

Annual Short Report July 2013 For the year ended 31 May 2013

M&G Index Tracker Fund

a sub-fund of M&G Investment Funds (2)

How to contact us



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* 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.

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

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

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G Index Tracker Fund

The Fund is designed to track the FTSE All-Share Index. The fund manager has full discretionary investment management powers within the confines of this investment objective of the Fund.

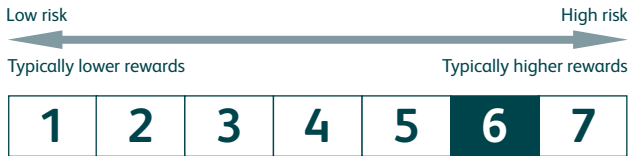
Investment approach

The M&G Index Tracker Fund is a UK fund that replicates the FTSE All-Share Index*. The fund holds nearly all of the companies in the index and closely matches the weight that each represents in the FTSE All-Share Index.

- * The shares in the M&G Index Tracker Fund are not in any way sponsored, endorsed, sold or promoted by FTSE International Limited ('FTSE') or by the London Stock Exchange Limited (the 'Exchange') or by The Financial Times Limited ('FT') and neither FTSE nor Exchange nor FT makes any warranty or representation whatsoever, expressly or impliedly, either as to the results to be obtained from the use of the FTSE All-Share Index ('the Index') and / or the figure at which the said Index stands at any particular time on any particular day or otherwise. The Index is compiled and calculated by FTSE. However, neither FTSE nor Exchange nor FT shall be liable (whether in negligence or otherwise) to any person for any error in the Index and neither FTSE or Exchange or FT shall be under any obligation to advise any person of any error therein.

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Risk and reward profile*



- The above risk number is based on the rate at which the value of the Fund has moved up and down in the past.
- This risk number is based on historical data and may not be a reliable indicator of the future risk profile of the Fund.
- The risk number shown is not guaranteed and may change over time.
- The lowest risk number does not mean risk free.

The Fund has the above risk number because of the effect of the following risks:

- The value of stockmarket 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 value of your investment will depend on the performance of the FTSE All-Share Index and the success of the Fund tracking that index.
 - The Fund invests mainly in one geographic region or country. It is therefore more vulnerable to the market sentiment of that specific geographic region or country. This type of fund can carry a higher risk and can experience larger than average price fluctuations when compared to a fund with a broader investment universe.
- * Please note that this 'Risk and reward profile' section is based on Sterling Class 'A' shares, the nominated share class.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 3 June 2013, for the year ended 31 May 2013

We added to our position in industrial turnaround group Melrose, which became larger following its acquisition of German gas and water meter company Elster. Elsewhere, Aegis Group was bought by Japanese firm Denzu, a fellow advertising services provider, during the period under review. Aegis subsequently left the index and therefore the portfolio.

French electricity company GDF Suez bought the remaining 30% of International Power that it did not already own. This move prompted the exit of International Power from the index and we sold the holding.

In terms of purchases, retail insurer Direct Line Insurance listed on the London Stock Exchange, thus joining the index, and we added the stock to the portfolio.

A number of transactions took place following changes to the FTSE All-Share Index, which meant that adjustments had to be made to holdings in the portfolio in order to keep it in line with the index. Significant purchases involved increasing the positions held in banking group Barclays, engineering company Melrose, insurance firm Direct Line and supermarket operator Tesco.

During the review period, mining and metals firm Glencore International completed its merger with Xstrata to form a major global mining company, which has been renamed Glencore Xstrata.

Our holding in Xstrata was subsequently merged with our stake in Glencore to reflect the size of the combined business in the FTSE All-Share Index.

Richard O'Connor

Fund manager

Richard O'Connor is 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.

FUND SUMMARY

Sterling Class 'C' shares are not generally available to all investors.

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.12.13	31.01.14
Final	02.06.14	31.07.14

	Final distribution		Ongoing Charges Figure ^[b]	
	Inc 31.07.13 ^[a]	Acc 03.06.13 ^[a]	31.05.13	31.05.12
Sterling	p	p	%	%
Class 'A'	1.0258	1.5304	0.46	0.46
Class 'C'	1.1241	n/a	0.16	0.15

^[a] The date on which the final distribution will be paid to Income shareholders and credited to Accumulation shareholders.

^[b] The Ongoing Charges Figure is the ratio of the relevant annualised total disclosable costs of each share class from the most recent reporting period to the average net asset value for that share class over the same period.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 31.05.13		Net asset value per share as at 31.05.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	64.70	98.21	51.68	76.02	+25.19	+29.19
Class 'C'	64.97	n/a	51.88	n/a	+25.23	n/a

The tracking error between the fund's performance and that of the FTSE All-Share Index for the period ending 31 May 2013 was 0.10%.

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008	61.34	35.64	77.66	45.92
	2009	52.11	33.21	70.86	43.82
	2010	57.75	46.98	80.91	64.97
	2011	59.77	48.47	83.78	68.84
	2012 ^[a]	58.30	51.35	86.99	75.22
	2013 ^[b]	67.56	58.86	100.95	87.96
Class 'C'	2012 ^[a] ^[c]	58.67	51.55	n/a	n/a
	2013 ^[b]	67.93	59.12	n/a	n/a

^[a] The Prudential UK Index Tracker Trust merged into the M&G Index Tracker Fund immediately after 17 February 2012.

^[b] To 3 June 2013.

^[c] From 16 February 2012 (the launch date of the share class).

Past performance is no indication of current or future performance and the performance data does not take account of the commissions and costs incurred on the issue and redemption of shares.

The value of stockmarket investments will fluctuate, which will cause fund prices to fall as well as rise and you may not get back the original amount you invested. The level of any income earned by the fund will fluctuate.

INCOME

Dividend income per share

	Calendar year	Interim	Distributed		Reinvested
			Final	Total	
Sterling (net)		p	p	p	p
Class 'A'	2008	0.8230	1.0110	1.8340	2.4744
	2009	0.9270	0.7710	1.6980	1.9955
	2010	0.7280	0.7160	1.4440	1.9441
	2011	0.7000	0.7920	1.4920	2.4569
	2012	0.9470	0.9140	1.8610	2.6390
	2013 ^[a]	0.8960	1.0258	1.9218	1.5304
Class 'C'	2012	n/a	0.7490	0.7490	n/a
	2013 ^[a]	0.9850	1.1241	2.1091	n/a

^[a] Up to final: ex-distribution date 3 June 2013;
payment date 31 July 2013.

MAJOR HOLDINGS

The top ten holdings at the end of this year and the previous year end are shown below.

% of sub-fund as at 31.05.13		% of sub-fund as at 31.05.12	
HSBC Holdings	6.79	HSBC Holdings	5.57
Vodafone Group	4.73	Vodafone Group	5.24
BP	4.54	BP	4.56
GlaxoSmithKline	4.22	Royal Dutch Shell 'A'	4.43
Royal Dutch Shell 'A'	4.16	GlaxoSmithKline	4.38
British American Tobacco	3.57	British American Tobacco	3.62
Royal Dutch Shell 'B'	3.02	Royal Dutch Shell 'B'	3.38
Diageo	2.46	BG Group	2.54
AstraZeneca	2.13	Rio Tinto	2.41
Barclays	2.08	Diageo	2.34

CLASSIFICATION OF INVESTMENTS

The table below shows the percentage holding per sector.

	% of sub-fund as at	
	31.05.13	31.05.12
Oil & gas producers	14.77	16.33
Oil equipment, services & distribution	0.60	0.73
Chemicals	0.65	0.70
Forestry & paper	0.16	0.11
Industrial metals & mining	0.05	0.11
Mining	7.29	9.32
Construction & materials	0.73	0.71
Aerospace & defence	2.37	2.03
General industrials	0.69	0.68
Electronic & electrical equipment	0.46	0.44
Industrial engineering	0.99	0.81
Industrial transportation	0.12	0.10
Support services	4.23	3.87
Automobiles & parts	0.23	0.17
Beverages	4.10	4.13
Food producers	2.34	2.19
Household goods & home construction	2.34	1.98
Leisure goods	0.01	0.01
Personal goods	0.39	0.42
Tobacco	4.76	5.05
Healthcare equipment & services	0.39	0.37
Pharmaceuticals & biotechnology	7.17	7.24
Food & drug retailers	2.23	2.35
General retailers	1.82	1.53
Media	2.81	2.86
Travel & leisure	3.14	2.69
Fixed line telecommunications	1.39	1.18
Mobile telecommunications	4.86	5.35
Electricity	0.88	0.89
Gas, water & multi-utilities	3.06	3.43
Banks	12.06	9.62
Non-life insurance	0.91	0.81
Life insurance	3.84	2.87
Real estate investment & services	0.44	0.34
Real estate investment trusts	1.47	1.41
Financial services	1.98	1.72
Equity investment instruments	3.22	3.12
Non-equity investment instruments	0.01	0.01
Software & computer services	0.73	0.85
Technology hardware & equipment	0.88	0.67
Unquoted / unlisted	0.00	0.00
Futures contracts	0.02	(0.10)
'AAA' rated money market funds ^[a]	0.15	1.16

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

OTHER INFORMATION

The information in this report is designed to enable shareholders to make an informed judgment on the activities of the sub-fund during the period covered by the report and the results of those activities at the end of the period. For more information about the activities and performance of the sub-fund during this and the previous period, please contact the Authorised Corporate Director (ACD).

Short Reports

This Short Report is issued in accordance with the requirements of the Collective Investment Schemes sourcebook as issued (and amended) by the Financial Conduct Authority. This Short Report does not contain the Financial Statements of the M&G Index Tracker Fund, and it is unaudited.

Investment Report and Financial Statements

A copy of the ACD's Annual Investment Report and Financial Statements for M&G Investment Funds (2), which incorporates all the sub-fund's annual investment reports and audited financial statements is available free of charge on request from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations on 0800 390 390.

Regulatory changes affecting sub-funds

UK law has been changed in order to segregate each sub-fund's assets and liabilities. This means that each sub-fund is responsible for meeting its own debts and its assets may not be used to pay the debts of the other sub-funds. As a result of the change in regulation sub-funds are also permitted to invest in other sub-funds in the same umbrella under specific conditions. The prospectus has been updated to reflect these changes.

Authorised Corporate Director

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(Authorised and regulated by the Financial Conduct Authority)

Investment Manager

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(Authorised and regulated by the Financial Conduct Authority)

Fund manager

Richard O'Connor (an employee of M&G Limited which is an
associate of M&G Securities Limited)

Registrar

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(Authorised and regulated by the Financial Conduct Authority)

Depository

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(Authorised and regulated by the Financial Conduct Authority)

Independent Auditors

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M&G is a member of the Investment Management Association and of
the Tax Incentivised Savings Association.

The Instrument of Incorporation can be inspected at our offices or at
the office of the Depositary.

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