Trinity Square FRN 2051 'A'	2,869	0.14	
€5,000,000 Wellcome Trust 1.125% 2027	5,066	0.26	
'AA' credit rated bonds	188,635	9.53	10.56
€3,000,000 3M Company 0.95% 2023	3,078	0.16	
€8,421,000 Apple 0.875% 2025	8,563	0.43	
€5,000,000 Apple 1% 2022	5,181	0.26	
€10,000,000 Apple 1.625% 2026	10,620	0.54	
€2,500,000 Apple 2% 2027	2,737	0.14	
€4,734,949 AyT Hipotecario Mixto FRN 2041	4,557	0.23	
€28,000,000 Berkshire Hathaway Finance 1.125% 2027	27,808	1.41	
€19,048,000 Coca-Cola 1.125% 2027	19,238	0.97	
€3,963,000 Deutsche Bahn Finance 1.5% 2032	4,045	0.20	
€5,725,000 Fingrid 3.5% 2024	6,708	0.34	
€4,000,000 France (Govt of) 0% 2022	4,025	0.20	
€12,000,000 France (Govt. of) 0.25% 2026	11,704	0.59	
€1,500,000 Nestlé Finance International 1.5% 2019	1,541	0.08	
€7,000,000 Nestlé Finance International 1.75% 2022	7,520	0.38	
€3,652,000 Nestlé Finance International 2.125% 2021	3,931	0.20	
€14,815,000 Novartis Finance 0.125% 2023	14,587	0.74	
€3,000,000 Novartis Finance 0.75% 2021	3,067	0.15	
€6,000,000 Novartis Finance 1.625% 2026	6,400	0.32	

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Portfolio statement (continued)			
as at Holding	31.12.17 €'000	31.12.17 %	30.06.17 %
'AA' credit rated bonds (continued)			
€462,950 Paragon Mortgages No.13 FRN 2039	447	0.02	
€2,220,623 Paragon Mortgages No.8 FRN 2035	2,205	0.11	
€2,500,000 Procter & Gamble 2% 2022	2,696	0.14	
€5,000,000 Roche Finance Europe 0.875% 2025	5,109	0.26	
€5,300,000 Sanofi 0% 2020	5,310	0.27	
€8,000,000 Svenska Handelsbanken 2.625% 2022	8,841	0.45	
€11,000,000 Wal-Mart Stores 4.875% 2029	15,291	0.77	
€3,000,000 Warwick Finance Residential Mortgage FRN 2049	3,426	0.17	
'A' credit rated bonds			
	513,827	25.97	25.47
€10,000,000 Airbus Group 0.875% 2026	9,954	0.50	
€10,000,000 Allianz Finance II Var. Rate 2041 (5.75%)	11,725	0.59	
€3,000,000 Allianz Var. Rate Perp. (4.75%)	3,559	0.18	
€5,000,000 América Móvil 4.125% 2019	5,373	0.27	
€5,000,000 Amgen 1.25% 2022	5,169	0.26	
€3,000,000 Anheuser-Busch InBev 2.7% 2026	3,394	0.17	
€4,176,000 Anheuser-Busch InBev 2.75% 2036	4,586	0.23	
€17,000,000 Aon 2.875% 2026	18,881	0.95	
€3,000,000 Banco Santander 6.75% Var. Rate Perp. (6.75%)	3,405	0.17	
€2,000,000 Banco Santander Var. Rate Perp. (6.25%)	2,085	0.11	
€14,000,000 Bank of America 0.75% 2023	14,054	0.71	
€4,375,000 Bank of America 1.375% 2021	4,561	0.23	
€7,000,000 Bank of America 2.375% 2024	7,670	0.39	
€5,000,000 Bank of America FRN 2023	5,089	0.26	
€16,000,000 Bankia 4.125% 2036	20,656	1.04	
€4,100,000 BG Energy Capital 3.625% 2019	4,336	0.22	
€2,185,000 BNP Paribas 1.5% 2025	2,256	0.11	
€9,278,000 BNP Paribas FRN 2024	9,490	0.48	
€1,938,000 BP Capital Markets 1.117% 2024	1,992	0.10	
€3,333,000 Carnival 1.875% 2022	3,542	0.18	
€3,000,000 CEZ 4.5% 2020	3,321	0.17	
€2,500,000 CEZ 4.875% 2025	3,127	0.16	
€7,000,000 DAA Finance 1.554% 2028	7,078	0.36	
€5,000,000 EDF 4% 2025	6,086	0.31	
€2,500,000 EDF 4.125% 2027	3,085	0.16	
€1,500,000 EDF 6.25% 2021	1,778	0.09	
€6,664,000 ELM Var. Rate Perp. (2.6%)	6,981	0.35	
€835,403 EMAC De (2006-1) FRN 2048	829	0.04	
€5,000,000 ENGIE Var. Rate 2020 (1.375%)	5,162	0.26	
€11,000,000 ENGIE 5.95% 2111	19,061	0.96	
€3,000,000 ESB Finance 2.125% 2027	3,243	0.16	
€5,387,642 GAMMA - Sociedade de Titularização de Créditos FRN 2060	5,152	0.26	
€2,500,000 GE Capital European Funding 0.8% 2022	2,545	0.13	
€1,500,000 GE Capital European Funding 4.625% 2027	1,945	0.10	
€14,643,000 General Electric Capital 1.25% 2023	15,125	0.76	
€5,000,000 Honeywell International 0.65% 2020	5,063	0.26	
€5,000,000 Honeywell International 1.3% 2023	5,194	0.26	
€3,000,000 HSBC Holdings 0.875% 2024	3,008	0.15	
€5,000,000 HSBC Holdings 1.5% 2022	5,230	0.26	

Portfolio statement (continued)

as at Holding	31.12.17 €'000	31.12.17 %	30.06.17 %
'A' credit rated bonds (continued)			
€2,475,000 HSBC Holdings 4.75% Perp.	2,620	0.13	
€10,000,000 HSBC Holdings FRN 2023	10,065	0.51	
€5,000,000 Hutchison Whampoa 1.375% 2021	5,177	0.26	
€4,333,000 JPMorgan Chase 0.625% 2024	4,303	0.22	
€6,000,000 JPMorgan Chase 1.375% 2021	6,250	0.32	
€10,925,000 JPMorgan Chase 1.5% 2026	11,303	0.57	
€6,857,000 JPMorgan Chase 2.875% 2028	7,901	0.40	
€2,439,000 JPMorgan Chase Var. Rate 2028 (1.638%)	2,506	0.13	
€3,200,000 Klépierre 1.375% 2027	3,268	0.17	
\$5,000,000 Legrande France 8.5% 2025	5,389	0.27	
£3,913,000 Lloyds Bank 4.875% 2027	5,581	0.28	
€2,363,030 Magellan Mortgages No.3 FRN 2058	2,249	0.11	
€2,665,330 Magellan Mortgages No.4 FRN 2059	2,521	0.13	
\$7,732,376 Mitchells & Butlers Finance FRN 2030	5,943	0.30	
€3,958,000 Prologis 3% 2022	4,343	0.22	
€1,677,000 Prologis 3.375% 2024	1,916	0.10	
€1,500,000 Prologis International Funding II 1.876% 2025	1,565	0.08	
€9,000,000 Prologis International Funding II 2.75% 2018	9,191	0.47	
€1,158,000 Prologis International Funding II 2.875% 2022	1,268	0.06	
€5,000,000 Rabobank 4% 2022	5,760	0.29	
€2,000,000 Rabobank Var. Rate Perp. (5.5%)	2,165	0.11	
€2,000,000 Rabobank Var. Rate Perp. (6.625%)	2,312	0.12	
€1,800,000 Réseau de Transport d'Electricité 1% 2026	1,799	0.09	
€1,408,627 RMAC 2005-Ns1 FRN 2037	1,365	0.07	
£8,392,891 RMAC 2006-Ns4 FRN 2044	9,152	0.46	
€5,000,000 Scentre Management 1.5% 2020	5,156	0.26	
€2,400,000 SCOR 3.875% Perp.	2,725	0.14	
€3,500,000 SEB 1.5% 2024	3,537	0.18	
€16,548,000 Shell International Finance 1% 2022	17,117	0.87	
€2,500,000 Shell International Finance 4.375% 2018	2,542	0.13	
€13,998,229 Silverback Finance 3.1261% 2037	14,239	0.72	
\$6,238,222 S-JETS 2017-1 3.967% 2042	5,216	0.26	
€3,500,000 Société Générale 4% 2023	4,041	0.2	
€2,865,000 Statkraft 2.5% 2022	3,143	0.16	
€3,400,000 Sumitomo Mitsui Banking 2.75% 2023	3,791	0.19	
€5,500,000 Thales Group 0.75% 2023	5,557	0.28	
€2,500,000 Total Capital International 0.25% 2023	2,475	0.13	
€17,400,000 Total Capital International 1.375% 2025	18,211	0.92	
€14,333,000 Total Var. Rate Perp. (2.25%)	14,968	0.76	
€8,000,000 Total Var. Rate Perp. (3.369%)	8,767	0.44	
€6,491,000 UBS 1.125% 2020	6,666	0.34	
€6,230,000 Vier Gas Transport 3.125% 2023	7,101	0.36	
€4,773,000 Wells Fargo & Company 1% 2027	4,690	0.24	
€2,338,000 Wells Fargo & Company 1.625% 2025	2,447	0.12	
€12,000,000 Wells Fargo & Company 2.25% 2023	13,040	0.66	
€7,000,000 Wells Fargo & Company 2.625% 2022	7,696	0.39	

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Portfolio statement (continued)				
as at Holding	31.12.17 €'000	31.12.17 %	30.06.17 %	
'BBB' credit rated bonds	706,831	35.72	34.37	
€2,500,000 ABN AMRO Bank Var. Rate Perp. (5.75%)	2,725	0.14		
€8,000,000 AG Insurance 3.5% 2047	8,750	0.44		
€1,500,000 Allergan Funding 2.125% 2029	1,505	0.08		
€5,000,000 Alstria Office 1.5% 2027	4,868	0.25		
€4,184,000 América Móvil Var. Rate 2073 (6.375%)	5,124	0.26		
€2,169,000 American International Group 1.875% 2027	2,214	0.11		
€15,250,000 American International Group Var. Rate 2067 (4.875%)	14,640	0.74		
€980,000 Anglo American Capital 1.625% 2025	982	0.05		
€4,170,000 Arion Bank 0.75% 2020	4,207	0.21		
€10,000,000 AT&T 1.8% 2026	10,103	0.51		
€6,667,000 AT&T 3.375% 2034	7,306	0.37		
€13,000,000 AT&T 3.55% 2032	14,567	0.74		
€2,900,000 ATF Netherlands 1.875% 2026	2,962	0.15		
€4,364,000 Australia (Commonwealth of) Var. Rate 2029 (1.936%)	4,378	0.22		
€8,000,000 Aviva Var. Rate 2043 (6.125%)	9,931	0.5		
€5,043,000 AXA Var. Rate 2043 (5.125%)	6,052	0.31		
€10,000,000 Banco Bilbao Vizcaya Argentaria Var. Rate Perp. (7%)	10,510	0.53		
€4,000,000 Banco De Sabadell 0.875% 2023	3,961	0.2		
€3,000,000 Barclays Bank 6.625% 2022	3,680	0.19		
£5,000,000 BAT International Finance 2.25% 2052	4,646	0.23		
€3,000,000 BAT International Finance 2.75% 2025	3,332	0.17		
£3,000,000 BAT International Finance 7.25% 2024	4,390	0.22		
€4,115,000 BAT Netherlands Finance 3.125% 2029	4,665	0.23		
€1,818,000 Bayer Var. Rate 2075 (2.375%)	1,873	0.09		
€5,885,000 Bayer Var. Rate 2075 (3%)	6,171	0.31		
€2,500,000 Becton Dickinson 1.9% 2026	2,525	0.13		
€5,266,000 BNP Paribas Var. Rate 2026 (2.875%)	5,630	0.28		
€1,000,000 BNP Paribas 4.875% Perp.	1,040	0.05		
€5,000,000 BPCE 2.75% 2027	5,395	0.27		
€4,000,000 CaixaBank 1.125% 2023	3,985	0.2		
€5,121,000 Channel Link Enterprises Finance 1.761% IL 2050	5,208	0.26		
€15,000,000 Citigroup 1.5% 2028	14,968	0.76		
€9,000,000 Citigroup 1.75% 2025	9,453	0.48		
€4,091,000 Citycon 3.75% 2020	4,443	0.22		
€13,000,000 Coentreprise de Transport d'Electricite 1.5% 2028	13,097	0.66		
€3,395,000 Commerzbank 4% 2026	3,853	0.19		
\$3,000,000 Commerzbank 8.125% 2023	2,994	0.15		
\$1,987,000 CoreStates Capital III FRN 2027	1,545	0.08		
€6,200,000 Crédit Agricole 1.875% 2026	6,512	0.33		
\$6,000,000 Crédit Agricole 4.125% 2027	5,192	0.26		
€1,300,000 Credit Mutuel Arkea Var. Rate 2029	1,305	0.07		
£3,750,000 Credit Suisse Group Funding 3% 2022	4,452	0.21		
€6,000,000 Credit Suisse Var. Rate 2025 (5.75%)	6,804	0.34		
€5,000,000 Deutsche Telekom International Finance 0.25% 2021	5,020	0.25		

Portfolio statement (continued)

as at Holding	31.12.17 €'000	31.12.17 %	30.06.17 %
'BBB' credit rated bonds (continued)			
€9,100,000 Deutsche Telekom International Finance 5.375% 2021	10,765	0.54	
\$8,000,000 Deutsche Telekom International Finance 8.75% 2030	9,694	0.49	
€1,545,000 ELM 3.375% 2047	1,654	0.08	
€2,200,000 ELM Var. Rate Perp. (4.5%)	2,532	0.13	
€5,000,000 Eni 1.5% 2026	5,122	0.26	
€7,000,000 Eni 3.75% 2025	8,392	0.42	
€1,778,000 Esselunga 1.875% 2027	1,811	0.09	
€3,950,000 EXOR 2.5% 2024	4,278	0.22	
€1,971,000 Fastighets AB Balder 1.875% 2026	1,984	0.1	
€5,000,000 FCE Bank 1.134% 2022	5,110	0.26	
€1,636,000 FCE Bank 1.615% 2023	1,699	0.09	
€4,482,000 GELF 0.875% 2022	4,504	0.23	
€9,251,000 GELF 1.75% 2021	9,657	0.49	
£1,370,000 GKN Holdings 3.375% 2032	1,521	0.08	
€2,625,000 Global Switch Holdings 2.25% 2027	2,716	0.14	
€7,674,000 Goldman Sachs Group 1.25% 2025	7,730	0.39	
€3,000,000 Goldman Sachs Group 1.375% 2022	3,111	0.16	
€5,714,000 Goldman Sachs Group 1.625% 2026	5,805	0.29	
€4,000,000 Goldman Sachs Group 2.625% 2020	4,260	0.21	
€3,500,000 Goldman Sachs Group 5.125% 2019	3,826	0.19	
€13,000,000 Goldman Sachs Group FRN 2023	13,062	0.66	
€2,952,000 Holcim Finance (Luxembourg) 1.75% 2029	2,932	0.15	
€1,782,000 Imperial Brands Finance 1.375% 2025	1,804	0.09	
€8,000,000 ING Bank 3.625% 2026	8,738	0.44	
€13,000,000 Intesa Sanpaolo 2% 2021	13,728	0.69	
\$7,000,000 Intesa Sanpaolo 6.5% 2021	6,419	0.32	
€6,000,000 Intesa Sanpaolo Var. Rate Perp. (4.75%)	6,648	0.34	
€5,000,000 Italy (Republic of) 1.31054% IL 2028	5,313	0.27	
€10,000,000 Italy (Republic of) 2.2% 2027	10,225	0.52	
€6,000,000 Johnson Controls 1.375% 2025	6,118	0.31	
€4,500,000 KBC Groep 0.75% 2022	4,549	0.23	
€1,000,000 Kraft Heinz Foods 1.5% 2024	1,018	0.05	
€1,000,000 Kraft Heinz Foods 2% 2023	1,056	0.05	
€4,000,000 Kraft Heinz Foods 2.25% 2028	4,095	0.21	
£1,067,000 LafargeHolcim Sterling Finance (Netherlands) 3% 2032	1,194	0.06	
€1,980,000 Liberty Mutual Group 2.75% 2026	2,155	0.11	
€10,000,000 Lloyds Banking Group FRN 2024	10,231	0.52	
€3,000,000 McDonalds 0.5% 2021	3,015	0.15	
€3,000,000 McDonalds 2% 2023	3,212	0.16	
€2,500,000 Merlin Properties 1.875% 2026	2,496	0.13	
£2,000,000 Mitchells & Butlers Finance FRN 2033	1,894	0.1	
€515,000 Mondelēz International 2.375% 2035	505	0.03	
€4,125,000 Morgan Stanley 1% 2022	4,209	0.21	
€9,857,000 Morgan Stanley 1.375% 2026	9,868	0.5	
€7,500,000 Morgan Stanley 1.75% 2025	7,836	0.40	
€3,200,000 Morgan Stanley 1.875% 2023	3,393	0.17	
€5,100,000 Morgan Stanley 5.375% 2020	5,797	0.29	
€4,765,000 NET4GAS S.R.O. 2.5% 2021	5,104	0.26	
€2,000,000 Nielsen Norman Group Var. Rate 2044 (4.625%)	2,315	0.12	
€7,000,000 Nielsen Norman Group Var. Rate Perp. (4.5%)	7,888	0.4	
€5,000,000 Orange Var. Rate Perp. (4.25%)	5,371	0.27	
€6,205,000 Orange Var. Rate Perp. (5%)	7,362	0.37	
€9,455,000 Origin Energy Finance 2.5% 2020	10,044	0.51	

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Portfolio statement (continued)				
as at Holding	31.12.17 €'000	31.12.17 %	30.06.17 %	
'BBB' credit rated bonds (continued)				
€2,800,000 Rabobank Var. Rate 2026 (2.5%)	2,964	0.15		
€5,000,000 Ryanair 1.125% 2023	5,062	0.26		
€1,200,000 Santander Consumer Bank 0.75% 2022	1,200	0.06		
€10,000,000 Santander Issuances 2.5% 2025	10,494	0.53		
€934,000 Smiths Group 2% 2027	967	0.05		
€3,711,000 Southern Power 1% 2022	3,775	0.19		
€40,000,000 Spain (Kingdom of) 1.45% 2027	39,631	2.00		
€5,000,000 Teva Pharmaceutical Finance 1.125% 2024	4,326	0.22		
€5,956,000 Teva Pharmaceutical Finance 1.25% 2023	5,423	0.27		
€1,000,000 Thermo Fisher Scientific 1.45% 2027	994	0.05		
€1,470,000 Thermo Fisher Scientific 2.875% 2037	1,495	0.08		
\$2,500,000 Time Warner Cable 7.3% 2038	2,577	0.13		
€1,111,000 Transmission Finance 1.5% 2023	1,152	0.06		
€22,000,000 UBS Var. Rate 2026 (4.75%)	24,637	1.25		
€4,885,000 Unicredit Var. Rate Perp. (5.375%)	4,891	0.25		
€3,500,000 Uniq Insurance Var. Rate 2043 (6.875%)	4,385	0.22		
€4,819,000 Ureco Finance 2.375% 2024	5,265	0.27		
€1,800,000 Ureco Finance 2.5% 2021	1,925	0.10		
€10,000,000 Verizon Communications 0.875% 2025	9,820	0.50		
€5,000,000 Verizon Communications 2.875% 2038	5,063	0.25		
\$13,117,000 Verizon Communications 4.272% 2036	10,812	0.55		
\$5,000,000 Verizon Communications 4.4% 2034	4,226	0.21		
€2,660,000 Vesteda Finance 1.75% 2019	2,716	0.14		
€3,390,000 Vodafone Group 1.125% 2025	3,368	0.17		
€4,714,000 Vodafone Group 2.2% 2026	5,049	0.26		
€5,000,000 Volkswagen Financial Services 0.75% 2021	5,079	0.26		
€1,000,000 Volkswagen International Finance 1.625% 2030	975	0.05		
€4,000,000 Volkswagen Leasing GMBH 2.625% 2024	4,378	0.22		
€7,000,000 WPC Eurobond 2.25% 2024 (formerly W.P.Carey Eurobond)	7,304	0.37		
€2,500,000 Walgreens Boots Alliance 2.125% 2026	2,581	0.13		
€1,500,000 Zimmer Biomet 2.425% 2026	1,569	0.08		
'BB' credit rated bonds	86,010	4.35	6.01	
£600,000 Bank of Scotland Var. Rate Perp. (7.281%)	883	0.04		
€1,500,000 Credit Agricole Var. Rate Perp. (6.5%)	1,696	0.09		
€6,800,000 EDF Var. Rate Perp. (4.125%)	7,261	0.37		
€5,000,000 Intesa Sanpaolo 2.855% 2025	5,146	0.26		
€9,300,000 Intesa Sanpaolo 3.928% 2026	10,184	0.52		
€2,000,000 Intesa Sanpaolo Var. Rate Perp. (7.75%)	2,431	0.12		
€6,000,000 KBC Groep Var. Rate Perp. (5.625%)	6,256	0.32		
€5,000,000 KPN Var. Rate Perp. (6.125%)	5,191	0.26		
€2,500,000 Lloyds Banking Group Var. Rate Perp. (6.375%)	2,741	0.14		
€800,000 National Westminster Bank Var. Rate Perp. (6.625%)	778	0.04		
€11,950,000 Société Générale Var. Rate Perp. (9.375%)	13,712	0.69		
€3,500,000 Solvay Finance Var. Rate Perp. (5.425%)	4,114	0.21		

Portfolio statement (continued)

as at Holding	31.12.17 €'000	31.12.17 %	30.06.17 %
'BB' credit rated bonds (continued)			
€1,190,000 Stora Enso 2.5% 2027	1,223	0.06	
€1,250,000 Telecom Italia 7.75% 2033	1,921	0.10	
€2,500,000 Telefónica (Europe) 4.2% Var. Rate Perp. (4.2%)	2,640	0.13	
€5,000,000 UBS Var. Rate Perp. (5.75%)	5,687	0.29	
€1,000,000 Unicredit 6.95% 2022	1,230	0.06	
€2,000,000 Unitymedia 4% 2025	2,109	0.11	
£5,000,000 Virgin Media Secured Finance 6.25% 2029	6,035	0.30	
€4,860,000 Wind Tre FRN 2024	4,772	0.24	
'B' credit rated bonds	8,056	0.41	0.34
£3,279,000 Barclays Bank Var. Rate Perp. (5.875%)	3,729	0.19	
€2,730,000 SFR Group 5.375% 2022 (formerly Numericable Group)	2,810	0.14	
€1,500,000 Royal Bank of Scotland 5.5% Perp.	1,517	0.08	
Bonds with no credit rating	125,238	6.33	7.26
€7,500,000 ALME Loan Funding II FRN 2030	7,546	0.38	
€5,000,000 Altea 2.25% 2024	5,018	0.25	
\$6,000,000 American Tower Trust 3.07% 2048	5,056	0.26	
€15,519,000 Arbour CLO IV DAC FRN 2030	15,616	0.79	
€5,213,000 ASML 1.625% 2027	5,404	0.27	
€1,400,000 Assicurazioni Generali Var. Rate 2042 (7.75%)	1,805	0.09	
€2,732,000 Assicurazioni Generali Var. Rate 2047 (5.5%)	3,274	0.17	
€9,524,000 ATON 3.875% 2018	9,612	0.49	
€3,587,000 Avoca CLO XIII DAC FRN 2030	3,619	0.18	
€5,000,000 Barings 2017-I FRN 2030	5,031	0.25	
€1,100,000 Brisa Concessão Rodoviária 2.375% 2027	1,167	0.06	
€2,300,000 Bureau Veritas 1.125% 2023	2,331	0.12	
€3,900,000 Bureau Veritas 3.125% 2021	4,202	0.21	
€1,351,000 Eurofins Scientific 2.125% 2024	1,379	0.07	
€1,400,000 Eurogrid 1.625% 2023	1,475	0.07	
€1,230,000 EWE 5.25% 2021	1,451	0.07	
€5,800,000 Groupe Bruxelles Lambert 1.375% 2024	5,832	0.29	
€4,000,000 Lagardère 1.625% 2024	3,971	0.20	
€2,700,000 Lehman Brothers Holdings Var. Rate 2016 (4.25%) /a/	0	0.00	
€6,567,000 Oak Hill FRN 2030	6,629	0.34	
€3,233,000 SELP Finance 1.25% 2023	3,245	0.16	
€1,645,000 SELP Finance 1.5% 2025	1,640	0.08	
€1,450,000 Suez Environnement 5.5% 2024	1,912	0.10	
€1,700,000 Suez Environnement Var. Rate Perp. (2.875%)	1,789	0.09	
€12,000,000 Telefónica (Germany) 2.375% 2021	12,814	0.65	
€3,400,000 Total Infrastructures Gaz France 4.339% 2021	3,862	0.20	
€2,974,634 Valencia Hipotecario 2 FRN 2043	2,923	0.15	
€6,400,000 Vilmarin & Cie 2.375% 2021	6,635	0.34	
Credit default swaps	4,293	0.21	0.06
€(5,000,000) BP Jun 2023	131	0.01	
€(5,000,000) Glencore Finance Europe Jun 2022	838	0.05	
€(10,000,000) Glencore Finance Europe Dec 2022	1,787	0.09	
€(10,000,000) Heathrow Funding Dec 2022	177	0.00	
€(2,000,000) Markit iTraxx Europe Series 26 5 Year Dec 2021	55	0.00	
€100,000,000 Markit iTraxx Europe Series 27 5 Year Jun 2022	(2,843)	(0.14)	
€(86,000,000) Markit iTraxx Europe Series 27 10 Year Jun 2027	1,730	0.08	
€(50,000,000) Markit iTraxx Europe Snr Fin Series 26 5 Year Dec 2021	1,403	0.07	

M&G European Corporate Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at Holding	31.12.17 €'000	31.12.17 %	30.06.17 %
Credit default swaps (continued)			
€(25,000,000) Markit iTraxx Europe Snr Fin Series 27 5 Year Jun 2022	729	0.04	
€22,500,000 Markit iTraxx Europe Sub Fin Series 26 5 Year Dec 2021	(282)	(0.02)	
€(10,000,000) Repsol Mar 2021	255	0.01	
€(5,000,000) Telefónica Mar 2021	91	0.01	
€(10,000,000) Volkswagen Jun 2023	222	0.01	
Forward currency contracts	1,450	0.07	0.07
£(67,469,970) Sold for €76,381,795 (expires 10.01.18)	355	0.02	
\$(86,109,243) Sold for €72,892,086 (expires 10.01.18)	1,095	0.05	
Interest rate futures contracts	1,126	0.06	0.09
(690) 10 Year US Treasury Note Mar 2018	543	0.03	
347 Euro Bobl Mar 2018	(288)	(0.01)	
(218) Euro Bund Mar 2018	279	0.01	
(324) Euro Buxl Mar 2018	816	0.04	
(248) UK Long Gilt Bond Mar 2018	(224)	(0.01)	
Portfolio of investments	1,893,170	95.67	96.27
Forward currency contracts for share class hedging	(62)	0.00	(0.01)
CHF10,208,415 Bought for €8,746,297 (expires 10.01.18)	(16)	0.00	
CHF(175,879) Sold for €150,379 (expires 10.01.18)	0	0.00	
\$6,332,930 Bought for €5,345,561 (expires 10.01.18)	(65)	0.00	
\$(1,225,174) Sold for €1,040,348 (expires 10.01.18)	19	0.00	
Total portfolio	1,893,108	95.67	96.26
Net other assets / (liabilities)	85,589	4.33	3.74
Net assets attributable to shareholders	1,978,697	100.00	100.00

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

[a] Defaulted bond.

Portfolio transactions		
for the six months to 31 December	2017	2016
Portfolio transactions	€'000	€'000
Total purchases	252,756	421,349
Total sales	253,512	462,837

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.

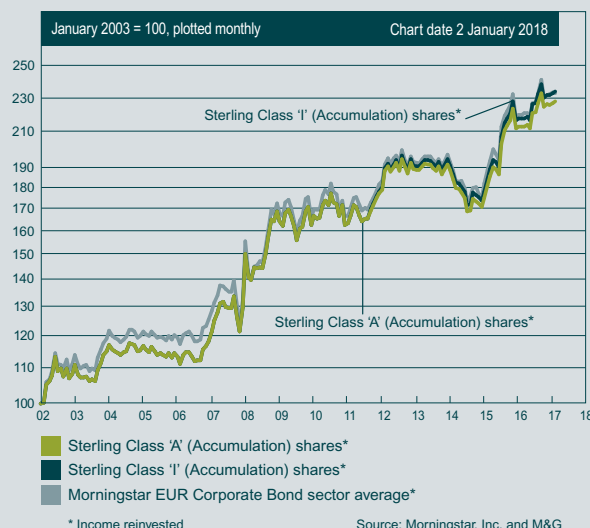
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer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

Fund level performance

Fund net asset value			
as at	31.12.17 €'000	30.06.17 €'000	30.06.16 €'000
Fund net asset value (NAV)	1,978,697	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				
	Six months 03.07.17 % [a]	Three years 02.01.15 % p.a.	Five years 02.01.13 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+1.6	+2.0	+3.3	+4.1 [c]
Class 'C'	+1.8	+2.5	+3.8	+4.8 [c]
Sterling [d]				
Class 'A'	+2.9	+6.3	+4.9	+5.7 [c]
Class 'I'	+3.2	+6.8	+5.3	+6.5 [e]
Class 'R'	+3.1	+6.5	+5.1	+6.3 [e]
Class 'X'	+2.9	+6.2	+4.7	+5.5 [c]
Swiss franc [b]				
Class 'A-H'	+1.4	+1.3	+2.8	+3.2 [f]
Class 'C-H'	+1.6	+1.8	+3.3	+3.8 [f]
US dollar [b]				
Class 'A-H'	+2.6	+3.2	n/a	+3.5 [g]
Class 'C-H'	+3.0	+3.8	n/a	+4.1 [g]

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

[g] 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	31.12.17	30.06.17	30.06.16	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.

	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Change in NAV per share			
Opening NAV	1,648.51	1,641.34	1,616.63
Return before operating charges and after direct portfolio transaction costs	37.39	65.53	68.97
Operating charges	(9.64)	(19.30)	(18.89)
Return after operating charges	27.75	46.23	50.08
Distributions	(18.02)	(39.06)	(25.37)
Closing NAV	1,658.24	1,648.51	1,641.34
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.01	0.04	0.06
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	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	+1.68	+2.82	+3.10
Distribution yield ^[c]	2.14	2.15	1.26
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (€'000)	57,254	61,925	49,730
Closing NAV percentage of total fund NAV (%)	2.89	3.18	1.90
Number of shares	3,452,680	3,756,411	3,029,832
Highest share price (Euro ¢)	1,684.94	1,695.33	1,660.70
Lowest share price (Euro ¢)	1,647.08	1,641.38	1,582.27

Euro Class 'A' Accumulation share performance

The share class was launched on 13 January 2003.

	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Change in NAV per share			
Opening NAV	1,778.94	1,730.02	1,677.73
Return before operating charges and after direct portfolio transaction costs	40.37	69.41	72.01
Operating charges	(10.44)	(20.49)	(19.72)
Return after operating charges	29.93	48.92	52.29
Distributions	(9.27)	(21.17)	(26.46)
Retained distributions	9.27	21.17	26.46
Closing NAV	1,808.87	1,778.94	1,730.02
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.01	0.04	0.07
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	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	+1.68	+2.83	+3.12
Distribution yield	0.99	1.00	1.26
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	1,067,110	1,043,611	1,538,271
Closing NAV percentage of total fund NAV (%)	53.93	53.57	58.86
Number of shares	58,993,115	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.

	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Change in NAV per share			
Opening NAV	1,845.62	1,828.33	1,800.83
Return before operating charges and after direct portfolio transaction costs	41.88	73.16	76.84
Operating charges	(6.17)	(12.26)	(11.97)
Return after operating charges	35.71	60.90	64.87
Distributions	(20.20)	(43.61)	(37.37)
Closing NAV	1,861.13	1,845.62	1,828.33
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.01	0.04	0.07
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	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	+1.93	+3.33	+3.60
Distribution yield ^[c]	2.14	2.14	1.76
Effect on yield of charges offset against capital	0.65	0.65	0.00
Other information			
Closing NAV (€'000)	8,567	7,320	10,054
Closing NAV percentage of total fund NAV (%)	0.43	0.38	0.39
Number of shares	460,287	396,648	549,906
Highest share price (Euro ¢)	1,889.75	1,890.29	1,851.78
Lowest share price (Euro ¢)	1,844.28	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.

	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Change in NAV per share			
Opening NAV	1,969.95	1,906.43	1,839.44
Return before operating charges and after direct portfolio transaction costs	44.71	76.40	79.28
Operating charges	(6.59)	(12.88)	(12.29)
Return after operating charges	38.12	63.52	66.99
Distributions	(15.21)	(33.16)	(38.41)
Retained distributions	15.21	33.16	38.41
Closing NAV	2,008.07	1,969.95	1,906.43
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.01	0.04	0.07
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	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	+1.94	+3.33	+3.64
Distribution yield	1.49	1.49	1.76
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	695,336	663,444	790,278
Closing NAV percentage of total fund NAV (%)	35.14	34.05	30.24
Number of shares	34,627,127	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	78.14	73.16	62.04
Return before operating charges and after direct portfolio transaction costs	2.55	7.71	12.94
Operating charges	(0.46)	(0.90)	(0.76)
Return after operating charges	2.09	6.81	12.18
Distributions	(0.86)	(1.83)	(1.06)
Closing NAV	79.37	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	+2.67	+9.31	+19.63
Distribution yield ^[c]	2.14	2.14	1.26
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (€'000)	787	731	809
Closing NAV percentage of total fund NAV (%)	0.04	0.04	0.03
Number of shares	879,328	821,998	913,973
Highest share price (UK p)	83.89	81.19	74.34
Lowest share price (UK p)	78.14	74.16	61.47

Sterling Class 'A' Accumulation share performance

The share class was launched on 13 January 2003.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	110.24	100.94	84.54
Return before operating charges and after direct portfolio transaction costs	3.61	10.68	17.73
Operating charges	(0.66)	(1.24)	(1.04)
Return after operating charges	2.95	9.44	16.69
Distributions	(0.58)	(1.30)	(1.45)
Retained distributions	0.58	1.16	1.16
Closing NAV	113.19	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	+2.68	+9.35	+19.74
Distribution yield	0.99	1.00	1.26
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	53,501	51,566	81,255
Closing NAV percentage of total fund NAV (%)	2.70	2.65	3.11
Number of shares	41,938,704	41,102,044	66,514,023
Highest share price (UK p)	118.35	112.64	102.25
Lowest share price (UK p)	110.24	102.94	83.77

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	1,228.81	1,144.69	970.79
Return before operating charges and after direct portfolio transaction costs	40.13	120.77	202.59
Operating charges	(4.16)	(8.01)	(6.79)
Return after operating charges	35.97	112.76	195.80
Distributions	(13.54)	(28.64)	(21.90)
Closing NAV	1,251.24	1,228.81	1,144.69
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.03	0.04
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	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	+2.93	+9.85	+20.17
Distribution yield ^[c]	2.14	2.14	1.76
Effect on yield of charges offset against capital	0.65	0.65	0.00
Other information			
Closing NAV (€'000)	15,331	16,496	22,170
Closing NAV percentage of total fund NAV (%)	0.77	0.85	0.85
Number of shares	1,087,140	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)	1,229.13	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	1,354.69	1,234.89	1,030.10
Return before operating charges and after direct portfolio transaction costs	44.30	130.84	216.74
Operating charges	(4.61)	(8.68)	(7.27)
Return after operating charges	39.69	122.16	209.47
Distributions	(10.53)	(22.51)	(23.40)
Retained distributions	10.53	20.15	18.72
Closing NAV	1,394.38	1,354.69	1,234.89
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.03	0.04
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	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	+2.93	+9.89	+20.33
Distribution yield	1.49	1.49	1.76
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	21,269	16,011	14,297
Closing NAV percentage of total fund NAV (%)	1.08	0.82	0.55
Number of shares	1,353,421	1,038,578	956,684
Highest share price (UK p)	1,455.52	1,379.48	1,250.89
Lowest share price (UK p)	1,355.00	1,261.56	1,020.85

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	122.58	114.48	97.08
Return before operating charges and after direct portfolio transaction costs	4.00	12.05	20.27
Operating charges	(0.57)	(1.10)	(0.94)
Return after operating charges	3.43	10.95	19.33
Distributions	(1.35)	(2.85)	(1.93)
Closing NAV	124.66	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	+2.80	+9.56	+19.91
Distribution yield ^[c]	2.14	2.14	1.51
Effect on yield of charges offset against capital	0.90	0.90	0.00
Other information			
Closing NAV (€'000)	82	44	52
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.00
Number of shares	58,685	31,201	37,585
Highest share price (UK p)	131.66	127.14	116.39
Lowest share price (UK p)	122.60	116.19	96.21

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	134.23	122.64	102.51
Return before operating charges and after direct portfolio transaction costs	4.39	12.98	21.54
Operating charges	(0.63)	(1.19)	(1.00)
Return after operating charges	3.76	11.79	20.54
Distributions	(0.87)	(1.90)	(2.04)
Retained distributions	0.87	1.70	1.63
Closing NAV	137.99	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	+2.80	+9.61	+20.04
Distribution yield	1.24	1.24	1.51
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	177	72	53
Closing NAV percentage of total fund NAV (%)	0.01	0.00	0.00
Number of shares	113,821	47,000	36,000
Highest share price (UK p)	144.16	136.92	124.23
Lowest share price (UK p)	134.24	125.17	101.58

Sterling Class 'X' Income share performance

The share class was launched on 13 January 2003.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	77.94	73.05	61.95
Return before operating charges and after direct portfolio transaction costs	2.54	7.70	12.92
Operating charges	(0.46)	(0.99)	(0.93)
Return after operating charges	2.08	6.71	11.99
Distributions	(0.86)	(1.82)	(0.89)
Closing NAV	79.16	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	+2.67	+9.19	+19.35
Distribution yield ^[c]	2.14	2.14	1.02
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (€'000)	853	1,121	1,354
Closing NAV percentage of total fund NAV (%)	0.04	0.06	0.05
Number of shares	955,785	1,263,973	1,531,909
Highest share price (UK p)	83.67	81.02	74.20
Lowest share price (UK p)	77.94	73.98	61.38

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

M&G European Corporate Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Accumulation share performance

The share class was launched on 13 January 2003.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	107.80	98.80	82.92
Return before operating charges and after direct portfolio transaction costs	3.53	10.45	17.36
Operating charges	(0.64)	(1.33)	(1.24)
Return after operating charges	2.89	9.12	16.12
Distributions	(0.57)	(1.15)	(1.20)
Retained distributions	0.57	1.03	0.96
Closing NAV	110.69	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	+2.68	+9.23	+19.44
Distribution yield	0.88	0.77	1.01
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	45,630	68,340	52,020
Closing NAV percentage of total fund NAV (%)	2.31	3.50	1.99
Number of shares	36,577,295	55,704,735	43,505,203
Highest share price (UK p)	115.74	110.19	100.09
Lowest share price (UK p)	107.80	100.66	82.16

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

Swiss franc Class 'A-H' Accumulation share performance

The share class was launched on 28 September 2012.

	Six months to 31.12.17 Swiss ¢	Year to 30.06.17 Swiss ¢	Year to 30.06.16 Swiss ¢
Change in NAV per share			
Opening NAV	1,160.41	1,134.46	1,108.65
Return before operating charges and after direct portfolio transaction costs	24.01	39.49	38.97
Operating charges	(6.92)	(13.54)	(13.16)
Return after operating charges	17.09	25.95	25.81
Distributions	(6.05)	(13.56)	(17.14)
Retained distributions	6.05	13.56	17.14
Closing NAV	1,177.50	1,160.41	1,134.46
Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.01	0.03	0.04
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	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	+1.47	+2.29	+2.33
Distribution yield	0.97	0.98	1.24
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	2,937	3,495	23,264
Closing NAV percentage of total fund NAV (%)	0.15	0.18	0.89
Number of shares	291,734	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.

	Six months to 31.12.17 Swiss ¢	Year to 30.06.17 Swiss ¢	Year to 30.06.16 Swiss ¢
Change in NAV per share			
Opening NAV	1,189.05	1,156.44	1,123.91
Return before operating charges and after direct portfolio transaction costs	24.92	40.64	40.25
Operating charges	(4.10)	(8.03)	(7.72)
Return after operating charges	20.82	32.61	32.53
Distributions	(9.18)	(19.81)	(23.25)
Retained distributions	9.18	19.81	23.25
Closing NAV	1,209.87	1,189.05	1,156.44
Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.01	0.03	0.04
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	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	+1.75	+2.82	+2.89
Distribution yield	1.47	1.48	1.75
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	5,630	9,187	9,147
Closing NAV percentage of total fund NAV (%)	0.28	0.47	0.35
Number of shares	544,177	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

US dollar Class 'A-H' Income share performance

The share class was launched on 8 August 2014.

	Six months to 31.12.17 US ¢	Year to 30.06.17 US ¢	Year to 30.06.16 US ¢
Change in NAV per share			
Opening NAV	1,032.42	1,010.48	987.12
Return before operating charges and after direct portfolio transaction costs	35.16	58.37	50.52
Operating charges	(6.18)	(12.15)	(11.71)
Return after operating charges	28.98	46.22	38.81
Distributions	(11.57)	(24.28)	(15.45)
Closing NAV	1,049.83	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	+2.81	+4.57	+3.93
Distribution yield ^[c]	2.17	2.18	1.23
Effect on yield of charges offset against capital	1.17	1.17	0.00
Other information			
Closing NAV (€'000)	104	112	121
Closing NAV percentage of total fund NAV (%)	0.01	0.01	0.00
Number of shares	11,907	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

M&G European Corporate Bond Fund

Financial highlights

Specific share class performance

US dollar Class 'A-H' Accumulation share performance

The share class was launched on 8 August 2014.

	Six months to 31.12.17 US ¢	Year to 30.06.17 US ¢	Year to 30.06.16 US ¢
Change in NAV per share			
Opening NAV	1,090.91	1,042.98	1,002.87
Return before operating charges and after direct portfolio transaction costs	36.81	60.58	52.13
Operating charges	(6.54)	(12.65)	(12.02)
Return after operating charges	30.27	47.93	40.11
Distributions	(5.73)	(12.64)	(15.78)
Retained distributions	5.73	12.64	15.78
Closing NAV	1,121.18	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	+2.77	+4.60	+4.00
Distribution yield	0.98	1.00	1.23
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	3,119	3,604	5,680
Closing NAV percentage of total fund NAV (%)	0.16	0.19	0.22
Number of shares	333,510	376,804	607,054
Highest share price (US ¢)	1,129.54	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.

	Six months to 31.12.17 US ¢	Year to 30.06.17 US ¢	Year to 30.06.16 US ¢
Change in NAV per share			
Opening NAV	1,037.17	1,010.01	986.63
Return before operating charges and after direct portfolio transaction costs	35.44	58.53	50.56
Operating charges	(3.57)	(7.02)	(6.72)
Return after operating charges	31.87	51.51	43.84
Distributions	(11.58)	(24.35)	(20.46)
Closing NAV	1,057.46	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	+3.07	+5.10	+4.44
Distribution yield ^[c]	2.17	2.19	1.74
Effect on yield of charges offset against capital	0.67	0.67	0.00
Other information			
Closing NAV (€'000)	107	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.

	Six months to 31.12.17 US ¢	Year to 30.06.17 US ¢	Year to 30.06.16 US ¢
Change in NAV per share			
Opening NAV	1,107.10	1,053.97	1,008.18
Return before operating charges and after direct portfolio transaction costs	38.14	60.45	52.88
Operating charges	(3.84)	(7.32)	(7.09)
Return after operating charges	34.30	53.13	45.79
Distributions	(8.69)	(18.32)	(21.01)
Retained distributions	8.69	18.32	21.01
Closing NAV	1,141.40	1,107.10	1,053.97
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	+3.10	+5.04	+4.54
Distribution yield	1.49	1.51	1.74
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	903	686	14,949
Closing NAV percentage of total fund NAV (%)	0.05	0.04	0.57
Number of shares	94,814	70,714	1,580,824
Highest share price (US ¢)	1,149.39	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.

M&G European Corporate Bond Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 31 December	2017		2016	
	€'000	€'000	€'000	€'000
Income				
Net capital gains / (losses)		20,938		29,218
Revenue	21,716		32,588	
Expenses	(9,673)		(13,215)	
Net revenue / (expense) before taxation	12,043		19,373	
Taxation	6		(53)	
Net revenue / (expense) after taxation		12,049		19,320
Total return before distributions		32,987		48,538
Distributions		(12,333)		(19,790)
Change in net assets attributable to shareholders from investment activities		20,654		28,748

Statement of change in net assets attributable to shareholders

for the six months to 31 December	2017		2016	
	€'000	€'000	€'000	€'000
Opening net assets attributable to shareholders		1,947,876		2,613,614
Amounts received on issue of shares	103,109		232,356	
Amounts paid on cancellation of shares	(104,572)		(376,518)	
		(1,463)		(144,162)
Dilution adjustments		224		944
Change in net assets attributable to shareholders from investment activities (see above)		20,654		28,748
Retained distributions on Accumulation shares		11,406		18,062
Closing net assets attributable to shareholders		1,978,697		2,517,206

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	31 December 2017	30 June 2017
	€'000	€'000
Assets		
Fixed assets		
Investments	1,896,826	1,877,974
Current assets		
Debtors	19,721	39,928
Cash and bank balances	67,035	65,853
Total assets	1,983,582	1,983,755
Liabilities		
Investment liabilities	(3,718)	(2,936)
Creditors		
Distribution payable	(449)	(500)
Other creditors	(718)	(32,443)
Total liabilities	(4,885)	(35,879)
Net assets attributable to shareholders	1,978,697	1,947,876

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

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.

M&G European Corporate Bond Fund

Financial statements and notes

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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 is 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 January 2018, for the six months ended 31 December 2017

Performance against objective

Between 3 July 2017 (the start of the review period) and 2 January 2018, the M&G European High Yield Bond Fund produced a positive total return (the combination of income and growth of capital) across all its share classes*, thus meeting its objective of providing 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.

** 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 six months under review was a generally positive period for high yield bonds, with sentiment buoyed by a gradually improving economic backdrop and supportive actions from the world's central banks. Indeed, for the first time in many years, there was evidence of a synchronised upswing in global growth, with much of the improvement in economic data coming from outside the US. (High yield bonds are fixed income securities issued by companies with a low 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.)

The relatively steady returns produced by high yield bonds were in contrast to 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)

The latter stages of the review period, however, were a more challenging time for high yield markets as the asset class sold off sharply in the early part of November. The sell-off appeared to be driven by company-specific factors, such as the failed merger between Sprint and T-Mobile in the telecommunications sector and a series of weaker-than-expected financial reports from companies in the cable industry and healthcare. However, the sell-off was short-lived and there was a recovery in high yield bond prices by the end of the month.

In December, the European market was held back by issues relating to specific issuers. For example, the bonds of South African retail holding company Steinhoff fell sharply, following the disclosure of accounting failures at the company and the resignation of its chief executive.

Bonds of paper producer Norske, which filed for bankruptcy after failing to agree a debt restructuring with creditors, also fell in value – albeit not quite to the same extent as Steinhoff. Nevertheless, despite the setbacks in November and December, high yield bonds delivered positive returns for the period as a whole.

The fund generated positive returns across all of its share classes. Furthermore, the sterling and euro share classes (the two share classes for which there is a comparative sector) performed broadly in line with the Morningstar Europe High Yield Bond Sector.

While careful selection of individual bond issues generally proved beneficial, this was offset by the fund's more defensive positioning in an environment where investors generally favoured riskier assets. From a sector perspective, the fund benefited from having only a small exposure to the UK retail sector which is facing headwinds from the recent fall in sterling and a slowdown in consumer spending.

Investment activities

There was no significant change in fund positioning during the review period and we maintain 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 maintained the fund's US exposure at around 17%, which is roughly twice that of the index. Over the review period, the performance of US high yield versus its European counterpart was roughly similar.

Over the six 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, while at the same time 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 number of new issues over the period, including that of UniCredit, an Italian bank, where we bought a perpetual bond, while closing an existing position in the same issuer at the same time. We also participated in a Matterhorn Telecom refinancing and a US dollar issue by Bombardier, an aerospace and transportation company based in Canada.

Elsewhere, we reduced the fund's exposure to Carlson Travel, a global specialist in organising business travel, and cable operators 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 in a variety of economic conditions. With valuations in parts of the high yield market at heightened levels, we also believe that careful individual bond selection and in-depth company analysis will become increasingly important.

In our view, high yield investing is as much about avoiding the losers as picking the winners. On this basis, we remain cautiously positioned on 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.

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

James Tomlins

Fund manager

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

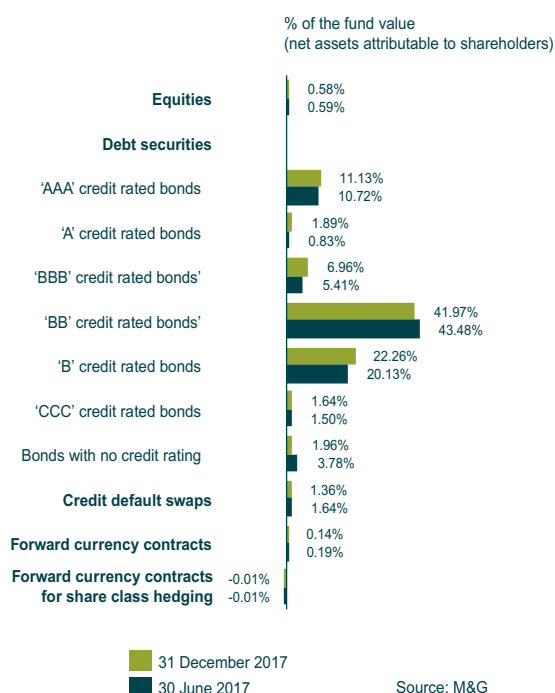
Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial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

M&G European High Yield Bond Fund

Authorised Corporate Director's Report

Investment review

Classification of investments



Investments

Portfolio statement

as at Holding	31.12.17 €'000	31.12.17 %	30.06.17 %
Equities	687	0.58	0.59
96,305 Codere	687	0.58	
5,628,959 New World Resources ^[a]	0	0.00	
Debt securities	104,958	87.81	85.85
'AAA' credit rated bonds	13,299	11.13	10.72
€1,000,000 Germany (Federal Republic of) 0% 2020	1,013	0.85	
€2,200,000 Germany (Federal Republic of) 0% 2022	2,227	1.86	
€10,306,000 Germany (Federal Republic of) 0% 2026	10,059	8.42	
'A' credit rated bonds	2,266	1.89	0.83
€400,000 Banco Santander Var. Rate Perp. (6.25%)	417	0.35	
\$1,250,000 Société Générale Var. Rate Perp. (6%)	1,060	0.88	
€720,000 Total Var. Rate Perp. (3.369%)	789	0.66	
'BBB' credit rated bonds	8,325	6.96	5.41
€1,600,000 American International Group Var. Rate 2067 (4.875%)	1,536	1.28	
€600,000 Banco Bilbao Vizcaya Argentaria Var. Rate Perp. (7%)	631	0.53	
€2,400,000 Commerzbank 7.75% 2021	2,913	2.44	
€750,000 MPT Operating Partnership 3.325% 2025	791	0.66	
\$1,650,000 UBS Var. Rate 2023 (4.75%)	1,387	1.16	
€689,000 Unicredit Var. Rate Perp. (5.375%)	690	0.58	
€350,000 Unicredit Var. Rate Perp. (6.75%)	377	0.31	
'BB' credit rated bonds	50,162	41.97	43.48
€254,000 Aramark International Finance 3.125% 2025	266	0.22	
€1,100,000 Ardagh Packaging Finance 2.75% 2024	1,131	0.95	
€129,000 Arena Luxembourg 2.875% 2024	132	0.11	
€500,000 Areva 4.875% 2024	559	0.47	
£667,000 Arrow Global Finance 5.125% 2024	759	0.64	
€250,000 Arrow Global Finance FRN 2023	255	0.21	
€723,000 Axalta Coating System 3.75% 2025	769	0.64	
€404,000 Axalta Coating System 4.25% 2024	432	0.36	
€1,400,000 Bank of Ireland Var. Rate 2024 (4.25%)	1,474	1.23	
€350,000 Bank of Ireland Var. Rate Perp. (7.375%)	392	0.33	
€324,000 Belden 3.375% 2027	327	0.27	
€400,000 Cable Communications Systems 5% 2023	428	0.36	
€400,000 CaixaBank Var. Rate. Perp. (6.75%)	444	0.37	
€369,000 Cemex 2.75% 2024	371	0.31	
€193,000 Colfax 3.25% 2025	200	0.17	
\$225,000 Credit Suisse Var. Rate Perp. (6.25%)	203	0.17	
\$225,000 Credit Suisse Var. Rate Perp. (7.125%)	205	0.17	
\$900,000 Credit Suisse Var. Rate Perp. (7.5%)	858	0.72	
€3,600,000 Crown European Holdings 3.375% 2025	3,766	3.15	
€380,000 DEMIRE Deutsche Mittelstand 2.875% 2022	386	0.32	
£221,000 Drax Finco FRN 2022	251	0.21	
€471,000 Dufry Finance 4.5% 2023	493	0.41	
€700,000 Fiat Finance & Trade 6.625% 2018	708	0.59	

M&G European High Yield Bond Fund

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Investments

Portfolio statement (continued)				
as at Holding	31.12.17 €'000	31.12.17 %	30.06.17 %	
'BB' credit rated bonds (continued)				
€750,000 Gestamp Funding Luxembourg 3.5% 2023	784	0.66		
€226,000 Grupo Antolin 3.25% 2024	235	0.20		
\$200,000 Grupo Unicomer 7.875% 2024	181	0.15		
€2,000,000 Hanesbrands Finance 3.5% 2024	2,154	1.80		
€478,000 IHO Verwaltungen (formerly Schaeffler Verwaltung Zwei) 2.75% Pik 2021	490	0.41		
€1,120,000 Ineos Finance 4% 2023	1,150	0.96		
\$950,000 ING Groep Var. Rate Perp. (6%)	820	0.69		
€630,000 International Game Technology 4.125% 2020	668	0.56		
€150,000 Intesa Sanpaolo 3.928% 2026	164	0.14		
€125,000 Intesa Sanpaolo 6.625% 2023	157	0.13		
€450,000 Intesa Sanpaolo Var. Rate Perp. (7%)	497	0.42		
€213,000 Intesa Sanpaolo Var. Rate Perp. (7.75%)	259	0.22		
€890,000 Intrum Justitia 3.125% 2024	892	0.75		
€800,000 KBC Groep Var. Rate Perp. (5.625%)	834	0.70		
€1,190,000 KPN Var. Rate Perp. (6.125%)	1,235	1.03		
€295,000 Lincoln Finance 6.875% 2021	309	0.26		
€400,000 Lloyds Banking Group Var. Rate Perp. (6.375%)	439	0.37		
€168,000 Louvre Bidco SAS 4.25% 2024	167	0.14		
€500,000 Merlin Entertainment 2.75% 2022	522	0.44		
€228,000 Nassa Topco 2.875% 2024	231	0.19		
£220,000 Nationwide Building Society Var. Rate Perp. (6.875%)	260	0.22		
€1,360,000 Nomad Foods 3.25% 2024	1,395	1.17		
€1,000,000 Novalis 3% 2022	1,020	0.85		
€2,220,000 OI European Group 3.125% 2024	2,328	1.95		
€929,000 Progroup FRN 2024	934	0.78		
€1,136,000 QuintilesIMS 3.25% 2025	1,172	0.98		
€462,000 Silgan Holdings 3.25% 2025	480	0.40		
€600,000 Smurfit Kappa Acquisitions 2.375% 2024	629	0.53		
€850,000 Smurfit Kappa Acquisitions 2.75% 2025	901	0.75		
€1,850,000 SPCM 2.875% 2023	1,879	1.57		
€238,000 Stora Enso 2.5% 2027	245	0.20		
€990,000 TA Manufacturing 3.625% 2023	1,008	0.84		
€1,700,000 Telenet Finance VI 4.875% 2027	1,844	1.54		
€169,000 Unitymedia Hessen 3.5% 2027	174	0.15		
€1,450,000 Unitymedia Kabel 4% 2025	1,529	1.28		
€500,000 Unitymedia Hessen 4.625% 2026	538	0.45		
£300,000 Virgin Media Secured Finance 5% 2027	343	0.29		
£316,000 William Hill 4.875% 2023	376	0.31		
€600,000 Wind Tre 3.125% 2025	583	0.49		
€1,296,000 Wind Tre FRN 2024	1,272	1.06		
€300,000 ZF North America Capital 2.25% 2019	309	0.26		
€700,000 ZF North American Capital 2.75% 2023	764	0.64		
€3,086,000 Ziggo Secured Finance 3.75% 2025	3,182	2.66		

Portfolio statement (continued)

as at Holding	31.12.17 €'000	31.12.17 %	30.06.17 %
'B' credit rated bonds			
€359,000 Adler Pelzer (formerly HP Pelzer) 4.125% 2024	373	0.31	
€145,000 Altice Financing 9% 2023	154	0.13	
£643,000 AMC Entertainment Holdings 6.375% 2024	727	0.61	
€670,000 ARD Finance 6.625% 2023	715	0.60	
£360,000 Ardagh Packaging Finance 4.75% 2027	409	0.34	
£213,000 Aston Martin Capital 5.75% 2022	252	0.21	
£328,000 Barclays Bank Var. Rate Perp. (5.875%)	373	0.31	
€450,000 Barclays Bank Var. Rate Perp. (8%)	517	0.43	
\$200,000 Barclays Bank Var. Rate Perp. (8.25%)	175	0.15	
€500,000 Bombardier 6.125% 2021	532	0.45	
\$500,000 Bombardier 7.5% 2024	421	0.35	
€419,000 Burger King France 6% 2024	451	0.38	
£902,000 Cabot Financial Luxembourg 7.5% 2023	1,062	0.89	
€147,000 Carlson Travel FRN 2023	143	0.12	
€740,000 Catalent Pharma Solutions 4.75% 2024	788	0.66	
\$200,000 CenturyLink 7.5% 2024	166	0.14	
€500,000 CMF 9% 2022	504	0.42	
£536,000 Cognita Financing 7.75% 2021	625	0.52	
£244,000 CPUK Finance 4.25% 2047	280	0.23	
€218,000 Diamond (BC) 5.625% 2025	219	0.18	
€620,000 eircom Finance 4.5% 2022	641	0.54	
€300,000 Garfunkelux Holdco 7.5% 2022	313	0.26	
£1,500,000 Garfunkelux Holdco 8.5% 2022	1,765	1.48	
£1,000,000 Iceland Bondco 4.625% 2025	1,061	0.89	
£800,000 Intergen 7.5% 2021	882	0.74	
€2,680,000 Matterhorn Telecom 3.875% 2022	2,723	2.28	
€1,000,000 Matterhorn Telecom 4% 2027	970	0.81	
€71,429 Matterhorn Telecom FRN 2023	72	0.06	
\$335,000 Neptune Finco 10.875% 2025	332	0.28	
€548,000 Netflix 3.625% 2027	551	0.46	
€453,000 Picard Groupe FRN 2023	454	0.38	
£325,000 Premier Foods Finance FRN 2022	366	0.31	
€710,000 PSPC Escrow 6% 2023	741	0.62	
\$300,000 Royal Bank of Scotland Var. Rate Perp. (7.5%)	264	0.22	
€100,000 Schmolz+Bickenbach 5.625% 2022	106	0.09	
€1,550,000 SFR Group (formerly Numericable Group) 5.375% 2022	1,595	1.33	
€1,000,000 SFR Group (formerly Numericable Group) 5.625% 2024	1,040	0.87	
£508,000 Stonegate Pub Company 4.875% 2022	570	0.48	
€432,000 United Group 4.875% 2024	449	0.38	
€393,000 Unitymedia Kabel 3.75% 2027	400	0.33	
€1,420,000 Valeant Pharmaceuticals (formerly VRX Escrow) 4.5% 2023	1,270	1.06	
€284,000 Vallourec 6.625% 2022	295	0.25	
€150,000 Veritas 7.5% 2023	159	0.13	
\$800,000 VTR Finance 6.875% 2024	699	0.58	
'CCC' credit rated bonds			
\$353,000 Carlson Travel 9.5% 2024	239	0.20	
€400,000 New Look FRN 2022	153	0.13	
€222,000 NewCo 8% 2022	226	0.19	
€200,000 Swissport Financing SARL 9.75% 2022	208	0.17	
€145,000 Unilabs Subholding 5.75% 2025	146	0.12	
SEK9,780,000 Verisure Holdings FRN 2023	992	0.83	
	1,964	1.64	1.50

M&G European High Yield Bond Fund

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Investments

Portfolio statement (continued)			
as at Holding	31.12.17 €'000	31.12.17 %	30.06.17 %
Bonds with no credit rating	2,338	1.96	3.78
€182,000 Assicurazioni Generali Var. Rate 2047 (5.5%)	218	0.18	
£500,000 Care UK Health FRN 2019	555	0.47	
€641,964 Hellas Telecom III 8.5% 2013 ^[b]	0	0.00	
£309,000 KIRS Midco 3 8.375% 2023	353	0.30	
€600,000 Lehman Brothers Holdings Var. Rate 2016 (4.25%) ^[b]	0	0.00	
€442,000 Nidda Healthcare 3.5% 2024	444	0.37	
£231,000 Sainsbury's Bank Var. Rate 2027 (6%)	272	0.23	
€500,000 Viridian Power & Energy 4% 2025	496	0.41	
Credit default swaps	1,621	1.36	1.64
€(12,500,000) Markit iTraxx Europe Xover Series 27 5 Year Jun 2022	1,595	1.34	
€(250,000) Selecta Group Dec 2021	26	0.02	
Forward currency contracts	172	0.14	0.19
£(145,333) Sold for €164,435 (expires 10.01.18)	1	0.00	
£(11,205,336) Sold for €12,670,171 (expires 07.03.18)	63	0.05	
SEK(9,697,676) Sold for €968,141 (expires 07.03.18)	(19)	(0.02)	
\$(10,517,492) Sold for €8,867,252 (expires 07.03.18)	127	0.11	
Portfolio of investments	107,438	89.89	88.27
Forward currency contracts for share class hedging	(7)	(0.01)	(0.01)
CHF67,279 Bought for €57,643 (expires 10.01.18)	0	0.00	
CHF(610) Sold for €522 (expires 10.01.18)	0	0.00	
\$720,859 Bought for €608,505 (expires 10.01.18)	(7)	(0.01)	
\$(13,304) Sold for €11,232 (expires 10.01.18)	0	0.00	
Total portfolio	107,431	89.88	88.26
Net other assets / (liabilities)	12,094	10.12	11.74
Net assets attributable to shareholders	119,525	100.00	100.00

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

^[a] Suspended.

^[b] Defaulted bond.

Portfolio transactions		
for the six months to 31 December	2017	2016
Portfolio transactions	€'000	€'000
Total purchases	18,899	14,560
Total sales	19,488	28,858

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.

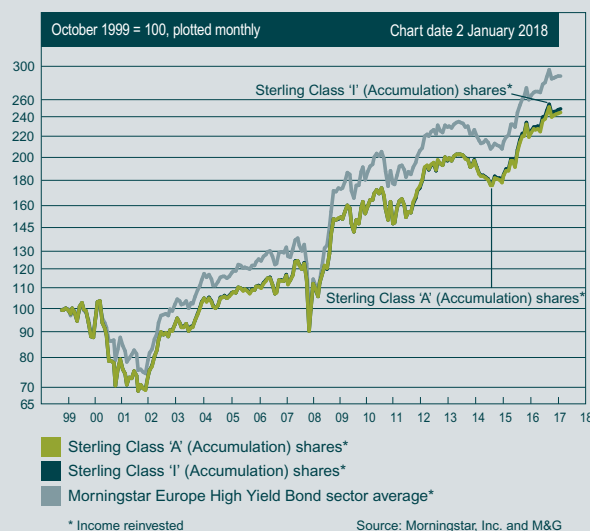
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer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

Fund level performance

Fund net asset value			
as at	31.12.17 €'000	30.06.17 €'000	30.06.16 €'000
Fund net asset value (NAV)	119,525	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.

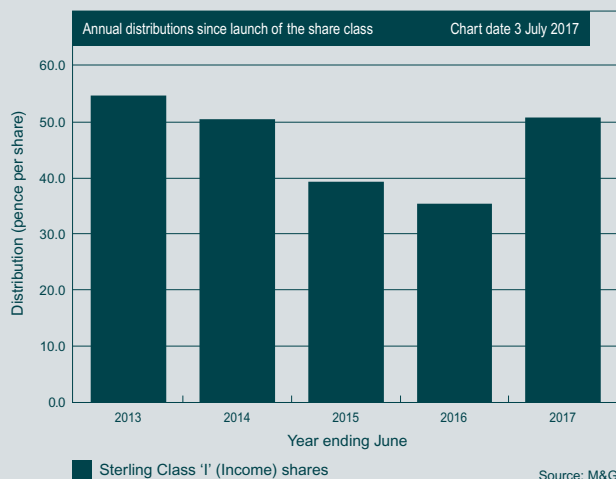
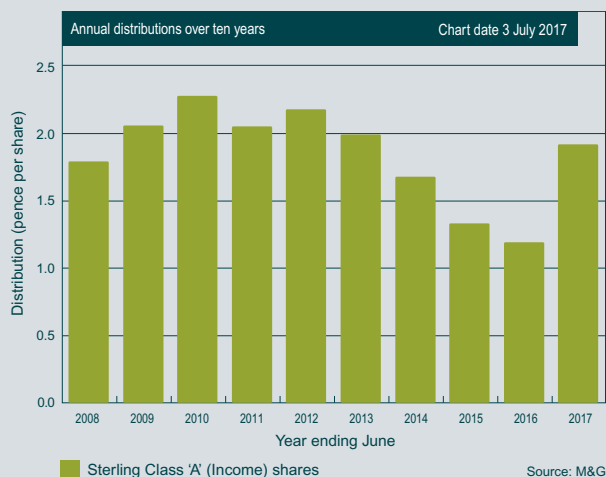
M&G European High Yield Bond Fund

Financial highlights

Fund performance

Distribution charts

The charts below show the annual distribution of Sterling Class 'A' (Income) shares over the past ten 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

	Six months 03.07.17 % ^[a]	Three years 02.01.15 % p.a.	Five years 02.01.13 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A'	+1.9	+4.5	+5.1	+7.6 ^[c]
Class 'B'	+1.6	+4.0	n/a	+4.6 ^[d]
Class 'C'	+2.2	+5.1	+5.7	+7.4 ^[c]
Sterling ^[e]				
Class 'A'	+3.3	+8.7	+6.3	-12.9 ^[f]
Class 'I'	+3.5	+9.2	+6.7	+8.8 ^[g]
Class 'R'	+3.4	+8.9	+6.6	+8.6 ^[g]
Class 'X'	+3.3	+8.7	+6.3	+5.0 ^[h]
Swiss franc ^[b]				
Class 'A-H'	+1.7	n/a	n/a	+4.5 ^[i]
Class 'C-H'	+2.0	n/a	n/a	+5.0 ^[i]
US dollar ^[b]				
Class 'A-H'	+3.0	+5.8	n/a	+4.9 ^[i]
Class 'C-H'	+3.3	+6.3	n/a	+5.4 ^[i]

^[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	31.12.17	30.06.17	30.06.16	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.76	0.68	1.11	0.85

^[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.

	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Change in NAV per share			
Opening NAV	2,488.21	2,398.89	2,463.32
Return before operating charges and after direct portfolio transaction costs	59.89	240.87	60.85
Operating charges	(17.89)	(35.54)	(35.00)
Return after operating charges	42.00	205.33	25.85
Distributions	(50.77)	(116.01)	(90.28)
Closing NAV	2,479.44	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	+1.69	+8.56	+1.05
Distribution yield ^[c]	4.00	4.14	3.37
Effect on yield of charges offset against capital	1.40	1.40	0.00
Other information			
Closing NAV (€'000)	3,053	3,410	2,793
Closing NAV percentage of total fund NAV (%)	2.56	2.77	2.22
Number of shares	123,154	137,030	116,430
Highest share price (Euro ¢)	2,534.27	2,545.26	2,519.90
Lowest share price (Euro ¢)	2,475.78	2,408.99	2,310.15

Euro Class 'A' Accumulation share performance

The share class was launched on 29 November 2002.

	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Change in NAV per share			
Opening NAV	2,961.42	2,725.59	2,697.10
Return before operating charges and after direct portfolio transaction costs	71.53	276.81	67.38
Operating charges	(21.38)	(40.98)	(38.89)
Return after operating charges	50.15	235.83	28.49
Distributions	(40.00)	(93.75)	(100.20)
Retained distributions	40.00	93.75	100.20
Closing NAV	3,011.57	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	+1.69	+8.65	+1.06
Distribution yield	2.60	2.74	3.37
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	49,030	58,025	59,501
Closing NAV percentage of total fund NAV (%)	41.02	47.08	47.23
Number of shares	1,628,052	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.

	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Change in NAV per share			
Opening NAV	988.88	958.25	1,000.00
Return before operating charges and after direct portfolio transaction costs	23.87	96.03	6.21
Operating charges	(9.60)	(19.17)	(16.66)
Return after operating charges	14.27	76.86	(10.45)
Distributions	(20.16)	(46.23)	(31.30)
Closing NAV	982.99	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	1.94	1.93	1.90
Return after operating charges	+1.44	+8.02	-1.05
Distribution yield ^[c]	4.00	4.14	2.88
Effect on yield of charges offset against capital	1.90	1.90	0.00
Other information			
Closing NAV (€'000)	804	415	29
Closing NAV percentage of total fund NAV (%)	0.67	0.34	0.02
Number of shares	81,818	42,000	3,000
Highest share price (Euro ¢)	1,005.44	1,011.76	1,002.39
Lowest share price (Euro ¢)	983.86	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.

	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Change in NAV per share			
Opening NAV	1,194.70	1,105.07	1,098.92
Return before operating charges and after direct portfolio transaction costs	28.84	112.04	27.52
Operating charges	(11.64)	(22.41)	(21.37)
Return after operating charges	17.20	89.63	6.15
Distributions	(13.14)	(32.10)	(35.28)
Retained distributions	13.14	32.10	35.28
Closing NAV	1,211.90	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	+1.44	+8.11	+0.56
Distribution yield	2.10	2.24	2.88
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	2,580	2,210	1,658
Closing NAV percentage of total fund NAV (%)	2.16	1.79	1.32
Number of shares	212,925	184,957	150,040
Highest share price (Euro ¢)	1,226.80	1,208.95	1,130.77
Lowest share price (Euro ¢)	1,188.59	1,109.60	1,047.34

Euro Class 'C' Income share performance

The share class was launched on 8 August 2014.

	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Change in NAV per share			
Opening NAV	2,487.33	2,386.06	2,450.24
Return before operating charges and after direct portfolio transaction costs	60.02	239.59	59.85
Operating charges	(11.60)	(22.67)	(21.71)
Return after operating charges	48.42	216.92	38.14
Distributions	(50.76)	(115.65)	(102.32)
Closing NAV	2,484.99	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	+1.95	+9.09	+1.56
Distribution yield ^[c]	4.01	4.14	3.88
Effect on yield of charges offset against capital	0.90	0.90	0.00
Other information			
Closing NAV (€'000)	27	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 ¢)	2,475.45	2,396.17	2,299.25

Euro Class 'C' Accumulation share performance

The share class was launched on 29 November 2002.

	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Change in NAV per share			
Opening NAV	2,846.75	2,606.98	2,566.85
Return before operating charges and after direct portfolio transaction costs	68.81	265.22	64.28
Operating charges	(13.38)	(25.45)	(24.15)
Return after operating charges	55.43	239.77	40.13
Distributions	(45.62)	(103.70)	(108.60)
Retained distributions	45.62	103.70	108.60
Closing NAV	2,902.18	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	+1.95	+9.20	+1.56
Distribution yield	3.10	3.24	3.87
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	11,344	17,966	27,199
Closing NAV percentage of total fund NAV (%)	9.49	14.58	21.59
Number of shares	390,864	631,107	1,043,301
Highest share price (Euro ¢)	2,933.75	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	46.30	41.99	37.12
Return before operating charges and after direct portfolio transaction costs	1.58	7.09	6.91
Operating charges	(0.34)	(0.65)	(0.56)
Return after operating charges	1.24	6.44	6.35
Distributions	(0.95)	(2.13)	(1.48)
Closing NAV	46.59	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	+2.68	+15.34	+17.11
Distribution yield ^[c]	4.00	4.14	3.36
Effect on yield of charges offset against capital	1.40	1.40	0.00
Other information			
Closing NAV (€'000)	1,560	2,081	1,668
Closing NAV percentage of total fund NAV (%)	1.31	1.69	1.32
Number of shares	2,970,672	3,948,334	3,282,646
Highest share price (UK p)	49.64	47.55	42.29
Lowest share price (UK p)	46.17	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	117.69	102.19	87.71
Return before operating charges and after direct portfolio transaction costs	4.02	17.48	16.51
Operating charges	(0.86)	(1.60)	(1.32)
Return after operating charges	3.16	15.88	15.19
Distributions	(1.60)	(3.68)	(3.53)
Retained distributions	1.60	3.30	2.82
Closing NAV	120.85	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	+2.69	+15.54	+17.32
Distribution yield	2.60	2.74	3.36
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	1,008	810	739
Closing NAV percentage of total fund NAV (%)	0.84	0.66	0.59
Number of shares	739,873	604,660	597,640
Highest share price (UK p)	126.16	119.53	102.22
Lowest share price (UK p)	117.35	103.96	86.98

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	1,235.47	1,114.56	985.48
Return before operating charges and after direct portfolio transaction costs	42.13	188.76	183.25
Operating charges	(5.87)	(11.17)	(9.57)
Return after operating charges	36.26	177.59	173.68
Distributions	(25.42)	(56.68)	(44.60)
Closing NAV	1,246.31	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	+2.93	+15.93	+17.62
Distribution yield ^[c]	4.00	4.15	3.86
Effect on yield of charges offset against capital	0.90	0.90	0.00
Other information			
Closing NAV (€'000)	7,479	6,832	6,878
Closing NAV percentage of total fund NAV (%)	6.26	5.54	5.46
Number of shares	532,476	485,908	509,952
Highest share price (UK p)	1,325.63	1,268.69	1,123.67
Lowest share price (UK p)	1,232.29	1,134.03	977.47

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	1,517.21	1,311.52	1,121.08
Return before operating charges and after direct portfolio transaction costs	51.86	224.64	211.75
Operating charges	(7.27)	(13.36)	(11.03)
Return after operating charges	44.59	211.28	200.72
Distributions	(24.49)	(54.60)	(51.39)
Retained distributions	24.49	49.01	41.11
Closing NAV	1,561.80	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	+2.94	+16.11	+17.90
Distribution yield	3.10	3.24	3.86
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	28,487	16,017	9,125
Closing NAV percentage of total fund NAV (%)	23.83	13.00	7.24
Number of shares	1,618,367	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	123.26	111.47	98.56
Return before operating charges and after direct portfolio transaction costs	4.20	18.87	18.33
Operating charges	(0.75)	(1.42)	(1.22)
Return after operating charges	3.45	17.45	17.11
Distributions	(2.54)	(5.66)	(4.20)
Closing NAV	124.17	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	+2.80	+15.65	+17.36
Distribution yield ^[c]	4.00	4.14	3.61
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (€'000)	538	64	71
Closing NAV percentage of total fund NAV (%)	0.45	0.05	0.06
Number of shares	384,249	45,874	52,874
Highest share price (UK p)	132.19	126.57	112.33
Lowest share price (UK p)	122.92	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	150.48	130.36	111.64
Return before operating charges and after direct portfolio transaction costs	5.17	22.31	21.07
Operating charges	(0.93)	(1.66)	(1.39)
Return after operating charges	4.24	20.65	19.68
Distributions	(2.25)	(5.09)	(4.80)
Retained distributions	2.25	4.56	3.84
Closing NAV	154.72	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	+2.82	+15.84	+17.63
Distribution yield	2.85	2.99	3.62
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	503	17	30
Closing NAV percentage of total fund NAV (%)	0.42	0.01	0.02
Number of shares	288,403	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	46.23	41.91	37.06
Return before operating charges and after direct portfolio transaction costs	1.57	7.10	6.88
Operating charges	(0.34)	(0.65)	(0.55)
Return after operating charges	1.23	6.45	6.33
Distributions	(0.95)	(2.13)	(1.48)
Closing NAV	46.51	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	+2.66	+15.39	+17.08
Distribution yield ^[c]	4.00	4.14	3.36
Effect on yield of charges offset against capital	1.40	1.40	0.00
Other information			
Closing NAV (€'000)	11,182	12,836	13,367
Closing NAV percentage of total fund NAV (%)	9.36	10.42	10.61
Number of shares	21,329,404	24,399,934	26,353,309
Highest share price (UK p)	49.55	47.47	42.21
Lowest share price (UK p)	46.10	42.64	36.75

Sterling Class 'X' Accumulation share performance

The share class was launched on 15 October 1999.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	117.62	102.13	87.65
Return before operating charges and after direct portfolio transaction costs	4.02	17.47	16.51
Operating charges	(0.86)	(1.60)	(1.32)
Return after operating charges	3.16	15.87	15.19
Distributions	(1.60)	(3.68)	(3.54)
Retained distributions	1.60	3.30	2.83
Closing NAV	120.78	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	+2.69	+15.54	+17.33
Distribution yield	2.60	2.74	3.86
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	1,290	1,897	1,794
Closing NAV percentage of total fund NAV (%)	1.08	1.54	1.43
Number of shares	947,424	1,417,421	1,451,362
Highest share price (UK p)	126.09	119.46	102.15
Lowest share price (UK p)	117.28	103.89	86.92

Swiss franc Class 'A-H' Accumulation share performance

The share class was launched on 25 September 2015.

	Six months to 31.12.17 Swiss ¢	Year to 30.06.17 Swiss ¢	Year to 30.06.16 Swiss ¢
Change in NAV per share			
Opening NAV	1,080.21	999.51	1,000.00
Return before operating charges and after direct portfolio transaction costs	24.11	95.92	10.91
Operating charges	(7.90)	(15.22)	(11.40)
Return after operating charges	16.21	80.70	(0.49)
Distributions	(14.64)	(34.02)	(36.79)
Retained distributions	14.64	34.02	36.79
Closing NAV	1,096.42	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	1.45	1.45	1.42
Return after operating charges	+1.50	+8.07	-0.05
Distribution yield	2.59	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 ¢)	1,074.62	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.

	Six months to 31.12.17 Swiss ¢	Year to 30.06.17 Swiss ¢	Year to 30.06.16 Swiss ¢
Change in NAV per share			
Opening NAV	1,089.45	1,003.29	1,000.00
Return before operating charges and after direct portfolio transaction costs	24.11	96.18	10.76
Operating charges	(5.24)	(10.02)	(7.47)
Return after operating charges	18.87	86.16	3.29
Distributions	(17.49)	(39.55)	(41.80)
Retained distributions	17.49	39.55	41.80
Closing NAV	1,108.32	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	+1.73	+8.59	+0.33
Distribution yield	3.09	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.

	Six months to 31.12.17 US ¢	Year to 30.06.17 US ¢	Year to 30.06.16 US ¢
Change in NAV per share			
Opening NAV	1,005.09	953.43	971.10
Return before operating charges and after direct portfolio transaction costs	35.48	112.90	31.96
Operating charges	(7.35)	(14.68)	(14.00)
Return after operating charges	28.13	98.22	17.96
Distributions	(20.91)	(46.56)	(35.63)
Closing NAV	1,012.31	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	+2.80	+10.30	+1.85
Distribution yield ^[c]	4.06	4.23	3.30
Effect on yield of charges offset against capital	1.42	1.42	0.00
Other information			
Closing NAV (€'000)	260	302	101
Closing NAV percentage of total fund NAV (%)	0.22	0.25	0.08
Number of shares	30,790	34,290	11,790
Highest share price (US ¢)	1,030.79	1,027.40	994.06
Lowest share price (US ¢)	1,000.48	957.50	913.08

US dollar Class 'A-H' Accumulation share performance

The share class was launched on 8 August 2014.

	Six months to 31.12.17 US ¢	Year to 30.06.17 US ¢	Year to 30.06.16 US ¢
Change in NAV per share			
Opening NAV	1,136.10	1,028.25	1,010.07
Return before operating charges and after direct portfolio transaction costs	39.99	123.44	32.94
Operating charges	(8.36)	(15.59)	(14.76)
Return after operating charges	31.63	107.85	18.18
Distributions	(15.57)	(35.47)	(37.68)
Retained distributions	15.57	35.47	37.68
Closing NAV	1,167.73	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	+2.78	+10.49	+1.80
Distribution yield	2.62	2.78	3.31
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	287	238	860
Closing NAV percentage of total fund NAV (%)	0.24	0.19	0.68
Number of shares	29,418	23,918	93,218
Highest share price (US ¢)	1,176.71	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.

	Six months to 31.12.17 US ¢	Year to 30.06.17 US ¢	Year to 30.06.16 US ¢
Change in NAV per share			
Opening NAV	1,008.42	951.57	970.36
Return before operating charges and after direct portfolio transaction costs	35.69	112.98	30.97
Operating charges	(4.81)	(9.40)	(9.01)
Return after operating charges	30.88	103.58	21.96
Distributions	(21.06)	(46.73)	(40.75)
Closing NAV	1,018.24	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	+3.06	+10.89	+2.26
Distribution yield ^[c]	4.06	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 ¢)	1,003.94	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.

	Six months to 31.12.17 US ¢	Year to 30.06.17 US ¢	Year to 30.06.16 US ¢
Change in NAV per share			
Opening NAV	1,151.89	1,037.82	1,013.64
Return before operating charges and after direct portfolio transaction costs	40.53	124.58	33.78
Operating charges	(5.51)	(10.51)	(9.60)
Return after operating charges	35.02	114.07	24.18
Distributions	(18.80)	(41.43)	(43.23)
Retained distributions	18.80	41.43	43.23
Closing NAV	1,186.91	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	+3.04	+10.99	+2.39
Distribution yield	3.12	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 ¢)	1,195.86	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

Financial statements

Statement of total return

for the six months to 31 December	2017		2016	
	€'000	€'000	€'000	€'000
Income				
Net capital gains / (losses)		259		4,284
Revenue	2,451		2,941	
Expenses	(782)		(775)	
Net revenue / (expense) before taxation	1,669		2,166	
Taxation	0		(3)	
Net revenue / (expense) after taxation		1,669		2,163
Total return before distributions		1,928		6,447
Distributions		(1,813)		(2,325)
Change in net assets attributable to shareholders from investment activities		115		4,122

Statement of change in net assets attributable to shareholders

for the six months to 31 December	2017		2016	
	€'000	€'000	€'000	€'000
Opening net assets attributable to shareholders		123,245		125,978
Amounts received on issue of shares	26,029		8,984	
Amounts paid on cancellation of shares	(31,243)		(27,995)	
		(5,214)		(19,011)
Dilution adjustments		83		97
Change in net assets attributable to shareholders from investment activities (see above)		115		4,122
Retained distributions on Accumulation shares		1,296		1,556
Closing net assets attributable to shareholders		119,525		112,742

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	31 December 2017	30 June 2017
	€'000	€'000
Assets		
Fixed assets		
Investments	107,457	108,793
Current assets		
Debtors	1,266	2,798
Cash and bank balances	22,410	13,209
Total assets	131,133	124,800
Liabilities		
Investment liabilities	(26)	(15)
Creditors		
Bank overdrafts	(11,250)	0
Distribution payable	(259)	(288)
Other creditors	(73)	(1,252)
Total liabilities	(11,608)	(1,555)
Net assets attributable to shareholders	119,525	123,245

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

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.

M&G European High Yield Bond Fund

Financial statements and notes

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Fund of Investment Trust Shares

Authorised Corporate Director's Report

Investment objective and policy

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 approach

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.

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 January 2018, for the six months ended 31 December 2017

Performance against objective

The M&G Fund of Investment Trust Shares continued to be invested in accordance with its investment objective over the period under review.

Between 3 July 2017 (the start of the review period) and 2 January 2018, the fund's Sterling Class 'A' and 'X' shares each produced a total return (the combination of income and growth of capital) of 7.8%. Meanwhile, the FTSE All-Share Equity Investment Instruments Index, which is an index of comparable investment trusts, returned 6.4%*.

* 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

World stockmarkets were largely buoyant over the six months under review, as the global economy continued to expand. Tensions flared between the US and North Korea in the autumn, but investor sentiment remained surprisingly resilient.

Against a backdrop of ongoing global growth, the US Federal Reserve and the European Central Bank (ECB) took steps to start scaling back supportive measures for their economies, although the ECB stressed steps could be taken again should the need arise. Meanwhile, late in the year, a major tax overhaul bill was approved by the US Senate, representing a significant legislative success for President Trump. Despite many critics of the tax reforms, investors broadly welcomed the move, with lower taxes expected to provide a boost for US business and economic growth as well as further afield.

European shares briefly came under pressure in October as a referendum in the Spanish region of Catalonia appeared to support its breaking away from the rest of the country, although the referendum was declared illegal by Spain's constitutional court. Meanwhile, in Germany, victory for the incumbent Chancellor Angela Merkel in the autumn was welcomed by investors, although the entry of a far-right political party into the German parliament has caused some disquiet. However, negotiations to form a coalition government have so far failed, placing Chancellor Merkel in a difficult position and potentially leading to a new election and fresh uncertainty.

Meanwhile, many commodity markets fared well as they benefited from a robust global economy.

In a largely positive environment, the FTSE World Index gained 6.4% in sterling terms.

In terms of the individual geographic markets, Japanese stockmarkets performed well over the six months under review and holdings from this section of the portfolio were significant contributors to performance. As well as being cheap relative to other markets, Japanese equities, or company shares, provide exposure to strong earnings growth and an accommodative central bank. A weak domestic currency has also boosted exporters, as their products become cheaper for overseas customers. Moreover, domestic consumption, private and public investment are all picking up. Against

Fund of Investment Trust Shares

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

this promising backdrop, Prime Minister Shinzo Abe was re-elected in October. For the fund, our holdings in Baillie Gifford Shin Nippon, JPMorgan Japan Smaller Companies Investment Trust and Baillie Gifford Japan Trust all added solid value.

Meanwhile, many emerging markets produced robust gains, in sterling terms, over the review period. This solid performance was despite falls in some Asian markets as North Korea's neighbours contemplated heightened tensions with the US. Geopolitical concerns aside, markets in the region were largely supported by encouraging economic data from China. Many emerging markets also benefited from improving corporate profitability and relatively attractive valuations. In terms of the fund's emerging markets holdings, Aberdeen Emerging Markets Investment Company added some value, while Utilico Emerging Markets held back returns. Meanwhile, in Asia, a holding in Schroder Asian Total Return Investment Company was helpful but Weiss Korea Opportunity Fund held back returns.

In other markets, US equities produced solid returns over the period under review, bolstered by encouraging economic data, both at home and further afield. Anticipation of the tax reforms also supported investor sentiment. In terms of the fund's underlying holdings, Gabelli Value Trust and North Atlantic Smaller Companies Investment Trust detracted, while JPMorgan American Investment Trust added modest value.

In Europe, the strong euro weighed on the region's competitiveness at times, but European stockmarkets were generally supported by positive economic data in the region. The eurozone is benefiting from falling unemployment, albeit from high levels, growing export markets, better lending conditions and modest inflation. Prospects are less positive on the political front, however, with the situation in Germany still uncertain. Meanwhile, a further political test looms as Italy is due to go to the polls in early March and the anti-establishment, populist 5-Star Movement may make advances. In terms of underlying holdings, the position in JPMorgan European Smaller Companies Investment Trust added value, although Fidelity European Values cost some performance.

Meanwhile, the UK stockmarket produced a positive return over the six months under review. UK economic growth is muted but, thanks to very low unemployment, higher inflation and stronger global expansion, the Bank of England (BoE) raised interest rates for the first time in 10 years. Concerns about domestic politics weighed on investor sentiment; following the poor performance in June's general election, Prime Minister Theresa May's hand has been significantly weakened. Political uncertainty was further increased as two ministers were forced to leave the cabinet in November. Meanwhile, advances in the Brexit negotiations have been slow to materialise, although sufficient progress was made in December to allow the government to move on to the next phase of the talks, including trade deals. In terms of the fund's portfolio, River & Mercantile UK Micro Cap Fund was a significant contributor to performance, while Keystone Investment Trust detracted modestly.

Contributors from the fund's 'specialist' holdings included Polar Capital Technology Trust and, to a lesser extent, BlackRock World Mining Trust, while a holding in CATco Reinsurance Opportunities Fund detracted. In the fund's 'flexible investment' section, Miton Global Opportunities and Syncona (formerly BACIT Investment Trust), which is focused on life science investments, were solid contributors, while Ruffer Investment Company held back returns. Meanwhile, the fund's private equity assets also held back returns, with F&C Private Equity and Pantheon International costing some performance. Elsewhere, TR Property Trust added value.

Investment activities

We switched a holding in CATco Reinsurance Opportunities Fund to a new share class of the same investment trust; the new holding is protected from the liability of the recent hurricanes in the US, although it is still able to charge higher prices following the natural disaster.

In other transactions, we sold out of Montanaro UK Smaller Companies Investment Trust as the holding has not lived up to our expectations. Instead, we started a new position in Aberforth Split Level Income Trust, a value-focused investment trust specialising in smaller companies.

We also continued to build positions in some recent additions to the fund. For example, we added to the holdings in 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.

In terms of sales, we have been reducing our position in Fundsmith Emerging Equities Trust, which has had disappointing performance compared with other emerging market investments. It is important to note that this move is not a reflection of our views on emerging markets, which we feel are still major growth drivers of the global economy.

In other transactions, we reduced our positions in some holdings following good performance, namely River & Mercantile UK Micro Cap Fund, Baillie Gifford Japan Trust and Baillie Gifford Shin Nippon.

Outlook

The global economy seems to be normalising, with growth picking up and interest rates starting to rise slowly; this should bode well for stockmarkets. Furthermore, corporate earnings, which have been largely stagnant over the past seven years, appear to be strengthening over recent quarters.

Prospects for the global economy are more promising than they have been for some time, although various political issues can be expected to weigh on investor sentiment at times. Electoral developments in Europe in the near term have the potential for upsets, while further geopolitical tension, particularly in Asia, could also be a further source of disquiet. The Brexit negotiations remain a source of concern, although the picture has become brighter following progress in talks between the UK and European Union in December.

Fund of Investment Trust Shares

Authorised Corporate Director's Report

Investment review

Outlook (continued)

In selecting holdings for the portfolio, we look for mispriced assets and attractive investment opportunities from around the world. It is worth noting that the ability of the managers of the underlying trusts is a critical factor in deciding on investments for the portfolio. We remain confident about the underlying holdings in the portfolio, although stockmarket volatility may occur from time to time.

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 Holding	31.12.17 £'000	31.12.17 %	30.06.17 %
Flexible investment	4,068	9.80	10.10
324,000 Miton Global Opportunities Investment Trust	935	2.25	
700 Personal Assets Trust	286	0.69	
50,000 RIT Capital Partners	979	2.36	
325,000 Ruffer Investment Company Red. Pref. shares	759	1.83	
552,000 Syncona	1,109	2.67	
Global	6,687	16.11	16.41
110,000 Alliance Trust	819	1.97	
31,000 Caledonia Investments	868	2.09	
38,000 Hansa Trust 'A' shares	369	0.89	
190,000 Monks Investment Trust	1,447	3.49	
466,000 Scottish Mortgage Investment Trust	2,091	5.04	
101,300 Witan Investment Trust	1,093	2.63	
UK all companies	2,517	6.06	6.33
190,000 Artemis Alpha Trust	555	1.34	
40,000 Keystone Investment Trust	708	1.70	
40,991 Mercantile Investment Trust	891	2.15	
435,000 Woodford Patient Capital Trust	363	0.87	
UK equity income	1,583	3.81	3.88
113,400 Finsbury Growth & Income Trust	877	2.11	
251,710 Value & Income Trust	706	1.70	
UK smaller companies	1,061	2.56	2.52
500,000 Aberforth Split Level Income Trust	490	1.18	
288,169 River & Mercantile UK Micro Cap	571	1.38	
Europe	2,057	4.96	5.25
535,000 Fidelity European Values	1,205	2.91	
300,000 JPMorgan European Income Investment Trust	487	1.17	
39,000 The European Investment Trust	365	0.88	
European smaller companies	1,206	2.91	2.87
290,000 JPMorgan European Smaller Companies Investment Trust	1,206	2.91	
North America	2,277	5.49	5.74
500,000 Gabelli Value Plus+ Trust	650	1.57	
289,000 JPMorgan American Investment Trust	1,168	2.81	
460,000 Middlefield Canadian Income Trust	459	1.11	
North American smaller companies	837	2.02	2.10
31,109 North Atlantic Smaller Companies Investment Trust	837	2.02	
Global emerging markets	2,100	5.06	5.17
58,000 Aberdeen Emerging Markets Investment Company	359	0.87	
17,000 Fundsmith Emerging Equities Trust	222	0.53	
100,000 Templeton Emerging Markets Investment Trust	778	1.87	
333,600 Utilico Emerging Markets	741	1.79	
Asia Pacific - excluding Japan	3,012	7.26	7.39
387,000 Aberdeen Asian Income Fund	840	2.02	
295,000 Edinburgh Dragon Trust	1,106	2.67	
104,802 Schroder Asian Total Return Investment Company	374	0.90	
382,500 Weiss Korea Opportunity Fund ^[a]	692	1.67	
Japan	1,150	2.77	2.59
140,000 Baillie Gifford Japan Trust	1,150	2.77	

Fund of Investment Trust Shares

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %
Japanese smaller companies	1,878	4.52	4.07
114,500 Baillie Gifford Shin Nippon	1,010	2.43	
200,000 JPMorgan Japan Smaller Companies Investment Trust	868	2.09	
Private equity	2,004	4.83	5.36
270,000 F&C Private Equity Trust	907	2.19	
59,000 Pantheon International	1,097	2.64	
Property	0	0.00	0.00 ^[b]
UK direct property	838	2.02	1.48 ^[b]
525,000 Ediston Property Investment Company REIT	575	1.39	
250,000 PRS REIT	263	0.63	
Property securities	1,315	3.17	2.96 ^[b]
331,403 TR Property Investment Trust	1,315	3.17	
Specialist	4,735	11.41	12.02
623,296 BBGI	876	2.11	
100,000 Biotech Growth Trust	771	1.86	
136,000 BlackRock World Mining Trust	539	1.30	
400,000 CATCo Reinsurance Opportunities Fund	299	0.72	
232,500 Ecofin Global Utilities and Infrastructure Trust	303	0.73	
342,000 Greencoat UK Wind	419	1.01	
14,832 P2P Global Investments	121	0.29	
124,000 Polar Capital Technology Trust	1,407	3.39	
Real estate investment trusts	0	0.00	0.00 ^[b]
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	43	0.10	(0.01)
22 E-Mini S&P 500 Mar 2018	43	0.10	
Portfolio of investments	39,368	94.86	96.24
'AAA' rated money market funds ^[c]	1,667	4.02	3.82
1,667,000 Northern Trust Global Fund - Sterling	1,667	4.02	
Total portfolio	41,035	98.88	100.06
Net other assets / (liabilities)	467	1.12	(0.06)
Net assets attributable to shareholders	41,502	100.00	100.00

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

^[a] AIM quoted.

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

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

Top portfolio transactions

for the six months to 31 December 2017

Purchases	£'000
Aberforth Split Level Income Trust	489
CATCo Reinsurance Opportunities Fund	298
Ediston Property Investment Company REIT	196
PRS REIT	74
Greencoat UK Wind	64
Syncona	13
Total purchases	1,134
Largest sales	£'000
Montanaro UK Smaller Companies Investment Trust	456
CATCo Reinsurance Opportunities Fund	376
Milton Global Opportunities Investment Trust	205
F&C Private Equity Trust	101
River & Mercantile UK Micro Cap Fund	83
Monks Investment Trust	77
Baillie Gifford Japan Trust	73
Aberdeen Frontier Markets Investment	70
Fundsmith Emerging Equities Trust	65
Polar Capital Technology Trust	47
Other sales	105
Total sales	1,658

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

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.

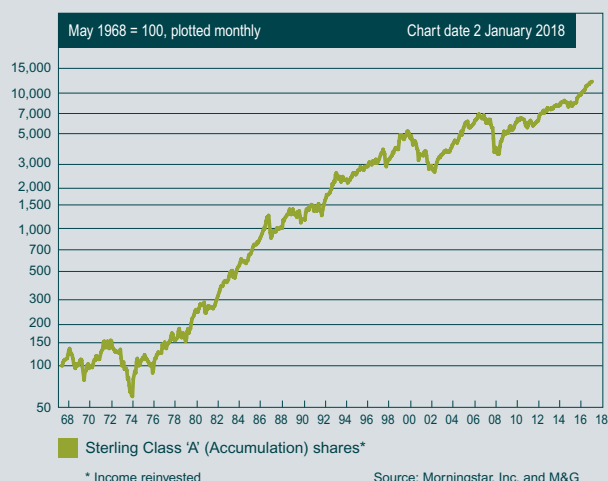
Fund level performance

Fund net asset value

as at	31.12.17 £'000	30.06.17 £'000	30.06.16 £'000
Fund net asset value (NAV)	41,502	38,515	30,737

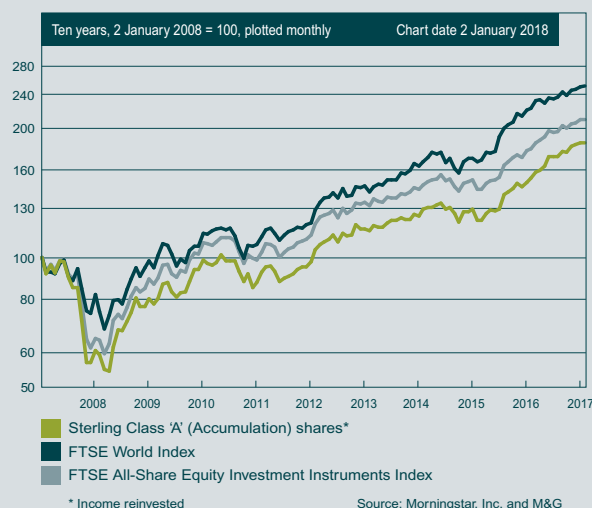
Performance since launch

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

	Six months 03.07.17 % [a]	Three years 02.01.15 % p.a.	Five years 02.01.13 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	+7.8	+14.0	+13.3	+10.1 [c]
Class 'X'	+7.8	+13.7	+12.9	+9.9 [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.

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

	Six months to 31.12.17 %	Year to 30.06.17 %	Year to 30.06.16 %	Average ^[a] %
Direct portfolio transaction costs ^[b]				
Broker commission	0.00	0.01	0.01	0.01
Taxes	0.02	0.00	0.01	0.01
Costs before dilution adjustments	0.02	0.01	0.02	0.02
Dilution adjustments ^[c]	0.00	(0.01)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.02	0.00	0.01	0.01
as at	31.12.17	30.06.17	30.06.16	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.68	0.79	1.23	0.90

^[a] Average of first three columns.

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

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

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 period are calculated as at 12 January 2018.

Sterling Class 'A' Income share performance

The share class was launched on 10 May 1968.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	2,248.17	1,748.21	1,762.05
Return before operating charges and after direct portfolio transaction costs	191.96	558.37	20.43
Operating charges	(13.92)	(24.51)	(20.70)
Return after operating charges	178.04	533.86	(0.27)
Distributions	(16.76)	(33.90)	(13.57)
Closing NAV	2,409.45	2,248.17	1,748.21
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.22	0.11	0.41
Dilution adjustments ^[a]	(0.01)	(0.11)	(0.21)
Total direct portfolio transaction costs	0.21	0.00	0.20
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.00	0.01
Operating charges	1.19	1.19	1.20
Return after operating charges	+7.92	+30.54	-0.02
Historic yield ^[c]	1.45	1.49	0.75
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (£'000)	16,236	15,182	11,947
Closing NAV percentage of total fund NAV (%)	39.12	39.42	38.87
Number of shares	673,831	675,331	683,381
Highest share price (UK p)	2,454.51	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	5,238.14	4,009.95	4,010.72
Return before operating charges and after direct portfolio transaction costs	447.08	1,284.56	46.38
Operating charges	(32.42)	(56.37)	(47.15)
Return after operating charges	414.66	1,228.19	(0.77)
Distributions	(8.48)	(23.70)	(30.92)
Retained distributions	8.48	23.70	30.92
Closing NAV	5,652.80	5,238.14	4,009.95
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.51	0.25	0.93
Dilution adjustments ^[a]	(0.02)	(0.25)	(0.48)
Total direct portfolio transaction costs	0.49	0.00	0.45
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.00	0.01
Operating charges	1.19	1.19	1.20
Return after operating charges	+7.92	+30.63	-0.02
Historic yield	0.41	0.45	0.75
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	23,449	21,664	17,294
Closing NAV percentage of total fund NAV (%)	56.50	56.25	56.27
Number of shares	414,830	413,580	431,292
Highest share price (UK p)	5,718.75	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	2,253.91	1,756.77	1,770.86
Return before operating charges and after direct portfolio transaction costs	192.44	560.24	20.32
Operating charges	(13.95)	(29.10)	(29.46)
Return after operating charges	178.49	531.14	(9.14)
Distributions	(16.80)	(34.00)	(4.95)
Closing NAV	2,415.60	2,253.91	1,756.77
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.22	0.11	0.41
Dilution adjustments ^[a]	(0.01)	(0.11)	(0.21)
Total direct portfolio transaction costs	0.21	0.00	0.20
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.00	0.01
Operating charges	1.19	1.42*	1.70
Return after operating charges	+7.92	+30.23	-0.52
Historic yield ^[c]	1.45	1.49	0.27
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (£'000)	1,126	1,028	902
Closing NAV percentage of total fund NAV (%)	2.71	2.67	2.93
Number of shares	46,605	45,605	51,355
Highest share price (UK p)	2,460.78	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 period to 30.06.17 ongoing charges.

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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	4,912.03	3,768.90	3,788.54
Return before operating charges and after direct portfolio transaction costs	419.28	1,205.87	43.29
Operating charges	(30.40)	(62.74)	(62.93)
Return after operating charges	388.88	1,143.13	(19.64)
Distributions	(7.96)	(12.67)	(10.58)
Retained distributions	7.96	12.67	10.58
Closing NAV	5,300.91	4,912.03	3,768.90
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.48	0.23	0.87
Dilution adjustments ^[a]	(0.02)	(0.23)	(0.45)
Total direct portfolio transaction costs	0.46	0.00	0.42
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.00	0.01
Operating charges	1.19	1.42*	1.70
Return after operating charges	+7.92	+30.33	-0.52
Historic yield	0.38	0.25	0.27
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	691	641	594
Closing NAV percentage of total fund NAV (%)	1.67	1.66	1.93
Number of shares	13,043	13,043	15,753
Highest share price (UK p)	5,362.75	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 period to 30.06.17 ongoing charges.

^[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.

Fund of Investment Trust Shares

Financial statements and notes

Financial statements

Statement of total return

for the six months to 31 December	2017		2016	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		2,974		4,641
Revenue	314		267	
Expenses	(237)		(204)	
Net revenue / (expense) before taxation	77		63	
Taxation	0		0	
Net revenue / (expense) after taxation		77		63
Total return before distributions		3,051		4,704
Distributions		(157)		(142)
Change in net assets attributable to shareholders from investment activities		2,894		4,562

Statement of change in net assets attributable to shareholders

for the six months to 31 December	2017		2016	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		38,515		30,737
Amounts received on issue of shares	92		34	
Amounts paid on cancellation of shares	(36)		(807)	
		56		(773)
Dilution adjustments		1		5
Change in net assets attributable to shareholders from investment activities (see above)		2,894		4,562
Retained distributions on Accumulation shares		36		35
Unclaimed distributions		0		1
Closing net assets attributable to shareholders		41,502		34,567

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	31 December 2017	30 June 2017
	£'000	£'000
Assets		
Fixed assets		
Investments	41,035	38,539
Current assets		
Debtors	48	72
Cash and bank balances	690	92
Total assets	41,773	38,703
Liabilities		
Investment liabilities	0	(3)
Creditors		
Overdrawn positions at futures clearing houses and collateral manager	(130)	(23)
Distribution payable	(121)	(139)
Other creditors	(20)	(23)
Total liabilities	(271)	(188)
Net assets attributable to shareholders	41,502	38,515

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

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.

Fund of Investment Trust Shares

Financial statements and notes

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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 January 2018, for the six months ended 31 December 2017

Performance against objective

Between 3 July 2017 (the start of the review period) and 2 January 2018, the M&G Global Government Bond Fund produced a mixed performance across its different share classes*. The variance in returns between the fund's share classes resulted from significant movements in the currency markets during the period under review. For example, the decline in value of many currencies against the euro detracted from the returns of the fund's euro share classes as the portfolio remained largely invested in non-euro assets. The same effect was felt, although to a lesser extent, with the fund's sterling share classes, as sterling rallied against a number of currencies during the period. However, these factors were not applicable to the fund's US dollar and Swiss franc share classes, which delivered positive returns.

Positive returns were recorded across many segments of the government bond markets, which helped the fund's overall performance. The fund's objective is to maximise total returns (the combination of income and growth of capital).

* 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 strengthening global economic growth and inflation remained a key theme in financial markets during the six months under review. In turn, much attention also focused on the prospect of higher interest rates, as central banks assessed policy changes to constrain the firmer inflation trend. This was most evident in the US, where the Federal Reserve (Fed) announced a 0.25% interest rate rise in December. The Fed's move followed two other rate rises of the same size that were implemented earlier in the year in March and June.

In the eurozone, the European Central Bank (ECB) held interest rates at low levels as part of its ongoing efforts to stimulate economic activity. However, investors increasingly expected that the extent of the ECB's stimulus measures would soon be reduced. In October, the

M&G Global Government Bond Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

central bank confirmed that it would scale down a programme in which it commits its own funds to buying certain bonds in the market. Known as quantitative easing (QE), this strategy is largely designed to help maintain low interest rates and promote lending activity in the economy.

In the UK, meanwhile, the Office for National Statistics reported that the UK's annual inflation rate, as measured by the Consumer Prices Index (CPI), was consistently standing above the 2% target set by the Bank of England (BoE). Sterling's marked decline since the Brexit referendum vote was largely behind the move, given that a lower-valued currency pushes up import costs. The annual UK inflation rate continued to edge up as the period progressed, with readings of 3.0% for October and 3.1% for November.

In order to restrain rising consumer price trends, central banks often increase interest rates, and the BoE eventually confirmed a 0.25% rate rise in November. During the review period, however, the BoE's Monetary Policy Committee also weighed up the implications of Brexit-related uncertainty in the UK outlook, a factor that appeared to delay their decision to uplift interest rates. This remained a relevant consideration as negotiations got under way for the country to leave the European Union (EU), with details of the divorce terms remaining unclear. UK financial markets felt some further uncertainty as a general election that had been held in June resulted in no party having an overall parliamentary majority.

In the bond markets, actual or anticipated rises in inflation or interest rates typically dampen sentiment towards government bonds. The effects of US interest rate moves can also be felt internationally, given the importance of the US market. (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). Indeed, government bond prices declined in some segments of mainstream markets, including in the US and Germany.

The fund remained invested in a diversified portfolio of global government bonds, which helped its performance during the period. In addition to our exposures to large industrialised nations, we also held a sizeable exposure to emerging market government bonds, which was an area of the global bond market that performed relatively well. However, significant movements in the currency markets provided some variance in returns between the fund's share classes. For the euro share classes, for example, the appreciation of the euro against many currencies in the period detracted from the fund's returns as its investments were mainly held in non-euro assets. A similar currency effect was felt by the fund's sterling share classes, as sterling also rallied against a number of currencies, although to a lesser extent than the euro. These considerations were not applicable to the fund's US dollar and Swiss franc share classes, which delivered positive returns.

Investment activities

We maintained a globally diversified fund of government bonds throughout the review period. Among larger industrialised nations, our allocations to the US and Japan remained broadly stable, and continued to rank as the fund's largest individual country positions as the review period ended.

Elsewhere, we reduced the fund's overall exposure to the German government bond market. This lower allocation to Germany largely reflected our view that more attractive relative value could be found elsewhere, given the backdrop of scaled down stimulus activity by the ECB. Among smaller markets in Europe, however, we increased our exposure to some countries that we felt offered decent value, including Portugal.

As well as developed industrialised nations, we also continued to assess investment opportunities in emerging markets during the review period. We maintained the opinion that government bond valuations in the latter area looked relatively appealing on a selective basis, and the fund held positions from across the main emerging market regions.

In our view, the rationale for investing in emerging market bonds was helped by factors such as continued low interest rates in Europe and Japan. This environment influenced government bond yields in these areas to stay at low (or even negative) levels. In turn, this supported sentiment towards higher yielding areas of the bond markets, such as could be found in emerging 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.)

Within this theme, we added bonds to the fund from the governments of the Philippines, Poland and Singapore. Elsewhere, our preferred holdings in emerging markets continued to include bonds from the governments of Indonesia, Israel and Argentina, while Mexico remained the fund's largest individual allocation to an emerging market at the end of 2017.

Outlook

Active management of the fund's country allocations, as well as its currency positioning, remain important 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. During the review period, we maintained a short duration positioning in the fund against the backdrop of actual, or expected, increases in interest rates.

Among other investment themes, we continued to invest the fund in 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. In our assessment, value can still be found in the latter area when comparing their valuations to government bonds in developed countries. We also believe that sentiment towards emerging market governments and corporations should be supported by their creditworthiness, as economic growth forecasts edge upwards across most developed and developing countries. This synchronised global economic outlook is encouraging for emerging bond markets, as changes to the credit ratings of governments and corporations in emerging markets tend to correlate with growth rates.

At the same time, the relevant risks need to be monitored closely. These include higher US interest rates, although so far the Fed has tightened at a relatively slow and gradual pace that was widely anticipated. Consequently, reactions among emerging bond markets to the Fed's hikes have been fairly muted. Also relevantly, the higher US interest rate environment is less challenging for many emerging market economies than in previous rising rate cycles, partly due to factors such as the adjustments they have made towards having lower

M&G Global Government Bond Fund

Authorised Corporate Director's Report

Investment review

Outlook (continued)

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.

Overall, we continue to base the fund's investment strategy on seeking the most attractive value in the global government bond markets amid the prevailing economic conditions, while avoiding those countries where the outlook is less favourable.

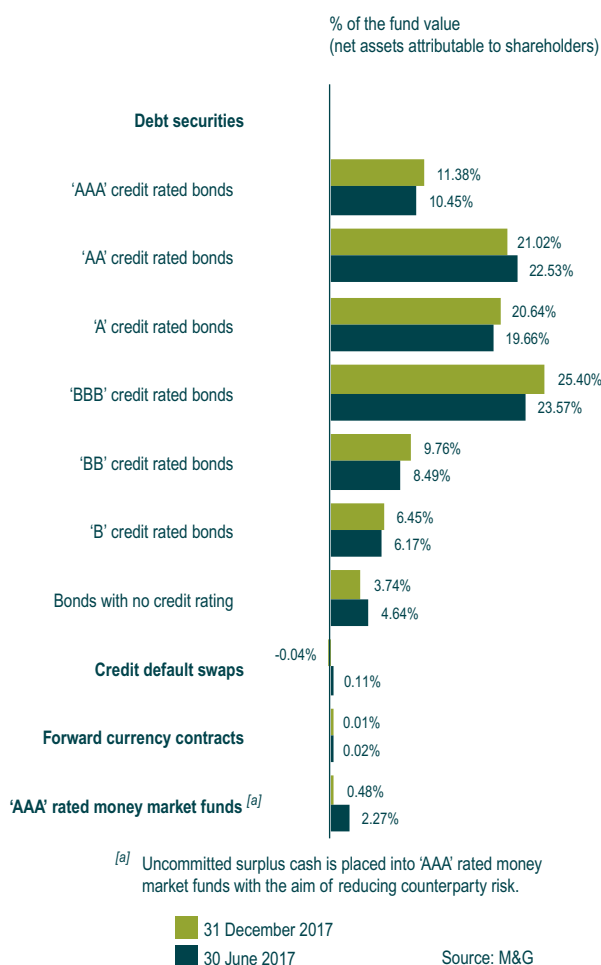
Claudia Calich

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



Investments

Portfolio statement

as at Holding	31.12.17 \$'000	31.12.17 %	30.06.17 %
Debt securities	86,693	98.39	95.51
'AAA' credit rated bonds	10,025	11.38	10.45
AUD2,200,000 Australia (Commonwealth of) 2.75% 2024	1,748	1.98	
DKK6,500,000 Denmark (Kingdom of) 3% 2021	1,181	1.34	
€1,000,000 Germany (Federal Republic of) 6.25% 2024	1,651	1.87	
NOK12,500,000 Norway (Kingdom of) 2% 2023	1,590	1.81	
SGD2,500,000 Singapore (Republic of) 4% 2018	1,900	2.16	
SEK14,000,000 Sweden (Kingdom of) 2.25% 2032	1,955	2.22	
'AA' credit rated bonds	18,522	21.02	22.53
CLP700,000,000 Chile (Republic of) 5.5% 2020	1,192	1.35	
CZK32,000,000 Czech (Republic of) 4.6% 2018	1,528	1.74	
NZD2,000,000 New Zealand (Govt. of) 2.5% IL 2035	1,614	1.83	
\$1,000,000 Qatar (State of) 6.4% 2040	1,281	1.45	
£2,900,000 Treasury 1.25% 2018	3,938	4.47	
\$8,000,000 US Treasury 0.75% 2018	7,986	9.06	
\$1,000,000 US Treasury 0.75% 2019	983	1.12	
'A' credit rated bonds	18,181	20.64	19.66
ILS6,700,000 Israel (State of) 4% 2018	1,936	2.20	
\$1,350,000 Israel (State of) 4.5% 2043	1,472	1.67	
¥875,000,000 Japan (Govt. of) 0.1% 2018	7,779	8.83	
MXN35,000,000 Mexico (United Mexican States) 6.5% 2022	1,698	1.93	
PEN4,800,000 Peru (Republic of) 8.2% 2026	1,822	2.07	
PLN6,700,000 Poland (Republic of) 3.25% 2025	1,943	2.20	
THB50,000,000 Thailand (Kingdom of) 1.25% IL 2028	1,531	1.74	
'BBB' credit rated bonds	22,385	25.40	23.57
COP3,000,000,000 Colombia (Republic of) 6% 2028	960	1.09	
HUF250,000,000 Hungary (Republic of) 7.5% 2020	1,157	1.31	
\$800,000 Indonesia (Republic of) 4.35% 2024	840	0.95	
IDR20,000,000,000 Indonesia (Republic of) 8.25% 2036	1,641	1.86	
IDR11,000,000,000 Indonesia (Republic of) 9% 2029	954	1.08	
€1,000,000 Italy (Republic of) 2.2% 2027	1,226	1.39	
\$800,000 Kazakhstan (Republic of) 5.125% 2025	890	1.01	
£792,000 Mexico (United Mexican States) 5.625% 2114	1,170	1.33	
€500,000 Morocco (Kingdom of) 3.5% 2024	670	0.76	
\$800,000 Morocco (Kingdom of) 5.5% 2042	905	1.03	
\$600,000 Panama (Republic of) 8.875% 2027	870	0.99	
\$600,000 Peru (Republic of) 8.75% 2033	944	1.07	
\$600,000 Petroleos Mexicano 2.46% 2025	598	0.68	
PHP50,000,000 Philippines (Republic of) 6.25% 2036	1,127	1.28	
\$500,000 Philippines (Republic of) 9.5% 2030	791	0.90	
€600,000 Portugal (Republic of) 4.125% 2027	852	0.97	
\$1,200,000 Portugal (Republic of) 5.125% 2024	1,288	1.46	
€1,000,000 Romania (Republic of) 3.875% 2035	1,315	1.49	
RON3,500,000 Romania (Republic of) 5.8% 2027	1,002	1.14	
RUB85,000,000 Russia (Federation of) 8.15% 2027	1,545	1.75	
UYU24,609,000 Uruguay (Republic of) 8.5% 2028	850	0.96	
UYU21,509,000 Uruguay (Republic of) 9.875% 2022	790	0.90	

M&G Global Government Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at Holding	31.12.17 \$'000	31.12.17 %	30.06.17 %
'BB' credit rated bonds	8,599	9.76	8.49
\$500,000 Bahamas (Commonwealth of) 6% 2028	529	0.60	
BRL4,500,000 Brazil (Federal Republic of) 10% 2025	1,352	1.53	
€500,000 Croatia (Republic of) 3% 2025	646	0.73	
DOP34,000,000 Dominican Republic 10.4% 2019	730	0.83	
\$700,000 Guatemala (Republic of) 5.75% 2022	754	0.86	
\$800,000 Honduras (Republic of) 8.75% 2020	898	1.02	
€850,000 Macedonia (Govt. of) 5.625% 2023	1,177	1.34	
\$600,000 Paraguay (Republic of) 6.1% 2044	684	0.78	
ZAR13,700,000 South Africa (Republic of) 8.75% 2048	1,007	1.14	
TRY3,200,000 Turkey (Republic of) 11% 2027	822	0.93	
'B' credit rated bonds	5,683	6.45	6.17
€800,000 Albania (Republic of) 5.75% 2020	1,062	1.20	
ARS12,000,000 Argentina (Republic of) 21.2% 2018	606	0.69	
ARS10,000,000 Argentina (Republic of) 22.75% 2018	517	0.59	
€825,662 Argentina (Republic of) Var. Rate 2033 (7.82%)	1,154	1.31	
EGP10,000,000 Egypt (Arab Republic of) 0% 2018 (13 Feb)	548	0.62	
EGP11,600,000 Egypt (Arab Republic of) 0% 2018 (24 Apr)	616	0.70	
EGP11,000,000 Egypt (Arab Republic of) 0% 2018 (10 Jul)	564	0.64	
\$628,000 Ukraine (Republic of) 7.375% 2032	616	0.70	
Bonds with no credit rating	3,298	3.74	4.64
€800,000 Cote d'Ivoire 5.125% 2025	1,044	1.18	
\$600,000 MFB Hungarian Development Bank 6.25% 2020	653	0.74	
INR100,000,000 Rural Electrification 9.04% 2019	1,601	1.82	
Credit default swaps	(34)	(0.04)	0.11
\$1,000,000 Korea International Bond Dec 2021	(22)	(0.03)	
\$2,910,000 Markit CDX Emerging Markets Series 26 5 Year Dec 2021	(12)	(0.01)	
Forward currency contracts	14	0.01	0.02
€1,054,117 Bought for NZD1,802,614 (expires 10.01.18)	(19)	(0.02)	
CHF2,448,435 Bought for \$2,478,161 (expires 10.01.18)	33	0.03	
Portfolio of investments	86,673	98.36	95.64
'AAA' rated money market funds ^[a]	423	0.48	2.27
423,000 Northern Trust Global Fund - US dollar	423	0.48	
Total portfolio	87,096	98.84	97.91
Net other assets / (liabilities)	1,018	1.16	2.09
Net assets attributable to shareholders	88,114	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.

Portfolio transactions

for the six months to 31 December	2017 \$'000	2016 \$'000
Portfolio transactions		
Total purchases	21,001	55,877
Total sales	8,597	41,017

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

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.

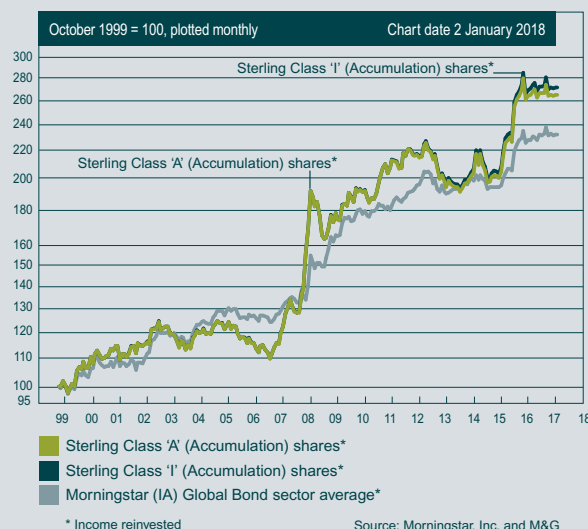
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer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

Fund level performance

Fund net asset value			
as at	31.12.17 \$'000	30.06.17 \$'000	30.06.16 \$'000
Fund net asset value (NAV)	88,114	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

	Six months 03.07.17 % [a]	Three years 02.01.15 % p.a.	Five years 02.01.13 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	-1.8	+4.3	n/a	+6.0 [c]
Class 'C'	-1.5	+4.8	n/a	+6.6 [c]
Sterling [d]				
Class 'A'	-0.4	+8.7	+4.6	+5.5 [e]
Class 'I'	-0.2	+9.2	+5.0	+3.7 [f]
Class 'R'	-0.3	+9.0	+4.8	+3.6 [f]
Swiss franc [b]				
Class 'A'	+5.3	+3.5	n/a	+5.1 [c]
Class 'C'	+5.5	+4.0	n/a	+5.6 [c]
US dollar [b]				
Class 'A'	+4.1	+4.3	n/a	+3.0 [c]
Class 'C'	+4.4	+4.9	n/a	+3.6 [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	31.12.17	30.06.17	30.06.16	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.38	0.37	0.39	0.38

^[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.

	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Change in NAV per share			
Opening NAV	1,169.78	1,226.01	1,121.26
Return before operating charges and after direct portfolio transaction costs	(11.41)	(0.38)	138.27
Operating charges	(7.02)	(15.07)	(14.52)
Return after operating charges	(18.43)	(15.45)	123.75
Distributions	(19.33)	(40.78)	(19.00)
Closing NAV	1,132.02	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	-1.58	-1.26	+11.04
Distribution yield ^[c]	3.66	3.65	1.76
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (\$'000)	5,524	3,426	755
Closing NAV percentage of total fund NAV (%)	6.27	4.51	1.22
Number of shares	406,996	256,797	55,260
Highest share price (Euro ¢)	1,175.37	1,260.56	1,250.06
Lowest share price (Euro ¢)	1,143.62	1,195.42	1,101.32

Euro Class 'A' Accumulation share performance

The share class was launched on 22 August 2014.

	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Change in NAV per share			
Opening NAV	1,233.05	1,248.80	1,124.07
Return before operating charges and after direct portfolio transaction costs	(12.32)	(0.38)	139.09
Operating charges	(7.37)	(15.37)	(14.36)
Return after operating charges	(19.69)	(15.75)	124.73
Distributions	(13.68)	(27.44)	(19.13)
Retained distributions	13.68	27.44	19.13
Closing NAV	1,213.36	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	-1.60	-1.26	+11.10
Distribution yield	2.52	2.51	1.76
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	6,700	5,521	1,917
Closing NAV percentage of total fund NAV (%)	7.60	7.26	3.10
Number of shares	460,623	392,596	137,745
Highest share price (Euro ¢)	1,238.75	1,298.59	1,260.46
Lowest share price (Euro ¢)	1,205.22	1,232.20	1,104.06

Euro Class 'C' Income share performance

The share class was launched on 22 August 2014.

	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Change in NAV per share			
Opening NAV	1,175.01	1,225.30	1,120.51
Return before operating charges and after direct portfolio transaction costs	(10.99)	(0.30)	138.43
Operating charges	(4.07)	(8.51)	(8.18)
Return after operating charges	(15.06)	(8.81)	130.25
Distributions	(19.87)	(41.48)	(25.46)
Closing NAV	1,140.08	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	0.70	0.69	0.71
Return after operating charges	-1.28	-0.72	+11.62
Distribution yield ^[c]	3.70	3.68	2.28
Effect on yield of charges offset against capital	0.65	0.65	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 ¢)	1,180.72	1,261.95	1,252.76
Lowest share price (Euro ¢)	1,149.78	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.

	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Change in NAV per share			
Opening NAV	1,252.06	1,261.31	1,129.06
Return before operating charges and after direct portfolio transaction costs	(11.76)	(0.29)	140.57
Operating charges	(4.40)	(8.96)	(8.32)
Return after operating charges	(16.16)	(9.25)	132.25
Distributions	(17.28)	(34.68)	(25.78)
Retained distributions	17.28	34.68	25.78
Closing NAV	1,235.90	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	0.71	0.70	0.71
Return after operating charges	-1.29	-0.73	+11.71
Distribution yield	3.04	3.02	2.28
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	8	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 ¢)	1,225.12	1,247.26	1,109.89

Sterling Class 'A' Income share performance

The share class was launched on 4 October 1999.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	98.02	96.60	76.06
Return before operating charges and after direct portfolio transaction costs	(0.00)	6.04	22.97
Operating charges	(0.60)	(1.22)	(1.00)
Return after operating charges	(0.60)	4.82	21.97
Distributions	(1.64)	(3.40)	(1.43)
Closing NAV	95.78	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	-0.61	+4.99	+28.89
Distribution yield ^[c]	3.67	3.65	1.76
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (\$'000)	3,104	3,813	4,442
Closing NAV percentage of total fund NAV (%)	3.52	5.02	7.19
Number of shares	2,398,519	2,997,769	3,409,000
Highest share price (UK p)	101.37	107.13	99.17
Lowest share price (UK p)	96.94	96.72	75.83

Sterling Class 'A' Accumulation share performance

The share class was launched on 4 October 1999.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	132.84	126.77	98.57
Return before operating charges and after direct portfolio transaction costs	(0.01)	7.96	29.88
Operating charges	(0.81)	(1.62)	(1.31)
Return after operating charges	(0.82)	6.34	28.57
Distributions	(1.49)	(2.95)	(1.87)
Retained distributions	1.49	2.68	1.50
Closing NAV	132.02	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	-0.62	+5.00	+28.99
Distribution yield	2.53	2.51	1.76
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	8,966	9,228	9,724
Closing NAV percentage of total fund NAV (%)	10.18	12.14	15.74
Number of shares	5,026,414	5,352,374	5,686,909
Highest share price (UK p)	137.39	140.69	129.11
Lowest share price (UK p)	131.39	127.07	98.27

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	1,138.41	1,116.35	879.00
Return before operating charges and after direct portfolio transaction costs	(0.12)	69.83	266.00
Operating charges	(4.06)	(8.36)	(7.16)
Return after operating charges	(4.18)	61.47	258.84
Distributions	(19.02)	(39.41)	(21.49)
Closing NAV	1,115.21	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	-0.37	+5.51	+29.45
Distribution yield ^[c]	3.66	3.66	2.26
Effect on yield of charges offset against capital	0.65	0.65	0.00
Other information			
Closing NAV (\$'000)	16,164	17,908	12,179
Closing NAV percentage of total fund NAV (%)	18.34	23.56	19.72
Number of shares	1,072,743	1,212,092	808,857
Highest share price (UK p)	1,178.24	1,239.86	1,148.20
Lowest share price (UK p)	1,127.17	1,120.21	876.45

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Financial highlights

Specific share class performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	1,218.46	1,157.67	896.49
Return before operating charges and after direct portfolio transaction costs	(0.09)	72.55	272.80
Operating charges	(4.36)	(8.71)	(7.19)
Return after operating charges	(4.45)	63.84	265.61
Distributions	(16.57)	(33.10)	(22.13)
Retained distributions	16.57	30.05	17.70
Closing NAV	1,214.01	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	-0.37	+5.51	+29.63
Distribution yield	3.03	3.00	2.26
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	45,482	35,205	32,422
Closing NAV percentage of total fund NAV (%)	51.62	46.31	52.50
Number of shares	2,772,774	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)	1,206.46	1,162.28	893.89

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	113.55	111.63	87.90
Return before operating charges and after direct portfolio transaction costs	(0.01)	6.97	26.58
Operating charges	(0.55)	(1.12)	(0.93)
Return after operating charges	(0.56)	5.85	25.65
Distributions	(1.89)	(3.93)	(1.92)
Closing NAV	111.10	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	-0.49	+5.24	+29.18
Distribution yield ^[c]	3.67	3.66	2.01
Effect on yield of charges offset against capital	0.90	0.90	0.00
Other information			
Closing NAV (\$'000)	169	136	86
Closing NAV percentage of total fund NAV (%)	0.19	0.18	0.14
Number of shares	112,734	91,923	57,000
Highest share price (UK p)	117.48	123.89	114.72
Lowest share price (UK p)	112.37	111.89	87.63

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	120.91	115.13	89.33
Return before operating charges and after direct portfolio transaction costs	(0.01)	7.22	27.14
Operating charges	(0.59)	(1.17)	(0.95)
Return after operating charges	(0.60)	6.05	26.19
Distributions	(1.50)	(2.99)	(1.96)
Retained distributions	1.50	2.72	1.57
Closing NAV	120.31	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	-0.50	+5.25	+29.32
Distribution yield	2.78	2.76	2.01
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	356	102	42
Closing NAV percentage of total fund NAV (%)	0.40	0.13	0.07
Number of shares	218,703	65,122	26,736
Highest share price (UK p)	125.09	127.83	117.25
Lowest share price (UK p)	119.65	115.49	89.06

Swiss franc Class 'A' Accumulation share performance

The share class was launched on 22 August 2014.

	Six months to 31.12.17 Swiss ¢	Year to 30.06.17 Swiss ¢	Year to 30.06.16 Swiss ¢
Change in NAV per share			
Opening NAV	1,116.80	1,124.23	966.39
Return before operating charges and after direct portfolio transaction costs	66.61	5.64	170.10
Operating charges	(6.99)	(13.07)	(12.26)
Return after operating charges	59.62	(7.43)	157.84
Distributions	(13.99)	(25.61)	(18.24)
Retained distributions	13.99	25.61	18.24
Closing NAV	1,176.42	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	1.16	1.16	1.18
Return after operating charges	+5.34	-0.66	+16.33
Distribution yield	2.58	2.57	1.82
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	35	6	6
Closing NAV percentage of total fund NAV (%)	0.04	0.01	0.01
Number of shares	2,900	500	500
Highest share price (Swiss ¢)	1,192.83	1,151.12	1,131.53
Lowest share price (Swiss ¢)	1,115.74	1,102.10	975.77

M&G Global Government Bond Fund

Financial highlights

Specific share class performance

Swiss franc Class 'C' Accumulation share performance

The share class was launched on 22 August 2014.

	Six months to 31.12.17 Swiss ¢	Year to 30.06.17 Swiss ¢	Year to 30.06.16 Swiss ¢
Change in NAV per share			
Opening NAV	1,132.69	1,134.62	970.54
Return before operating charges and after direct portfolio transaction costs	67.20	5.61	171.25
Operating charges	(3.78)	(7.54)	(7.17)
Return after operating charges	63.42	(1.93)	164.08
Distributions	(16.99)	(31.57)	(23.58)
Retained distributions	16.99	31.57	23.58
Closing NAV	1,196.11	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	0.64	0.66	0.68
Return after operating charges	+5.60	-0.17	+16.91
Distribution yield	3.08	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 ¢)	1,212.40	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.

	Six months to 31.12.17 US ¢	Year to 30.06.17 US ¢	Year to 30.06.16 US ¢
Change in NAV per share			
Opening NAV	1,005.29	1,029.66	944.59
Return before operating charges and after direct portfolio transaction costs	41.03	21.55	113.14
Operating charges	(6.21)	(12.18)	(11.59)
Return after operating charges	34.82	9.37	101.55
Distributions	(17.46)	(33.74)	(16.48)
Closing NAV	1,022.65	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	+3.46	+0.91	+10.75
Distribution yield ^[c]	3.66	3.65	1.79
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (\$'000)	179	166	5
Closing NAV percentage of total fund NAV (%)	0.20	0.22	0.01
Number of shares	17,536	16,558	500
Highest share price (US ¢)	1,048.48	1,060.36	1,044.41
Lowest share price (US ¢)	999.93	959.92	917.57

US dollar Class 'A' Accumulation share performance

The share class was launched on 22 August 2014.

	Six months to 31.12.17 US ¢	Year to 30.06.17 US ¢	Year to 30.06.16 US ¢
Change in NAV per share			
Opening NAV	1,059.91	1,049.32	947.49
Return before operating charges and after direct portfolio transaction costs	43.28	23.24	113.83
Operating charges	(6.53)	(12.65)	(12.00)
Return after operating charges	36.75	10.59	101.83
Distributions	(12.37)	(22.80)	(15.96)
Retained distributions	12.37	22.80	15.96
Closing NAV	1,096.66	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	+3.47	+1.01	+10.75
Distribution yield	2.53	2.52	1.76
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	1,183	177	152
Closing NAV percentage of total fund NAV (%)	1.34	0.23	0.25
Number of shares	107,882	16,714	14,514
Highest share price (US ¢)	1,105.48	1,080.56	1,053.25
Lowest share price (US ¢)	1,054.35	991.45	920.23

US dollar Class 'C' Income share performance

The share class was launched on 22 August 2014.

	Six months to 31.12.17 US ¢	Year to 30.06.17 US ¢	Year to 30.06.16 US ¢
Change in NAV per share			
Opening NAV	1,009.77	1,029.02	943.85
Return before operating charges and after direct portfolio transaction costs	41.52	22.78	113.24
Operating charges	(3.41)	(6.86)	(6.62)
Return after operating charges	38.11	15.92	106.62
Distributions	(18.01)	(35.17)	(21.45)
Closing NAV	1,029.87	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	+3.77	+1.55	+11.30
Distribution yield ^[c]	3.70	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 ¢)	1,054.24	1,060.83	1,046.34
Lowest share price (US ¢)	1,004.51	961.81	918.95

M&G Global Government Bond Fund

Financial highlights

Specific share class performance

US dollar Class 'C' Accumulation share performance

The share class was launched on 22 August 2014.

	Six months to 31.12.17 US ¢	Year to 30.06.17 US ¢	Year to 30.06.16 US ¢
Change in NAV per share			
Opening NAV	1,077.79	1,060.08	951.66
Return before operating charges and after direct portfolio transaction costs	44.01	24.55	115.18
Operating charges	(3.90)	(6.84)	(6.76)
Return after operating charges	40.11	17.71	108.42
Distributions	(15.24)	(29.87)	(21.69)
Retained distributions	15.24	29.87	21.69
Closing NAV	1,117.90	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	+3.72	+1.67	+11.39
Distribution yield	3.05	3.07	2.30
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	226	300	5
Closing NAV percentage of total fund NAV (%)	0.26	0.39	0.01
Number of shares	20,216	27,800	500
Highest share price (US ¢)	1,125.20	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.

M&G Global Government Bond Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 31 December	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Income				
Net capital gains / (losses)		1,815		(4,393)
Revenue	1,536		1,067	
Expenses	(366)		(281)	
Net revenue / (expense) before taxation	1,170		786	
Taxation	(16)		(15)	
Net revenue / (expense) after taxation		1,154		771
Total return before distributions		2,969		(3,622)
Distributions		(1,227)		(840)
Change in net assets attributable to shareholders from investment activities		1,742		(4,462)

Statement of change in net assets attributable to shareholders

for the six months to 31 December	2017		2016	
	\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders		76,013		61,760
Amounts received on issue of shares	19,915		20,383	
Amounts paid on cancellation of shares	(10,412)		(6,140)	
		9,503		14,243
Dilution adjustments		37		40
Change in net assets attributable to shareholders from investment activities (see above)		1,742		(4,462)
Retained distributions on Accumulation shares		819		555
Closing net assets attributable to shareholders		88,114		72,136

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	31 December 2017	30 June 2017
	\$'000	\$'000
Assets		
Fixed assets		
Investments	87,149	74,445
Current assets		
Debtors	1,321	1,954
Cash and bank balances	214	648
Total assets	88,684	77,047
Liabilities		
Investment liabilities	(53)	(23)
Creditors		
Distribution payable	(429)	(462)
Other creditors	(88)	(549)
Total liabilities	(570)	(1,034)
Net assets attributable to shareholders	88,114	76,013

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

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.

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 January 2018, for the six months ended 31 December 2017

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 the fund manager believes 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 January 2018.* The fund's returns in all share classes, except the Sterling Class 'C', were below or equal to that of a comparative index, the FTSE All-Share Index. Over the same period, returns for the index were 6.0% and 5.0% 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 six-month review period, but underperformed its comparative index, the FTSE All-Share Index. Nonetheless, there was good performance from a number of holdings across the portfolio, with stock selection in the healthcare sector particularly beneficial.

Over the six months, there was further evidence of a sustained recovery in the global economy. Industrial metal prices rallied against the generally favourable backdrop for global and Chinese demand in particular. Prices were also supported by supply constraints and weakness in the US dollar. Meanwhile, the oil & gas sector performed very well as crude oil prices rose, supported by OPEC-led production cuts that were extended until the end of 2018. In addition, the oil majors delivered strong third-quarter earnings, underpinned by ongoing cost and capital expenditure discipline.

On the domestic front, the Bank of England Monetary Policy Committee raised its base interest rate from a record low of 0.25% to 0.50%, the first increase since November 2007, while inflation reached 3.1% in November, breaching the Bank's upper target limit. Brexit concerns weighed on investor sentiment, although these lifted towards the end of the period as an agreement was struck to allow trade talks to commence.

In this environment, we saw some fluctuations in investor risk appetite over the six months which at times detracted from recovery situations. Investors were less inclined towards riskier investments which led many to the perceived safety of larger, internationally exposed companies in the FTSE 100 Index. Although over 40% of the holdings on the fund are in those larger companies, the balance is in small and mid-sized companies with around 25% listed on non-FTSE indices. In fact, these non-FTSE stocks accounted for the majority of the fund's performance over the six months.

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 company's mines in Zambia continue to maintain high production levels, while the Cobra

M&G Recovery Fund

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Investment review

Investment performance (continued)

Panama development is expected to start production in late 2018. First Quantum is still investing in growth, as evidenced in its recent option agreement with Northern Dynasty Minerals on the Pebble Project in Alaska, the world's largest undeveloped copper project. First Quantum will pay US\$150 million over four years to help fund the permit process for the project.

Cannabinoid medicine developer, GW Pharmaceuticals, was our top contributor in the healthcare sector. GW, the fund's largest overweight position, announced promising test results for Epidiolex, its treatment for childhood epilepsy. An important development was the demonstration that Epidiolex works independently of Clobazam – a commonly used epilepsy drug. The results showed that Epidiolex will work on its own, but also indicate that there may be beneficial effect in some children from combining the treatments. Epidiolex has been filed with the Food and Drug Administration in the US for approval for the treatment of two rare forms of childhood epilepsy, Lennox-Gastaut syndrome and Dravet syndrome; similarly in Europe, a Marketing Authorisation Application has been made to the European Medicines Agency. If the approvals are successful, GW could begin distributing Epidiolex towards the end of 2018.

Also in the healthcare sector, Hutchison China Meditech, a biopharmaceutical company, continues to make good progress by broadening and deepening its research and development pipeline, funded by its distribution business in China. The share price has also benefited in recent months from continuing positive news on the company's Fruquintinib cancer drug as well as initiating a global Phase III study for the treatment of a type of kidney cancer.

Elsewhere, in the media sector our holding in 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. This 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 strongly shifted away from perceived 'safe' investments towards the end of the period.

Conversely, with the exception of BP, not holding the oil majors and large miners detracted from performance. At the company level, a couple of our holdings issued profit warnings which led to sharp falls in their share prices. Over 50s tourism and insurance group Saga warned that its full-year profits will be below forecasts and are likely to drop further in 2018. The company said its tour operations business had been hit by the collapse of Monarch airlines in October, which it partnered with on many of its tour packages. Flexible workspace provider IWG warned on profits due to weakness in its more mature office space portfolio, a slowdown in demand for London offices and disruption from natural disasters. This led to a downgrade of full-year operating profit expectations. The company announced it had received a takeover approach at the end of the period and the share price recovered somewhat.

Investment activities

We continued to see takeover activity on the fund. Over the six months, takeovers of three companies 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 in June after Apple, its biggest customer and one of its main shareholders, said it would stop using its 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.

During the review period, we made one new purchase on the fund – eServeGlobal, a digital financial transactions technology company. The company 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.

We also made two complete sales on the fund over the period: Kingfisher, a supplier of home improvement products, and Morgan Advanced Materials, an engineering company; both were undertaken to provide funds for better opportunities elsewhere.

Outlook

Brexit aside, the UK is benefiting from a broad-based growth in UK corporate profits, in part due to sterling's depreciation, but also because the global economy is experiencing a synchronised recovery for the first time in decades, and around 75% of the revenues of FTSE 100 companies are derived in foreign currency. In aggregate, profits are growing at a faster rate than expected a year ago. This positive corporate backdrop provides a fundamental support to the UK market and is especially good news since it represents a change in trend from the 2012-2016 period when profits were falling overall. The increase in earnings per share has been greater than the rise in the market, which has resulted in a decline in the overall market rating. As a consequence, the UK market remains at a discount to other stockmarkets in developed countries.

The UK is home to some fantastic companies operating within a strong corporate governance and legal framework. We believe in taking a contrarian view on the fund, ignoring the short-term noise and taking advantage of the 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.

M&G Recovery Fund

Authorised Corporate Director's Report

Investments

Portfolio statement

as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %
Oil & gas producers	374,977	12.64	11.61
22,565,018 African Petroleum	1,772	0.06	
48,550,000 BP	252,217	8.50	
16,592,508 Great Eastern Energy GDR	10,453	0.35	
8,970,675 Nostrum Oil & Gas	29,222	0.99	
87,688,530 Providence Resources ^[a]	7,454	0.25	
38,175,775 Tap Oil	1,215	0.04	
35,298,165 Tullow Oil	72,644	2.45	
Oil equipment, services & distribution	12,460	0.42	0.96
16,129,480 Lamprell	12,460	0.42	
Industrial metals & mining	112,392	3.79	2.42
75,000,000 Bluejay Mining ^[a]	16,875	0.57	
9,032,628 First Quantum Minerals	95,517	3.22	
Mining	224,263	7.56	6.48
13,456,784 Bacanora Minerals ^[a]	14,130	0.48	
17,855,335 Kenmare Resources	47,227	1.59	
40,788 Kenmare Resources wts. 2019	0	0.00	
23,346,347 MC Mining ^[a]	9,572	0.32	
30,848,162 Petra Diamonds	24,062	0.81	
1,625,040 Rio Tinto	63,547	2.14	
27,500,000 St Barbara	60,799	2.05	
28,247,500 Sylvania Platinum ^[a]	3,672	0.13	
55,536,586 White Energy Company	1,254	0.04	
Construction & materials	127,373	4.29	4.27
14,636,984 Balfour Beatty	43,135	1.45	
3,180,000 CRH	84,238	2.84	
Aerospace & defence	72,680	2.45	2.64
27,125,000 Cobham	34,259	1.15	
3,438,927 Meggitt	16,651	0.56	
5,742,767 QinetiQ Group	13,295	0.45	
1,000,000 Rolls-Royce Holdings	8,475	0.29	
General industrials	140,461	4.74	5.49
96,000,000 Coats Group	85,776	2.89	
3,680,000 Smiths Group	54,685	1.85	
Electronic & electrical equipment	18,927	0.64	0.97
5,164,222 Xaar	18,927	0.64	
Industrial engineering	49,787	1.68	1.60
26,500,000 Renold	12,322	0.42	
37,976,192 Severfield	29,052	0.98	
146,309,150 TP Group ^[a]	8,413	0.28	
Industrial transportation	65,217	2.20	2.50
5,812,903 Avation	13,602	0.46	
60,634,550 Mercantile Ports and Logistics ^[a]	4,548	0.15	
16,750,000 Stobart Group	47,067	1.59	
Support services	134,081	4.52	5.35
3,250,000 Essentra	17,144	0.58	
913,641 Grafton Group	7,305	0.24	
6,466,527 Homeserve	52,152	1.76	
22,550,000 IWG	57,480	1.94	
Food producers	27,784	0.94	0.95
7,287,630 REA Holdings	22,227	0.75	
46,304,408 Zambeef Products ^[a]	5,557	0.19	

Portfolio statement (continued)

as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %
Household goods & home construction	14,265	0.48	0.48
9,000,000 McCarthy & Stone	14,265	0.48	
Healthcare equipment & services	29,645	1.00	1.49
3,500,000 UDG Healthcare	29,645	1.00	
Pharmaceuticals & biotechnology	353,608	11.92	10.33
5,827,390 Eco Animal Health ^[a]	34,382	1.16	
1,615,000 GW Pharmaceuticals ADR	161,207	5.43	
2,190,838 Hutchison China Meditech ADR	62,264	2.10	
52,711,349 Mesoblast	43,778	1.48	
1,038,939 Mesoblast ADR	4,483	0.15	
536,658,885 Oxford Biomedica	47,494	1.60	
General retailers	63,858	2.15	3.94
11,000,000 Dixons Carphone	22,143	0.74	
19,899,040 Mothercare	13,034	0.44	
23,000,000 Saga	28,681	0.97	
Media	98,460	3.32	2.44
24,800,000 Entertainment One	81,691	2.75	
2,287,694 Pearson	16,769	0.57	
Travel & leisure	278,966	9.41	8.96
1,200,000 Carnival	58,812	1.98	
8,000,000 Dalata Hotel Group	44,329	1.50	
3,621,198 easyJet	52,362	1.77	
44,250,000 EI Group	62,503	2.11	
104,427,139 fastjet	20,885	0.70	
9,321,340 fastjet Wts. 2021	0	0.00	
10,515,525 National Express	40,075	1.35	
Fixed line telecommunications	34,253	1.16	0.74
12,750,000 BT Group	34,253	1.16	
Mobile telecommunications	2,055	0.07	0.08
27,359,073 Avanti Communications ^[a]	2,055	0.07	
Electricity	18,232	0.61	1.13
34,149,791 KSK Power Ventur	11,269	0.38	
38,681,231 OPG Power Ventures ^[a]	6,963	0.23	
Banks	444,788	15.00	15.03
31,950,000 HSBC Holdings	243,938	8.23	
140,000,000 Lloyds Banking Group	94,626	3.19	
18,275,000 Royal Bank of Scotland Group	50,677	1.71	
7,171,057 Standard Chartered	55,547	1.87	
Non-life insurance	0	0.00	0.49
Life insurance	180,789	6.10	6.57
16,300,000 Aviva	81,989	2.77	
5,240,000 Prudential ^[b]	98,800	3.33	
Financial services	41,032	1.38	1.24
17,857,142 IP Group	24,982	0.84	
3,000,000 TP Icap	16,050	0.54	
Equity investment instruments	3,449	0.12	0.12
410,580 Gresham House Strategic ^[a]	3,449	0.12	
Software & computer services	34,361	1.16	1.25
6,615,674 Actual Experience ^[a]	18,855	0.64	
11,302,515 Blanco Technology ^[a]	8,025	0.27	
37,921,750 eServGlobal ^[a]	4,266	0.14	
2,916,666 Watchstone ^[a]	3,215	0.11	
Technology hardware & equipment	12,881	0.43	1.18
7,951,272 Frontier Smart Technologies	12,881	0.43	
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	

M&G Recovery Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at	31.12.17	31.12.17	30.06.17
Holding	£'000	%	%
Portfolio of investments	2,971,044	100.18	100.71
'AAA' rated money market funds ^[d]	1,793	0.06	0.15
1,793,000 Northern Trust Global Fund - Sterling	1,793	0.06	
Total portfolio	2,972,837	100.24	100.86
Net other assets / (liabilities)	(7,018)	(0.24)	(0.86)
Net assets attributable to shareholders	2,965,819	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 portfolio transactions	
for the six months to 31 December 2017	
Purchases	£'000
BT Group	13,717
Mesoblast	10,785
fastjet	7,459
TP Group	4,080
Petra Diamonds	4,048
Bacanora Minerals	3,542
eServGlobal	3,496
easyJet	2,484
Xaar	1,387
Total purchases	50,998
Largest sales	£'000
Imagination Technologies Group	34,627
Coats Group	28,595
HSBC Holdings	25,821
GW Pharmaceuticals ADR	22,733
Carnival	20,174
Novae Group	18,609
Cape	17,647
Kingfisher	16,546
UDG Healthcare	15,078
Lloyds Banking Group	14,770
Other sales	135,692
Total sales	350,292

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.

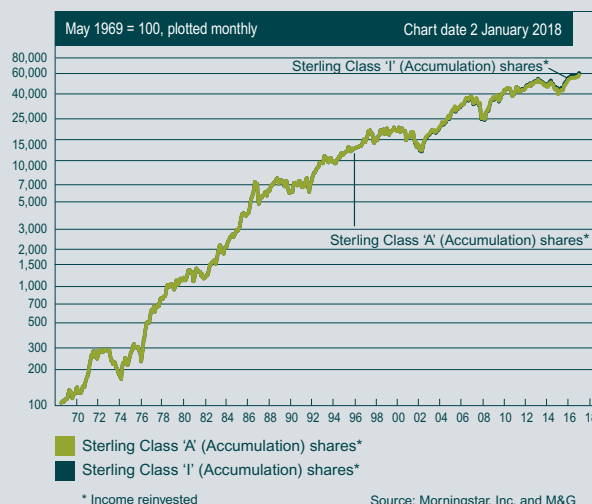
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer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

Fund level performance

Fund net asset value			
as at	31.12.17 £'000	30.06.17 £'000	30.06.16 £'000
Fund net asset value (NAV)	2,965,819	3,085,097	3,248,531

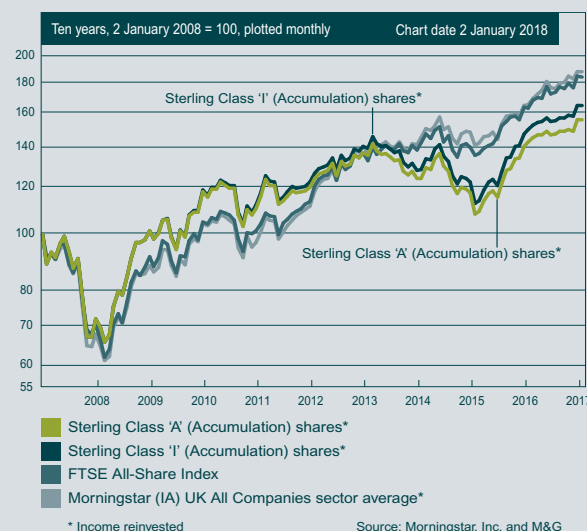
Performance since launch

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				
	Six months 03.07.17 % ^[a]	Three years 02.01.15 % p.a.	Five years 02.01.13 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A'	+4.2	+3.1	+3.2	+6.8 ^[c]
Class 'C'	+4.6	+3.9	+3.9	+7.6 ^[c]
Sterling ^[d]				
Class 'A'	+5.6	+7.7	+5.0	+14.0 ^[e]
Class 'C'	+6.4	+9.3	+6.6	+9.8 ^[f]
Class 'I'	+6.0	+8.5	+5.8	+6.0 ^[g]
Class 'R'	+5.9	+8.2	+5.6	+6.2 ^[h]
Class 'X'	+5.6	+7.7	+5.0	+9.4 ^[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

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. 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				
	Six months to 31.12.17	Year to 30.06.17	Year to 30.06.16	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.01	0.03	0.04	0.03
Taxes	0.01	0.02	0.02	0.01
Costs before dilution adjustments	0.02	0.05	0.06	0.04
Dilution adjustments ^[c]	(0.02)	(0.04)	(0.03)	(0.03)
Total direct portfolio transaction costs	0.00	0.01	0.03	0.01
as at	31.12.17	30.06.17	30.06.16	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.70	0.69	0.79	0.73

^[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 period are calculated as at 12 January 2018.

Euro Class 'A' Accumulation share performance

The share class was launched on 29 November 2002.

Change in NAV per share	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Opening NAV	2,588.06	2,161.61	2,836.50
Return before operating charges and after direct portfolio transaction costs	149.27	467.57	(634.19)
Operating charges	(21.35)	(41.12)	(40.70)
Return after operating charges	127.92	426.45	(674.89)
Distributions	(6.37)	(9.77)	(25.87)
Retained distributions	6.37	9.77	25.87
Closing NAV	2,715.98	2,588.06	2,161.61
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.21	1.21	1.28
Dilution adjustments ^[a]	(0.21)	(1.06)	(0.64)
Total direct portfolio transaction costs	0.00	0.15	0.64
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.03
Operating charges	1.66	1.66	1.66
Return after operating charges	+4.94	+19.73	-23.79
Historic yield	0.58	0.37	1.20
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	9,978	10,739	10,559
Closing NAV percentage of total fund NAV (%)	0.34	0.35	0.33
Number of shares	414,056	472,232	591,129
Highest share price (Euro ¢)	2,714.55	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.

	Six months to 31.12.17 Euro ¢	Year to 30.06.17 Euro ¢	Year to 30.06.16 Euro ¢
Change in NAV per share			
Opening NAV	2,892.31	2,397.69	3,122.73
Return before operating charges and after direct portfolio transaction costs	167.36	519.83	(700.31)
Operating charges	(13.09)	(25.21)	(24.73)
Return after operating charges	154.27	494.62	(725.04)
Distributions	(17.72)	(31.40)	(48.04)
Retained distributions	17.72	31.40	48.04
Closing NAV	3,046.58	2,892.31	2,397.69
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.23	1.35	1.41
Dilution adjustments ^[a]	(0.23)	(1.18)	(0.70)
Total direct portfolio transaction costs	0.00	0.17	0.71
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.03
Operating charges	0.91	0.91	0.92
Return after operating charges	+5.33	+20.63	-23.22
Historic yield	1.26	1.07	2.01
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	13,148	14,157	9,441
Closing NAV percentage of total fund NAV (%)	0.44	0.46	0.29
Number of shares	486,384	557,008	476,506
Highest share price (Euro ¢)	3,045.03	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	139.67	111.85	127.83
Return before operating charges and after direct portfolio transaction costs	9.50	32.75	(12.77)
Operating charges	(1.17)	(2.20)	(1.91)
Return after operating charges	8.33	30.55	(14.68)
Distributions	(1.48)	(2.73)	(1.30)
Closing NAV	146.52	139.67	111.85
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.06	0.06
Dilution adjustments ^[a]	(0.01)	(0.06)	(0.03)
Total direct portfolio transaction costs	0.00	0.00	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.03
Operating charges	1.66	1.66	1.66
Return after operating charges	+5.96	+27.31	-11.48
Historic yield ^[c]	2.12	1.93	1.14
Effect on yield of charges offset against capital	1.65	1.65	0.00
Other information			
Closing NAV (£'000)	505,775	529,572	463,186
Closing NAV percentage of total fund NAV (%)	17.05	17.17	14.26
Number of shares	345,183,416	379,165,975	414,104,046
Highest share price (UK p)	147.93	144.26	129.92
Lowest share price (UK p)	136.06	110.93	96.44

Sterling Class 'A' Accumulation share performance

The share class was launched on 23 May 1969.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	323.47	254.06	287.04
Return before operating charges and after direct portfolio transaction costs	22.00	74.38	(28.67)
Operating charges	(2.71)	(4.97)	(4.31)
Return after operating charges	19.29	69.41	(32.98)
Distributions	(0.80)	(1.22)	(2.91)
Retained distributions	0.80	1.22	2.91
Closing NAV	342.76	323.47	254.06
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.03	0.15	0.14
Dilution adjustments ^[a]	(0.03)	(0.13)	(0.07)
Total direct portfolio transaction costs	0.00	0.02	0.07
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.03
Operating charges	1.66	1.66	1.66
Return after operating charges	+5.96	+27.32	-11.49
Historic yield	0.57	0.37	1.13
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	692,095	769,199	983,361
Closing NAV percentage of total fund NAV (%)	23.34	24.93	30.27
Number of shares	201,915,722	237,792,926	387,051,472
Highest share price (UK p)	342.59	330.04	291.71
Lowest share price (UK p)	315.09	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	142.12	112.10	128.14
Return before operating charges and after direct portfolio transaction costs	9.73	32.99	(12.82)
Operating charges	(0.11)	(0.21)	(0.18)
Return after operating charges	9.62	32.78	(13.00)
Distributions	(1.52)	(2.76)	(3.04)
Closing NAV	150.22	142.12	112.10
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.07	0.06
Dilution adjustments ^[a]	(0.01)	(0.06)	(0.03)
Total direct portfolio transaction costs	0.00	0.01	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.03
Operating charges	0.16	0.16	0.16
Return after operating charges	+6.77	+29.24	-10.15
Historic yield ^[c]	2.10	1.91	2.68
Effect on yield of charges offset against capital	0.15	0.15	0.00
Other information			
Closing NAV (£'000)	106,153	105,916	100,463
Closing NAV percentage of total fund NAV (%)	3.58	3.43	3.09
Number of shares	70,663,059	74,523,640	89,619,819
Highest share price (UK p)	151.66	146.56	130.33
Lowest share price (UK p)	138.89	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	390.40	302.06	336.17
Return before operating charges and after direct portfolio transaction costs	26.68	88.91	(33.64)
Operating charges	(0.31)	(0.57)	(0.47)
Return after operating charges	26.37	88.34	(34.11)
Distributions	(3.87)	(6.92)	(8.03)
Retained distributions	3.87	6.92	8.03
Closing NAV	416.77	390.40	302.06
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.03	0.18	0.16
Dilution adjustments ^[a]	(0.03)	(0.15)	(0.08)
Total direct portfolio transaction costs	0.00	0.03	0.08
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.03
Operating charges	0.16	0.16	0.16
Return after operating charges	+6.75	+29.25	-10.15
Historic yield	1.93	1.75	2.63
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	513,667	546,007	679,884
Closing NAV percentage of total fund NAV (%)	17.32	17.70	20.93
Number of shares	123,248,198	139,858,895	225,080,167
Highest share price (UK p)	416.56	397.70	341.89
Lowest share price (UK p)	381.48	299.58	257.03

Sterling Class 'I' Income share performance

The share class was launched on 15 January 2010.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	140.63	111.77	127.75
Return before operating charges and after direct portfolio transaction costs	9.61	32.81	(12.77)
Operating charges	(0.65)	(1.21)	(1.05)
Return after operating charges	8.96	31.60	(13.82)
Distributions	(1.50)	(2.74)	(2.16)
Closing NAV	148.09	140.63	111.77
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.06	0.06
Dilution adjustments ^[a]	(0.01)	(0.06)	(0.03)
Total direct portfolio transaction costs	0.00	0.00	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.03
Operating charges	0.91	0.91	0.91
Return after operating charges	+6.37	+28.27	-10.82
Historic yield ^[c]	2.11	1.92	1.91
Effect on yield of charges offset against capital	0.90	0.90	0.00
Other information			
Closing NAV (£'000)	178,783	175,603	158,735
Closing NAV percentage of total fund NAV (%)	6.03	5.69	4.89
Number of shares	120,724,297	124,865,425	142,016,993
Highest share price (UK p)	149.51	145.14	129.89
Lowest share price (UK p)	137.22	110.87	96.46

Sterling Class 'I' Accumulation share performance

The share class was launched on 15 January 2010.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	340.98	265.81	298.06
Return before operating charges and after direct portfolio transaction costs	23.24	78.06	(29.81)
Operating charges	(1.56)	(2.89)	(2.44)
Return after operating charges	21.68	75.17	(32.25)
Distributions	(2.11)	(3.68)	(5.07)
Retained distributions	2.11	3.68	5.07
Closing NAV	362.66	340.98	265.81
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.03	0.15	0.14
Dilution adjustments ^[a]	(0.03)	(0.14)	(0.07)
Total direct portfolio transaction costs	0.00	0.01	0.07
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.03
Operating charges	0.91	0.91	0.91
Return after operating charges	+6.36	+28.28	-10.82
Historic yield	1.25	1.06	1.89
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	669,222	672,526	606,968
Closing NAV percentage of total fund NAV (%)	22.57	21.80	18.68
Number of shares	184,529,822	197,234,721	228,343,644
Highest share price (UK p)	362.48	347.63	303.01
Lowest share price (UK p)	332.67	263.60	226.83

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	120.65	96.13	109.87
Return before operating charges and after direct portfolio transaction costs	8.21	28.20	(10.99)
Operating charges	(0.71)	(1.33)	(1.14)
Return after operating charges	7.50	26.87	(12.13)
Distributions	(1.28)	(2.35)	(1.61)
Closing NAV	126.87	120.65	96.13
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.06	0.05
Dilution adjustments ^[a]	(0.01)	(0.05)	(0.03)
Total direct portfolio transaction costs	0.00	0.01	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.03
Operating charges	1.16	1.16	1.16
Return after operating charges	+6.22	+27.95	-11.04
Historic yield ^[c]	2.11	1.92	1.66
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (£'000)	8,700	2,130	1,776
Closing NAV percentage of total fund NAV (%)	0.29	0.07	0.05
Number of shares	6,857,790	1,765,807	1,847,161
Highest share price (UK p)	128.11	124.54	111.69
Lowest share price (UK p)	117.65	95.35	82.93

M&G Recovery Fund

Financial highlights

Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	130.16	101.72	114.35
Return before operating charges and after direct portfolio transaction costs	8.88	29.85	(11.43)
Operating charges	(0.78)	(1.41)	(1.20)
Return after operating charges	8.10	28.44	(12.63)
Distributions	(0.65)	(1.10)	(1.68)
Retained distributions	0.65	1.10	1.68
Closing NAV	138.26	130.16	101.72
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.06	0.05
Dilution adjustments ^[a]	(0.01)	(0.05)	(0.03)
Total direct portfolio transaction costs	0.00	0.01	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.03
Operating charges	1.16	1.16	1.16
Return after operating charges	+6.22	+27.96	-11.05
Historic yield	1.03	0.83	1.63
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	45,452	1,032	920
Closing NAV percentage of total fund NAV (%)	1.53	0.03	0.03
Number of shares	32,875,201	792,930	904,763
Highest share price (UK p)	138.19	132.73	116.23
Lowest share price (UK p)	126.92	100.87	86.89

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	140.58	112.58	128.66
Return before operating charges and after direct portfolio transaction costs	9.57	32.97	(12.86)
Operating charges	(1.18)	(2.22)	(1.92)
Return after operating charges	8.39	30.75	(14.78)
Distributions	(1.49)	(2.75)	(1.30)
Closing NAV	147.48	140.58	112.58
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.07	0.06
Dilution adjustments ^[a]	(0.01)	(0.06)	(0.03)
Total direct portfolio transaction costs	0.00	0.01	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.03
Operating charges	1.66	1.66	1.66
Return after operating charges	+5.97	+27.31	-11.49
Historic yield ^[c]	2.12	1.93	1.14
Effect on yield of charges offset against capital	1.65	1.65	0.00
Other information			
Closing NAV (£'000)	81,959	90,478	80,856
Closing NAV percentage of total fund NAV (%)	2.76	2.93	2.49
Number of shares	55,573,336	64,361,188	71,819,773
Highest share price (UK p)	148.90	145.20	130.76
Lowest share price (UK p)	136.95	111.65	97.07

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	320.08	251.40	284.03
Return before operating charges and after direct portfolio transaction costs	21.77	73.65	(28.37)
Operating charges	(2.68)	(4.97)	(4.26)
Return after operating charges	19.09	68.68	(32.63)
Distributions	(0.80)	(1.21)	(2.89)
Retained distributions	0.80	1.21	2.89
Closing NAV	339.17	320.08	251.40
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.03	0.15	0.13
Dilution adjustments ^[a]	(0.03)	(0.13)	(0.07)
Total direct portfolio transaction costs	0.00	0.02	0.06
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.01	0.03
Operating charges	1.66	1.66	1.66
Return after operating charges	+5.96	+27.32	-11.49
Historic yield	0.57	0.37	1.13
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	140,887	167,738	152,382
Closing NAV percentage of total fund NAV (%)	4.75	5.44	4.69
Number of shares	41,538,689	52,404,180	60,612,884
Highest share price (UK p)	339.00	326.59	288.65
Lowest share price (UK p)	311.79	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 six months to 31 December	2017		2016	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		163,253		642,958
Revenue	32,537		43,551	
Expenses	(16,842)		(19,237)	
Net revenue / (expense) before taxation	15,695		24,314	
Taxation	(91)		(95)	
Net revenue / (expense) after taxation		15,604		24,219
Total return before distributions		178,857		667,177
Distributions		(20,982)		(14,740)
Change in net assets attributable to shareholders from investment activities		157,875		652,437

Statement of change in net assets attributable to shareholders

for the six months to 31 December	2017		2016	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		3,085,097		3,248,531
Amounts received on issue of shares	77,901		36,688	
Amounts paid on cancellation of shares	(367,140)		(494,265)	
		(289,239)		(457,577)
Dilution adjustments		1,120		2,145
Change in net assets attributable to shareholders from investment activities (see above)		157,875		652,437
Retained distributions on Accumulation shares		10,937		6,311
Unclaimed distributions		29		16
Closing net assets attributable to shareholders		2,965,819		3,451,863

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	31 December 2017	30 June 2017
	£'000	£'000
Assets		
Fixed assets		
Investments	2,972,837	3,111,740
Current assets		
Debtors	5,503	6,203
Cash and bank balances	2,061	2,701
Total assets	2,980,401	3,120,644
Liabilities		
Creditors		
Distribution payable	(8,922)	(11,095)
Other creditors	(5,660)	(24,452)
Total liabilities	(14,582)	(35,547)
Net assets attributable to shareholders	2,965,819	3,085,097

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

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.

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

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 approach

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.

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.

Investment review

As at 2 January 2018, for the six months ended 31 December 2017

Performance against objective

Between 3 July 2017 (the start of the review period) and 2 January 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*. Accordingly, over this time frame, the fund met its investment objective of capital growth. The fund finished the period ahead of a comparative index, the Numis Smaller Companies ex IT Index, which returned 8.9%.

* 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 UK stockmarket experienced a positive second half to 2017, with the broad market FTSE All-Share Index ending the year at an all-time high, as did nearly all the major equity (company share) markets. Shares were lifted by what has been referred to as a 'Goldilocks' scenario of a synchronised and sustainable recovery in the global economy, combined with subdued inflation, low interest rates and continued central bank stimulus. This enabled UK investors to shrug aside the first rise in interest rates in a decade, a lack of clarity over the country's withdrawal from the European Union, a reduction in the levels of economic activity envisaged in the coming years, a weak consumer, increased political uncertainty following June's unexpected election result and terrorism. 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 energy companies and miners, helped by higher prices for oil and metals – the former reacting to supply issues and the latter to increased demand from China.

2017 was a strong year for UK small and medium-sized companies, assisted by a partial recovery in the pound reducing import costs, which resulted in them peaking in December. In particular, medium-sized companies staged a rebound from a lacklustre 2016. Larger companies in the UK were less ebullient, but still ended 2017 at a high.

M&G Smaller Companies Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

In the second half of the year, the blue chip FTSE 100 Index of larger companies and the FTSE 250 Index of medium-sized companies returned 6.9% and 8.5% respectively, while the Numis Smaller Companies ex Investment Companies Index returned 8.9%.

Within the smaller company universe, technology stocks were the standout performers, driven upward by the outperformance of the FAANG stocks (Facebook, Amazon, Apple, Netflix and Google) in the US. Consumer goods stocks were also strong, especially leisure goods and beverages companies, along with housebuilders, which benefited from demand for new homes and the government's 'Help to Buy' scheme. Meanwhile, banks and insurance companies with long-term liabilities were supported by the prospect of rising interest rates. Healthcare stocks were another area of the market that performed well, recovering from a poor 2016. Conversely, oil & gas, aerospace & defence, mining, general retailers, non-life insurers and support services all notably underperformed.

Against this background, the M&G Smaller Companies Fund finished the six-month period ahead of the Numis Smaller Companies ex IT Index, principally due to sector allocation. In particular, value was added through the fund's above-index weighting in technology companies, as well as in healthcare stocks and food & drug retailers. Conversely, further value was added through the fund's below-market positions in general retailers, support services and resources companies. Some performance was surrendered in consumer goods where the fund has an above-index position, and financials where it has a below-index exposure.

At the stock selection level, value was added within medium-sized and AIM-listed companies, along with stocks in the consumer services, financials, basic materials, healthcare, oil & gas, technology hardware, support services and beverages sectors. The main source of lost value at the stock level was within software, industrials (excluding support services) and housebuilders.

The principal individual contributors to the fund's performance over the six-month period included Stocks Spirits, a European drinks manufacturer, Victrex, a hi-tech plastics manufacturer, Restore, a document management and relocation service provider, Softcat, an IT infrastructure provider to the corporate and public sectors, and St Ives, a printing and marketing services firm. Stocks Spirits is a recovery situation which has been showing signs of gaining share in its core Polish market. Victrex appointed a new chief executive in September and produced some solid results, as did Restore. St Ives issued a troubled trading statement with a profit warning earlier in the year; however, the position has improved since and the shares experienced a very strong second half.

The main individual detractors over the period included Luceco, a UK lighting specialist, UP Global Sourcing, which supplies branded housewares to retailers such as B&M and Poundland, global translation services provider SDL, plus defence and aerospace technology group Ultra Electronics. Luceco's results were affected by accounting issues relating to the firm's failure to pass on some inflationary costs to its customers; the subsequent sharp sell-off in the shares was used as an opportunity to add to the fund's holding. UP Global Sourcing, which had performed strongly after being floated on

the market earlier in the year, issued a profit warning that it blamed on the weak consumer environment. SDL suffered from modest slippage in some licencing deals in 2017 and also embarked upon a substantial investment programme to expand the business, which should drive value over the long term. Ultra Electronics' problems have resulted from deferrals to the Ministry of Defence spending programme and again the accompanying sell-off was used to increase the fund's position in the stock. In the new year, Ultra issued a more reassuring trading statement and the shares rebounded.

Investment activities

Amongst the new positions established during the 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.

Two other new positions established during the period were Supergroup, the branded clothing retailer, and Galliford Try, a builder of residential and social housing. After a long period of internal investment, Cheltenham-based Supergroup looks set to deliver strong earnings growth and decent cash generation. The firm is benefiting from a number of e-commerce initiatives and expansion into wholesale. Galliford Try's shares had lagged in a strongly performing sector as the company had to make provision for a construction contract; but as 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.

Notable sales included buy-to-let mortgage lender Paragon Group, the high street video game retailer Game Digital, cloud storage provider and consultancy firm iomart, aerospace, trucks and automobile business Senior, and online payments company Paysafe. Shares in Paragon had performed strongly post Brexit and appeared fair value. On the other hand, confidence was lost in the investment case regarding Game Digital, as the company's performance had been very disappointing and it faced a challenging trading backdrop. 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. Paysafe, which specialises in prepaid cards, was taken over for a premium by a group of funds managed by private equity firms Blackstone and CVC.

In addition, a number of positions were reduced after good performance, including Conviviality, FDM, Clinigen, Dechra Pharmaceuticals, Equiniti, Restore, Victrex, Stock Spirits and Alpha FX, along with software companies Accesso Technology, Sophos, On The Beach and GB Group. Funds raised were used to add to the fund's holdings in St Ives, SDL, international prepared food manufacturer Greencore, property company Helical Bar, gambling group Rank, Ultra Electronics and medical devices manufacturer Consort Medical.

M&G Smaller Companies Fund

Authorised Corporate Director's Report

Investment review

Outlook

Although UK equities seem fairly fully valued, they have continued to break new ground at the start of 2018, supported by a continued general uplift in global share prices and closer to home the effect of rising commodity prices, especially oil, on the resources sectors. In addition, the market has been encouraged by the government finalising the Brexit divorce settlement with the EU and moving on to trade negotiations. Further support has come from the passing of President Trump's much-delayed tax reform package into law, with a number of companies indicating that this will lift their bottom line.

However, the rise in prices has not been universal as the new year has also born witness to an upward shift in bond yields, amidst signs that the era of highly stimulatory monetary policy from the central banks is coming to an end. In the UK, this has weighed on the so-called 'bond proxies', such as utilities, telecoms, pharmaceuticals, real estate investment trusts (REITs) and non-life insurers.

Within the smaller companies segment, whilst conscious of the risks, we remain cautiously optimistic about the prospects for 2018, given the number of quality, niche companies in the UK, the pick-up in mergers and acquisitions, 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.

The one certainty is that there will be continued uncertainty in the months to come. For long-term investors, the current conditions can present selective opportunities for those willing to take advantage of attractive valuations. In the circumstances, the policy is to remain focused on company fundamentals. Given the diverse range of companies and sectors available in the UK market, we believe there will always be scope for stockpickers to identify attractively valued opportunities.

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.

Investments

Portfolio statement

as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %
Oil & gas producers	7,624	1.65	1.40
3,546,091 Cairn Energy	7,624	1.65	
Oil equipment, services & distribution	4,266	0.92	1.04
9,532,496 Gulf Marine Services	4,266	0.92	
Chemicals	20,498	4.44	4.33
2,601,799 Synthomer	12,757	2.77	
292,783 Victrex	7,741	1.67	
Construction & materials	33,971	7.34	8.36
3,220,076 Forterra	9,572	2.07	
644,171 Kier Group	7,008	1.51	
1,928,339 Polypipe	7,557	1.63	
2,709,095 Tyman	9,834	2.13	
Aerospace & defence	8,101	1.75	3.54
599,192 Ultra Electronics Holdings	8,101	1.75	
General industrials	8,935	1.93	1.79
10,000,000 Coats Group	8,935	1.93	
Electronic & electrical equipment	6,774	1.46	2.33
2,950,000 Luceco	3,297	0.71	
948,717 Xaar	3,477	0.75	
Industrial engineering	18,448	3.98	3.95
690,625 Hill & Smith Holdings	9,254	2.00	
810,000 Vitec Group	9,194	1.98	
Industrial transportation	8,093	1.75	1.95
520,753 James Fisher & Sons	8,093	1.75	
Support services	41,713	9.01	7.52 [a]
4,145,556 Alpha Financial Markets [b]	6,757	1.46	
4,014,915 Boku [b]	2,850	0.62	
2,674,493 Equiniti	7,673	1.66	
1,480,401 Restore [b]	8,631	1.86	
1,113,498 Sanne	9,003	1.94	
7,123,304 St. Ives	5,699	1.23	
7,213,658 Thruvision (formerly Digital Barriers) [b]	1,100	0.24	
Beverages	6,820	1.47	1.20
2,571,091 Stock Spirits Group	6,820	1.47	
Food producers	13,639	2.95	3.07
911,876 Dairy Crest Group	5,239	1.13	
3,674,555 Greencore	8,400	1.82	
Household goods & home construction	30,294	6.54	6.06 [a]
3,125,387 Countryside Properties	11,036	2.38	
523,088 Galliford Try	6,732	1.45	
2,227,002 McCarthy & Stone	3,530	0.76	
1,100,000 Redrow	7,211	1.56	
2,252,809 UP Global Sourcing	1,785	0.39	
Personal goods	4,938	1.07	0.00
249,670 SuperGroup	4,938	1.07	
Healthcare equipment & services	7,604	1.64	1.28
660,635 Consort Medical	7,604	1.64	
Pharmaceuticals & biotechnology	14,532	3.15	3.61
682,420 Clinigen Group [b]	7,008	1.51	
362,064 Dechra Pharmaceuticals	7,524	1.64	
Food & drug retailers	7,517	1.62	1.33
1,876,942 Conviviality (formerly Conviviality Retail) [b]	7,517	1.62	

M&G Smaller Companies Fund

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Investments

Portfolio statement (continued)			
as at Holding	31.12.17 £'000	31.12.17 %	30.06.17 %
General retailers	8,514	1.84	1.97
2,829,348 Topps Tiles	2,200	0.48	
12,564,989 Vertu Motors ^[b]	6,314	1.36	
Media	28,089	6.07	5.70
3,140,279 Ascential	12,087	2.61	
2,525,000 Tarsus group	8,004	1.73	
3,399,554 Wilmington	7,998	1.73	
Travel & leisure	16,221	3.50	3.47
2,158,652 On the Beach Group	10,140	2.19	
2,501,527 Rank Group	6,081	1.31	
Non-life insurance	13,638	2.94	1.98
1,225,000 Lancashire Holdings	8,287	1.79	
1,981,926 Sabre Insurance Group	5,351	1.15	
Real estate investment & services	7,382	1.59	1.18 ^[a]
2,208,600 Helical	7,382	1.59	
Real estate investment trusts	25,569	5.52	6.04 ^[a]
2,620,304 Hansteen Holdings REIT	3,765	0.81	
3,781,627 LondonMetric Property REIT	7,030	1.52	
1,415,656 Safestore REIT	7,047	1.52	
775,000 Workspace Group REIT	7,727	1.67	
Financial services	43,456	9.40	8.47 ^[a]
1,042,832 Alpha FX ^[b]	4,953	1.07	
2,233,437 Arrow Global Group	8,911	1.93	
2,040,500 Brewin Dolphin Holdings	7,956	1.72	
3,061,111 Charter Court Financial Services	8,640	1.87	
1,214,237 OneSavings Bank	4,986	1.08	
313,737 Rathbone Brothers	8,010	1.73	
Software & computer services	56,991	12.31	15.17
305,164 acceso Technology Group ^[b]	5,905	1.28	
741,014 EMIS Group ^[b]	7,447	1.61	
860,000 FDM Group	8,063	1.74	
185,250 Fidessa Group	4,687	1.01	
2,182,177 GB Group ^[b]	9,416	2.03	
1,551,161 SDL	6,596	1.43	
1,920,930 Softcat	9,998	2.16	
859,733 Sophos	4,879	1.05	
Portfolio of investments	443,627	95.84	96.74
'AAA' rated money market funds ^[c]	18,130	3.92	4.06
18,130,000 Northern Trust Global Fund - Sterling	18,130	3.92	
Total portfolio	461,757	99.76	100.80
Net other assets / (liabilities)	1,126	0.24	(0.80)
Net assets attributable to shareholders	462,883	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 ten portfolio transactions

for the six months to 31 December 2017

	£'000
Largest purchases	
Charter Court Financial Services	7,101
Alpha Financial Markets	6,717
Galliford Try	6,234
Sabre Insurance Group	4,589
Ultra Electronics Holdings	4,270
SuperGroup	3,964
Redrow	2,454
Proactis	2,437
Boku	2,369
SDL	1,934
Other purchases	14,348
Total purchases	56,417
Largest sales	
iomart	10,064
Senior	9,916
Hansteen Holdings REIT	5,936
Sophos	4,784
Paysafe Group	4,425
Low & Bonar	3,447
Equiniti	2,849
Countryside Properties	2,526
acesso Technology Group	2,466
Dechra Pharmaceuticals	2,398
Other sales	19,876
Total sales	68,687

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.

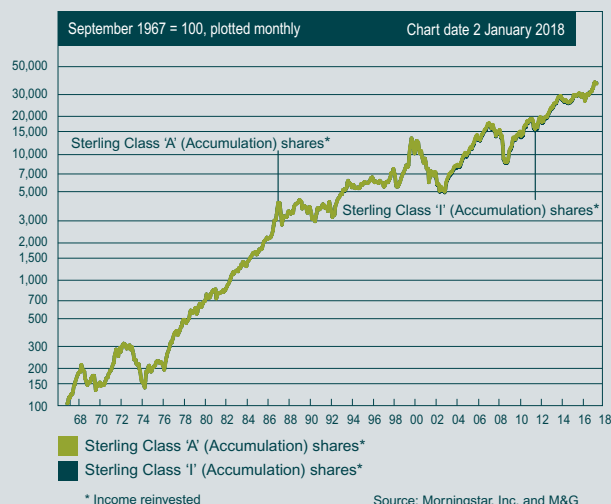
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (3), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer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

Fund level performance

Fund net asset value			
as at	31.12.17 £'000	30.06.17 £'000	30.06.16 £'000
Fund net asset value (NAV)	462,883	432,033	328,412

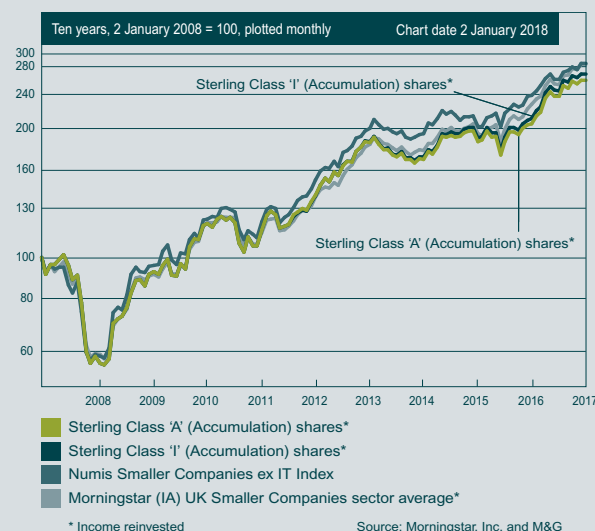
Performance since launch

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.

M&G Smaller Companies 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

	Six months 03.07.17 % ^[a]	Three years 02.01.15 % p.a.	Five years 02.01.13 % p.a.	Since launch % p.a.
Sterling ^[b]				
Class 'A'	+9.1	+15.0	+13.7	+12.7 ^[c]
Class 'C'	+10.0	+16.8	+15.4	+12.0 ^[d]
Class 'I'	+9.5	+15.9	+14.5	+16.2 ^[e]
Class 'R'	+9.4	+15.6	+14.2	+15.9 ^[e]
Class 'X'	+9.1	+15.0	+13.7	+14.4 ^[f]

^[a] Absolute basis.

^[b] Price to price with income reinvested.

^[c] 27 September 1967, the end of the initial offer period of the predecessor unit trust.

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

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

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

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

	Six months to 31.12.17 %	Year to 30.06.17 %	Year to 30.06.16 %	Average ^[a] %
Direct portfolio transaction costs ^[b]				
Broker commission	0.02	0.04	0.07	0.04
Taxes	0.08	0.11	0.09	0.09
Costs before dilution adjustments	0.10	0.15	0.16	0.13
Dilution adjustments ^[c]	0.00	(0.01)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.10	0.14	0.15	0.12
as at	31.12.17	30.06.17	30.06.16	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.62	0.50	0.75	0.62

^[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 period are calculated as at 12 January 2018.

Sterling Class 'A' Income share performance

The share class was launched on 27 September 1967.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	348.07	256.37	288.01
Return before operating charges and after direct portfolio transaction costs	34.38	105.09	(24.29)
Operating charges	(3.04)	(5.14)	(4.81)
Return after operating charges	31.34	99.95	(29.10)
Distributions	(3.54)	(8.25)	(2.54)
Closing NAV	375.87	348.07	256.37
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.18	0.45	0.47
Dilution adjustments ^[a]	(0.01)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.17	0.43	0.44
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.14	0.15
Operating charges	1.66	1.66	1.66
Return after operating charges	+9.00	+38.99	-10.11
Historic yield ^[c]	2.07	2.36	1.00
Effect on yield of charges offset against capital	1.65	1.65	0.00
Other information			
Closing NAV (£'000)	131,897	130,658	102,760
Closing NAV percentage of total fund NAV (%)	28.49	30.24	31.29
Number of shares	35,090,965	37,537,892	40,083,309
Highest share price (UK p)	381.26	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	875.06	628.59	699.65
Return before operating charges and after direct portfolio transaction costs	86.44	259.15	(59.36)
Operating charges	(7.64)	(12.68)	(11.70)
Return after operating charges	78.80	246.47	(71.06)
Distributions	(1.52)	(7.74)	(6.18)
Retained distributions	1.52	7.74	6.18
Closing NAV	953.86	875.06	628.59
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.45	1.11	1.14
Dilution adjustments ^[a]	(0.02)	(0.06)	(0.07)
Total direct portfolio transaction costs	0.43	1.05	1.07
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.14	0.15
Operating charges	1.66	1.66	1.66
Return after operating charges	+9.01	+39.21	-10.16
Historic yield	0.57	0.88	0.99
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	40,814	40,706	31,245
Closing NAV percentage of total fund NAV (%)	8.82	9.42	9.51
Number of shares	4,278,797	4,651,811	4,970,752
Highest share price (UK p)	958.51	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	360.88	261.79	294.30
Return before operating charges and after direct portfolio transaction costs	35.76	108.09	(24.96)
Operating charges	(0.31)	(0.51)	(0.48)
Return after operating charges	35.45	107.58	(25.44)
Distributions	(3.69)	(8.49)	(7.07)
Closing NAV	392.64	360.88	261.79
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.18	0.46	0.48
Dilution adjustments ^[a]	(0.01)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.17	0.44	0.45
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.14	0.15
Operating charges	0.16	0.16	0.16
Return after operating charges	+9.82	+41.09	-8.64
Historic yield ^[c]	2.06	2.34	2.72
Effect on yield of charges offset against capital	0.15	0.15	0.00
Other information			
Closing NAV (£'000)	191,798	178,146	133,037
Closing NAV percentage of total fund NAV (%)	41.43	41.23	40.51
Number of shares	48,848,152	49,364,337	50,817,659
Highest share price (UK p)	397.39	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	1,901.88	1,390.20	1,562.32
Return before operating charges and after direct portfolio transaction costs	188.17	571.97	(132.15)
Operating charges	(9.15)	(15.37)	(14.33)
Return after operating charges	179.02	556.60	(146.48)
Distributions	(19.40)	(44.92)	(25.64)
Closing NAV	2,061.50	1,901.88	1,390.20
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.97	2.45	2.54
Dilution adjustments ^[a]	(0.04)	(0.13)	(0.16)
Total direct portfolio transaction costs	0.93	2.32	2.38
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.14	0.15
Operating charges	0.91	0.91	0.91
Return after operating charges	+9.41	+40.04	-9.38
Historic yield ^[c]	2.06	2.35	1.86
Effect on yield of charges offset against capital	0.90	0.90	0.00
Other information			
Closing NAV (£'000)	57,330	50,774	37,335
Closing NAV percentage of total fund NAV (%)	12.39	11.75	11.37
Number of shares	2,780,986	2,669,660	2,685,583
Highest share price (UK p)	2,088.78	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	2,067.30	1,473.92	1,628.24
Return before operating charges and after direct portfolio transaction costs	204.53	609.77	(139.34)
Operating charges	(9.95)	(16.39)	(14.98)
Return after operating charges	194.58	593.38	(154.32)
Distributions	(11.55)	(31.73)	(26.83)
Retained distributions	11.55	31.73	26.83
Closing NAV	2,261.88	2,067.30	1,473.92
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	1.06	2.61	2.66
Dilution adjustments ^[a]	(0.04)	(0.14)	(0.16)
Total direct portfolio transaction costs	1.02	2.47	2.50
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.14	0.15
Operating charges	0.91	0.91	0.91
Return after operating charges	+9.41	+40.26	-9.48
Historic yield	1.22	1.53	1.84
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	25,328	21,077	15,453
Closing NAV percentage of total fund NAV (%)	5.47	4.88	4.71
Number of shares	1,119,791	1,019,549	1,048,446
Highest share price (UK p)	2,270.45	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	189.69	139.01	156.20
Return before operating charges and after direct portfolio transaction costs	18.77	57.13	(13.20)
Operating charges	(1.18)	(1.96)	(1.82)
Return after operating charges	17.59	55.17	(15.02)
Distributions	(1.93)	(4.49)	(2.17)
Closing NAV	205.35	189.69	139.01
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.10	0.25	0.25
Dilution adjustments ^[a]	0.00	(0.01)	(0.02)
Total direct portfolio transaction costs	0.10	0.24	0.23
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.14	0.15
Operating charges	1.16	1.16	1.16
Return after operating charges	+9.27	+39.69	-9.62
Historic yield ^[c]	2.07	2.35	1.57
Effect on yield of charges offset against capital	1.15	1.15	0.00
Other information			
Closing NAV (£'000)	1,803	538	319
Closing NAV percentage of total fund NAV (%)	0.39	0.13	0.10
Number of shares	877,990	283,787	229,108
Highest share price (UK p)	208.14	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.

	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Change in NAV per share			
Opening NAV	204.13	145.90	161.58
Return before operating charges and after direct portfolio transaction costs	20.22	60.26	(13.79)
Operating charges	(1.29)	(2.03)	(1.89)
Return after operating charges	18.93	58.23	(15.68)
Distributions	(0.88)	(2.69)	(2.25)
Retained distributions	0.88	2.69	2.25
Closing NAV	223.06	204.13	145.90
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.11	0.25	0.26
Dilution adjustments ^[a]	0.00	(0.01)	(0.02)
Total direct portfolio transaction costs	0.11	0.24	0.24
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.14	0.15
Operating charges	1.16	1.16	1.16
Return after operating charges	+9.27	+39.91	-9.70
Historic yield	1.00	1.31	1.56
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	4,810	74	77
Closing NAV percentage of total fund NAV (%)	1.04	0.02	0.02
Number of shares	2,156,573	36,061	53,089
Highest share price (UK p)	223.99	209.97	169.22
Lowest share price (UK p)	203.14	140.87	143.02

M&G Smaller Companies Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

Change in NAV per share	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Opening NAV	347.91	256.25	287.88
Return before operating charges and after direct portfolio transaction costs	34.35	105.04	(24.28)
Operating charges	(3.03)	(5.13)	(4.81)
Return after operating charges	31.32	99.91	(29.09)
Distributions	(3.54)	(8.25)	(2.54)
Closing NAV	375.69	347.91	256.25
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.18	0.45	0.47
Dilution adjustments ^[a]	(0.01)	(0.02)	(0.03)
Total direct portfolio transaction costs	0.17	0.43	0.44
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.14	0.15
Operating charges	1.66	1.66	1.66
Return after operating charges	+9.01	+38.99	-10.11
Historic yield ^[c]	2.07	2.36	1.00
Effect on yield of charges offset against capital	1.65	1.65	0.00
Other information			
Closing NAV (£'000)	5,956	6,711	5,563
Closing NAV percentage of total fund NAV (%)	1.29	1.55	1.69
Number of shares	1,585,331	1,928,862	2,170,910
Highest share price (UK p)	381.09	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.

Change in NAV per share	Six months to 31.12.17 UK p	Year to 30.06.17 UK p	Year to 30.06.16 UK p
Opening NAV	864.71	621.15	691.37
Return before operating charges and after direct portfolio transaction costs	85.42	256.08	(58.66)
Operating charges	(7.55)	(12.52)	(11.56)
Return after operating charges	77.87	243.56	(70.22)
Distributions	(0.50)	(7.65)	(6.11)
Retained distributions	0.50	7.65	6.11
Closing NAV	942.58	864.71	621.15
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.44	1.09	1.12
Dilution adjustments ^[a]	(0.02)	(0.06)	(0.07)
Total direct portfolio transaction costs	0.42	1.03	1.05
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.10	0.14	0.15
Operating charges	1.66	1.66	1.66
Return after operating charges	+9.01	+39.21	-10.16
Historic yield	0.57	0.88	0.99
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	3,147	3,349	2,623
Closing NAV percentage of total fund NAV (%)	0.68	0.78	0.80
Number of shares	333,852	387,234	422,224
Highest share price (UK p)	947.18	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.

M&G Smaller Companies Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 31 December	2017		2016	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		387,912		59,945
Revenue	4,581		5,046	
Expenses	(2,048)		(1,702)	
Net revenue / (expense) before taxation	2,533		3,344	
Taxation	0		0	
Net revenue / (expense) after taxation		2,533		3,344
Total return before distributions		40,445		63,289
Distributions		(3,916)		(4,322)
Change in net assets attributable to shareholders from investment activities		36,529		58,967

Statement of change in net assets attributable to shareholders

for the six months to 31 December	2017		2016	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		432,033		328,412
Amounts received on issue of shares	14,586		5,094	
Amounts paid on cancellation of shares	(20,510)		(12,460)	
		(5,924)		(7,366)
Dilution adjustments		24		43
Change in net assets attributable to shareholders from investment activities (see above)		36,529		58,967
Retained distributions on Accumulation shares		218		326
Unclaimed distributions		3		1
Closing net assets attributable to shareholders		462,883		380,383

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	31 December 2017	30 June 2017
	£'000	£'000
Assets		
Fixed assets		
Investments	461,757	435,510
Current assets		
Debtors	931	1,362
Cash and bank balances	4,542	641
Total assets	467,230	437,513
Liabilities		
Creditors		
Distribution payable	(3,657)	(4,769)
Other creditors	(690)	(711)
Total liabilities	(4,347)	(5,480)
Net assets attributable to shareholders	462,883	432,033

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

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.

M&G Investment Funds (3)

Other regulatory disclosures

Swiss investor information

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

For these funds the TERs are the same as the operating charges disclosed in each fund's financial highlights section under 'Performance and charges'.

Glossary

Accumulation shares: A type of share where distributions are automatically reinvested and reflected in the value of the shares.

Accumulation units: A type of unit where distributions are automatically reinvested and reflected in the value of the units.

Asset: Anything having commercial or exchange value that is owned by a business, institution or individual.

Asset allocation: Apportioning a portfolio's assets according to risk tolerance and investment goals.

Asset class: Category of assets, such as cash, company shares, fixed income securities and their sub-categories, as well as tangible assets such as real estate.

Bond: A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

Bond issue: A set of fixed income securities offered for sale to the public by a company or government. If the bonds are sold for the first time, it is called a 'new issue'.

Bottom-up selection: Selecting stocks based on the attractiveness of a company.

Bunds: Fixed income securities issued by the German government.

Capital: Refers to the financial assets, or resources, that a company has to fund its business operations.

Capital growth: Occurs when the current value of an investment is greater than the initial amount invested.

Capital return: The term for the gain or loss derived from an investment over a particular period. Capital return includes capital gain or loss only and excludes income (in the form of interest or dividend payments).

Cash equivalents: Deposits or investments with similar characteristics to cash.

Comparative sector: A group of funds with similar investment objectives and/or types of investment, as classified by bodies such as the Investment Association (IA) or Morningstar™. Sector definitions are mostly based on the main assets a fund should invest in, and may also have a geographic focus. Sectors can be the basis for comparing the different characteristics of similar funds, such as their performance or charging structure.

Consumer Prices Index (CPI): An index used to measure inflation, which is the rate of change in prices for a basket of goods and services. The contents of the basket are meant to be representative of products and services we typically spend our money on.

Convertible bonds: Fixed income securities that can be exchanged for predetermined amounts of company shares at certain times during their life.

Corporate bonds: Fixed income securities issued by a company. They are also known as bonds and can offer higher interest payments than bonds issued by governments as they are often considered more risky.

Coupon: The interest paid by the government or company that has raised a loan by selling bonds.

Credit: The borrowing capacity of an individual, company or government. More narrowly, the term is often used as a synonym for fixed income securities issued by companies.

Credit default swaps (CDS): Are a type of derivative, namely financial instruments whose value, and price, are dependent on one or more underlying assets. CDS are insurance-like contracts that allow investors to transfer the risk of a fixed income security defaulting to another investor.

Credit rating: An independent assessment of a borrower's ability to repay its debts. A high rating indicates that the credit rating agency considers the issuer to be at low risk of default; likewise, a low rating indicates high risk of default. Standard & Poor's, Fitch and Moody's are the three most prominent credit rating agencies. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

Credit rating agency: A company that analyses the financial strength of issuers of fixed income securities and attaches a rating to their debt. Examples include Standard & Poor's and Moody's.

Credit risk: Risk that a financial obligation will not be paid and a loss will result for the lender.

Credit selection: The process of evaluating a fixed income security, also called a bond, in order to ascertain the ability of the borrower to meet its debt obligations. This research seeks to identify the appropriate level of default risk associated with investing in that particular bond.

Credit spread: The difference between the yield of a corporate bond, a fixed income security issued by a company, and a government bond of the same life span. Yield refers to the income received from an investment and is expressed as a percentage of the investment's current market value.

Default: When a borrower does not maintain interest payments or repay the amount borrowed when due.

Default risk: Risk that a debtholder will not receive interest and full repayment of the loan when due.

Derivatives: Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded over the counter.

Developed economy/market: Well-established economies with a high degree of industrialisation, standard of living and security.

Dilution adjustments: The dilution adjustment is used to protect ongoing investors against the transaction charges incurred in investing or divesting in respect of creations and cancellations. The dilution adjustment is made up of the direct and indirect transaction charges. In the financial statements the direct transaction charges as a percentage of average NAV will be disclosed. This percentage will take account of those direct transaction charges that have been recovered through the dilution adjustment leaving a percentage that just represents the costs incurred in portfolio management.

Distribution: Distributions represent a share in the income of the fund and are paid out to Income shareholders or reinvested for Accumulation shareholders at set times of the year (monthly, quarterly, half-yearly or annually). They may either be in the form of interest distributions or dividend distributions.

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

Glossary

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

Dividend: Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.

Duration: A measure of the sensitivity of a fixed income security, also called a bond, or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

Duration risk: The longer a fixed income security, also called a bond, or bond fund's duration, the more sensitive and therefore at risk it is to changes in interest rates.

Emerging economy or market: Economies in the process of rapid growth and increasing industrialisation. Investments in emerging markets are generally considered to be riskier than those in developed markets.

Equities: Shares of ownership in a company.

Exchange traded: Usually refers to investments traded on an exchange, such as company shares on a stock exchange.

Ex-dividend, ex-distribution or XD date: The date on which declared distributions officially belong to underlying investors.

Exposure: The proportion of a fund invested in a particular share/fixed income security, sector/region, usually expressed as a percentage of the overall portfolio.

Fixed income security: A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid. Also referred to as a bond.

Floating rate notes (FRNs): Securities whose interest (income) payments are periodically adjusted depending on the change in a reference interest rate.

Foreign exchange: The exchange of one currency for another, or the conversion of one currency into another currency. Foreign exchange also refers to the global market where currencies are traded virtually around the clock. The term foreign exchange is usually abbreviated as 'forex' and occasionally as 'FX'.

Foreign exchange (FX) strategy: Currencies can be an asset class in its own right, along with company shares, fixed income securities, property and cash. Foreign exchange strategy can therefore be a source of investment returns.

Forward contract: A contract between two parties to buy or sell a particular commodity or financial instrument at a pre-determined price at a future date. Examples include forward currency contracts.

Fundamentals (company): A basic principle, rule, law, or the like, that serves as the groundwork of a system. A company's fundamentals pertain specifically to that company, and are factors such as its business model, earnings, balance sheet and debt.

Fundamentals (economic): A basic principle, rule, law, or the like, that serves as the groundwork of a system. Economic fundamentals are factors such as inflation, employment, economic growth.

Futures: A futures contract is a contract between two parties to buy or sell a particular commodity or financial instrument at a pre-determined price at a future date. Futures are traded on a regulated exchange.

Gilts: Fixed income securities issued by the UK government.

Government bonds: Fixed income securities issued by governments, that normally pay a fixed rate of interest over a given time period, at the end of which the initial investment is repaid.

Hedging: A method of reducing unnecessary or unintended risk.

High water mark (HWM): The highest level that a fund's NAV (net asset value) has reached at the end of any 12-month accounting period.

High yield bonds: Fixed income securities issued by companies with a low credit rating from a recognised credit rating agency. They are considered to be at higher risk of default than better quality, ie higher-rated fixed income securities but have the potential for higher rewards. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

Historic yield: The historic yield reflects distributions declared over the past 12 months as a percentage of the share price, as at the date shown.

Income yield: Refers to the income received from an investment and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.

Index: An index represents a particular market or a portion of it, serving as a performance indicator for that market.

Income shares: A type of share where distributions are paid out as cash on the payment date.

Income units: A type of unit where distributions are paid out as cash on the payment date.

Index tracking: A fund management strategy that aims to match the returns from a particular index.

Index-linked bonds: Fixed income securities where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. Also referred to as inflation-linked bonds.

Inflation: The rate of increase in the cost of living. Inflation is usually quoted as an annual percentage, comparing the average price this month with the same month a year earlier.

Inflation risk: The risk that inflation will reduce the return of an investment in real terms.

Initial public offering (IPO): The first sale of shares by a private company to the public.

Interest rate risk: The risk that a fixed income investment will lose value if interest rates rise.

Interest rate swap: An agreement between two parties to swap a fixed interest payment with a variable interest payment over a specified period of time.

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

Glossary

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

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

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

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

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

Long position: Refers to ownership of a security held in the expectation that the security will rise in value.

Macroeconomic: Refers to the performance and behaviour of an economy at the regional or national level. Macroeconomic factors such as economic output, unemployment, inflation and investment are key indicators of economic performance. Sometimes abbreviated to 'macro'.

Maturity: The length of time until the initial investment amount of a fixed income security is due to be repaid to the holder of the security.

Modified duration: A measure of the sensitivity of a fixed income security, called a bond, or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

Monetary easing: When central banks lower interest rates or buy securities on the open market to increase the money in circulation.

Monetary policy: A central bank's regulation of money in circulation and interest rates.

Monetary tightening: When central banks raise interest rates or sell securities on the open market to decrease the money in circulation.

Morningstar™: A provider of independent investment research, including performance statistics and independent fund ratings.

Near cash: Deposits or investments with similar characteristics to cash.

Net asset value (NAV): A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.

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.

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

Glossary

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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