

M&G Investment Funds (3)



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^[a] Collectively, these comprise the Authorised Corporate Director's Report.

Introduction

COMPANY INFORMATION

Company

M&G Investment Funds (3)

Registered Office

Laurence Pountney Hill, London EC4R 0HH, UK

Authorised Corporate Director (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)

Directors of the ACD

W J Nott (Chief Executive),
G N Cotton, M Lewis, G W MacDowall, L J Mumford

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)

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

During the review period Alex Odd was the fund manager. Phil Cliff was appointed fund manager in July 2013.

M&G Emerging Markets Bond Fund

Mike Riddell

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 International Sovereign Bond Fund

Mike Riddell

M&G Recovery Fund

Tom Dobell

M&G Smaller Companies Fund

Louise Nash

M&G UK Select Fund

Mike Felton

Registrar

International Financial Data Services (UK) Limited,
IFDS House, St. Nicholas Lane, Basildon, Essex SS15 5FS, UK
(Authorised and regulated by the Financial Conduct Authority)

Depository

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

Independent Auditors

PricewaterhouseCoopers LLP,
7 More London Riverside, London SE1 2RT, UK

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.

Notes to shareholders

The M&G UK Select Fund (a sub-fund of M&G Investment Funds (3)) merged into the M&G UK Growth Fund (a sub-fund of M&G Investment Funds (2)) immediately after 15 March 2013, therefore is no longer part of M&G Investment Funds (3) and is therefore no longer available for investment.

Please note that with effect from 19 March 2013, the ACD's annual remuneration charge for M&G Recovery Fund Sterling Class 'I' shares was reduced from 0.85% to 0.75%.

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.

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 Depository.

Introduction

FOR EUROPEAN INVESTORS

The Prospectus, Instrument of Incorporation, Key Investor Information Documents, and Investment Reports and Financial Statements are available free of charge on request from:

Customer Services and Administration for European Clients

M&G International Investments Limited,
mainBuilding, Taunusanlage 19, 60325 Frankfurt am Main, Germany
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: +49 69 1338 6767

Email: iocs@mandg.co.uk

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.

German Paying and Information Agent:

J.P. Morgan AG,
Junghofstraße 14, 60311 Frankfurt am Main, Germany

Austrian Paying and Information Agent:

Raiffeisen Bank International AG,
Am Stadtpark 9, 1030 Wien, Austria

Luxembourg Paying and Information Agent:

J.P. Morgan Bank Luxembourg S.A., European Bank & Business
Center, 6 c route de Trèves, 2633 Senningerberg, Luxembourg

Italian Correspondent Banks:

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

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

Spanish Representative:

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

Swiss Paying Agent:

JP Morgan Chase Bank,
National Association, Columbus, Zurich Branch,
Dreikönigstrasse 21, 8002 Zürich, Switzerland

Swiss Representative:

Carnegie Fund Services S.A.,
11, rue du Général-Dufour, 1204 Genève, Switzerland

French Centralising Agent:

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

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

Irish Facilities Agent:

BNY Mellon Fund Services (Ireland) Limited,
Guild House, Guild Street, IFSC, Dublin 1, Ireland

Swedish Paying Agent:

Skandinaviska Enskilda Banken AB (publ),
Sergels Torg 2, 106 40 Stockholm, Sweden

Danish Representative Agent:

Nordea Bank Danmark A/S,
Issuer Services, Postboks 850, 0900 Copenhagen C, Denmark

For the Netherlands, Norway and Finland:

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

Introduction

AUTHORISED CORPORATE DIRECTOR'S REPORT

The Authorised Corporate Director (ACD) presents its annual investment report and audited financial statements for the year ended 30 June 2013.

The sub-funds in this report are all part of an umbrella Open-Ended Investment Company (OEIC), M&G Investment Funds (3). 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 Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000. M&G Investment Funds (3), as an umbrella OEIC, contains 9 sub-funds^[a], each of which 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 FCA:

M&G Corporate Bond Fund

M&G Dividend Fund

M&G Emerging Markets Bond Fund

M&G European Corporate Bond Fund

M&G European High Yield Bond Fund

M&G Fund of Investment Trust Shares

M&G International Sovereign Bond Fund

M&G Recovery Fund

M&G Smaller Companies Fund

^[a] The M&G UK Select Fund (a sub-fund of M&G Investment Funds (3)) merged into the M&G UK Growth Fund (a sub-fund of M&G Investment Funds (2)) immediately after 15 March 2013, therefore is no longer part of M&G Investment Funds (3) and is no longer available for investment.

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 sub-funds may be established by the ACD from time to time with the agreement of the Depositary and approval from the FCA. The sub-funds are operated separately and the assets of each sub-fund are managed in accordance with the investment objective and policy applicable to that sub-fund.

The annual investment report and audited financial statements for each sub-fund for the year ended 30 June 2013 are set out in detail in their section of this report (see contents page).

G W MacDowall
Director of M&G Securities Limited

L J Mumford
Director of M&G Securities Limited

14 August 2013

M&G Investment Funds (3)

AUTHORISED CORPORATE DIRECTOR'S RESPONSIBILITIES

Statement of the Authorised Corporate Director's responsibilities in respect of the annual investment report and financial statements of the Company

The Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Conduct Authority (FCA), requires the Authorised Corporate Director (ACD) to prepare the investment report and financial statements for each financial year which give a true and fair view of the financial position of the Company as at the end of the financial year, and the net revenue and the net capital gains for the year. In preparing the financial statements, the ACD is required to:

- comply with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010, the Instrument of Incorporation, generally accepted accounting principles and applicable accounting standards subject to any material departures which are required to be disclosed and explained in the financial statements;
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in operation.

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.

DEPOSITARY'S RESPONSIBILITIES AND REPORT

Statement of the Depositary's responsibilities in respect of the financial statements of the Company

The Depositary is under a duty to take into custody and to hold the property of the Company. Under the Regulations relating to Reports, it is the duty of the Depositary to enquire into the conduct of the Authorised Corporate Director in the management of the Company in each accounting period and report thereon to shareholders in a report which shall contain the matters prescribed by the Regulations. A copy of the Depositary's report is included in this report.

Report of the Depositary to the shareholders of M&G Investment Funds (3) for the year ended 30 June 2013

The Depositary is responsible for the safekeeping of all of the property of the Company (other than tangible moveable property) which is entrusted to it and for the collection of income that arises from that property.

It is the duty of the Depositary to take reasonable care to ensure that the Company is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes sourcebook (COLL), as amended, the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228), as amended ('the OEIC Regulations'), the Company's Instrument of Incorporation and Prospectus, in relation to the pricing of, and dealings in, shares in the Company; the application of income of the Company; and the investment and borrowing powers applicable to the Company.

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

- has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with COLL and, where applicable, the OEIC Regulations, the Instrument of Incorporation and Prospectus of the Company, and
- has observed the investment and borrowing powers and restrictions applicable to the Company.

Edinburgh
14 August 2013

National Westminster Bank Plc
Trustee and Depositary Services

M&G Investment Funds (3)

INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the shareholders of M&G Investment Funds (3) ICVC

We have audited the financial statements of M&G Investment Funds (3) ICVC ('the Company') for the year ended 30 June 2013 which comprise the aggregated statement of total return, the aggregated statement of change in net assets attributable to shareholders, the aggregated balance sheet and related notes and for each of the Company's sub-funds, the statement of total return, the statement of change in net assets attributable to shareholders, the balance sheet, the related notes and the distribution tables. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice 'Financial Statements of Authorised Funds' issued by the Investment Management Association (the 'Statement of Recommended Practice for Authorised Funds').

Respective responsibilities of the Authorised Corporate Director and auditors

As explained more fully in the Authorised Corporate Director's Responsibilities Statement the Authorised Corporate Director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook as required by paragraph 67(2) of the Open-Ended Investment Companies Regulations 2001 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authorised Corporate Director; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the M&G Investment Funds (3) annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Company and each of the sub-funds at 30 June 2013 and of the net revenue and the net capital gains / (losses) of the scheme property of the Company and each of the sub-funds for the year then ended; and
- have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds, the Collective Investment Schemes sourcebook and the Instrument of Incorporation.

Opinion on other matters prescribed by the Collective Investment Schemes sourcebook

In our opinion:

- We have obtained all the information and explanations we consider necessary for the purposes of the audit; and
- the information given in the Authorised Corporate Director's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Collective Investment Schemes sourcebook requires us to report to you if, in our opinion:

- proper accounting records for the Company have not been kept; or
- the financial statements are not in agreement with the accounting records and returns.

London
14 August 2013

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors

The financial statements are published at www.mandg.co.uk/reports, which is a website maintained by M&G Securities Limited and M&G Financial Services Limited (M&G). The maintenance and integrity of the M&G website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

M&G Investment Funds (3)

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Aggregated Financial Statements (audited)

For the year ended 30 June 2013.

STATEMENT OF TOTAL RETURN					
	Note	2013		2012 ^[a]	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		1,446,305		(163,929)
Revenue	4	615,798		597,534	
Expenses	5	(194,295)		(177,950)	
Finance costs: Interest	12	(22)		(20)	
Net revenue before taxation		421,481		419,564	
Taxation	6	(923)		(577)	
Net revenue after taxation			420,558		418,987
Total return before distributions			1,866,863		255,058
Finance costs: Distributions	12		(423,590)		(424,309)
Change in net assets attributable to shareholders from investment activities			1,443,273		(169,251)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS					
		2013		2012 ^[a]	
		£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			16,658,651		13,615,816
Amounts received on issue of shares	2,244,089			2,988,252	
Transfer of assets from merged funds	0			1,004,181	
Value of in-specie investment from the M&G Specialist Equity Fund	0			735,001	
Amounts paid on cancellation of shares	(3,935,417)			(1,602,892)	
			(1,691,328)		3,124,542
Stamp Duty Reserve Tax (SDRT)			(3,635)		(5,099)
Change in net assets attributable to shareholders from investment activities (see above)			1,443,273		(169,251)
Retained distributions on Accumulation shares			170,634		173,295
Unclaimed distributions			193		153
Closing net assets attributable to shareholders			16,577,788		16,739,456

^[a] The comparative figures for 2012 include the M&G UK Select Fund, which terminated during the financial year, therefore the opening net assets attributable to shareholders for 2013 differs to the closing position in 2012.

BALANCE SHEET

	as at 30 June 2013		as at 30 June 2012 ^[a]	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		16,555,902		16,626,744
Debtors				
Amounts due from merged funds		9		113
Amounts receivable on issues		13,333		31,699
Currency deals outstanding		4,501		7,826
Debt security interest receivable		152,054		143,010
Derivative revenue receivable		3		0
Distributions receivable		18		77
Dividends receivable		26,552		44,667
Overseas tax recoverable		358		96
Premium from credit default swaps receivable		108		218
Prepaid expenses		2		3
Sales awaiting settlement		53,319		12,867
Tax recoverable		142		153
		250,399		240,729
Cash and bank balances				
Amounts held at futures clearing houses and brokers		3,697		15,445
Cash held as bank balances		2,131		61,511
Cash held on deposit		0		9,488
		5,828		86,444
Total other assets		256,227		327,173
Total assets		16,812,129		16,953,917
Liabilities				
Investment liabilities		(9,428)		(13,784)
Creditors				
Amounts payable on cancellations		(72,195)		(22,500)
Currency deals outstanding		(4,514)		(7,795)
Derivative expense payable		(2,390)		(185)
Expenses payable		(10,474)		(10,187)
Income tax payable		(19,561)		(23,429)
Net distributions payable on Income shares		(77,933)		(94,327)
Purchases awaiting settlement		(21,799)		(41,909)
SDRT payable		(310)		(345)
		(209,176)		(200,677)
Bank overdraft		(15,737)		0
		(15,737)		0
Total other liabilities		(224,913)		(200,677)
Total liabilities		(234,341)		(214,461)
Net assets attributable to shareholders		16,577,788		16,739,456

^[a] The comparative figures for 2012 include the M&G UK Select Fund, which terminated during the financial year.

Aggregated Financial Statements (audited)

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

The accounting policies applied are set out in the notes to the financial statements of each of the sub-funds.

The aggregated financial statements represent the summation of the financial statements for each of the sub-funds.

2 Risk management policies

The risk management policies are set out in the notes to the financial statements of each of the sub-funds.

3 Net capital gains / (losses)

	2013 £'000	2012 ^[a] £'000
Non-derivative securities	1,349,265	(145,902)
Derivative contracts	63,433	(43,922)
Forward currency contracts	(64)	3,691
Currency (losses) / gains	(1,921)	6,604
Special dividends taken to capital	35,671	15,831
Transaction charges	(79)	(231)
Net capital gains / (losses)	1,446,305	(163,929)

^[a] The comparative figures for 2012 include the M&G UK Select Fund, which terminated during the financial year.

4 Revenue

	2013 £'000	2012 ^[a] £'000
Bank interest	45	110
Deposit interest	0	249
Derivative revenue	(19,814)	(6,615)
Interest distributions	508	988
Interest on debt securities	364,668	327,307
Overseas dividends	21,704	14,257
Premium from credit default swaps	3,001	7,415
Property income dividends	4,199	1,606
Stock dividends	9,772	6,241
UK dividends	231,498	245,853
Underwriting commission	217	123
Total revenue	615,798	597,534

^[a] The comparative figures for 2012 include the M&G UK Select Fund, which terminated during the financial year.

5 Expenses

	2013 £'000	2012 ^[a] £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	166,704	153,717
Administration fee	26,264	23,026
Share class hedging fees	21	0
	192,989	176,743
Payable to the Depository or associate		
Depository's fee (including VAT)	651	584
Distribution fees	3	2
	654	586
Other expenses		
Audit fee (including VAT)	91	99
Regulatory fees	47	51
Safe custody charge	470	445
Tax consultancy fees (including VAT) ^[b]	44	26
	652	621
Total expenses	194,295	177,950

^[a] The comparative figures for 2012 include the M&G UK Select Fund, which terminated during the financial year.

^[b] Fees paid to overseas firms affiliated with PricewaterhouseCoopers LLP.

6 Taxation

	2013 £'000	2012 ^[a] £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Overseas tax	1,014	593
Overseas tax recoverable: exchange rate movements	0	(16)
Prior year adjustment	(91)	0
Current tax charge (note 6b)	923	577
Deferred tax (note 6c)	0	0
Total taxation	923	577
b) Factors affecting taxation charge for the year		
Net revenue before taxation	421,481	419,564
Corporation tax at 20%	84,296	83,913
Effects of:		
UK dividends not taxable	(46,299)	(49,171)
Stock dividends not taxable	(1,955)	(1,248)
Overseas dividends not taxable	(4,336)	(2,824)
Prior year expenses utilised	(267)	0
Interest distributions	(53,244)	(52,436)
Current year expenses not utilised	21,805	21,792
Overseas tax	1,014	593
Overseas tax recoverable: exchange rate movements	0	(16)
Overseas tax expensed	0	(26)
Prior year adjustment	(91)	0
Current tax charge (note 6a)	923	577
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

^[a] The comparative figures for 2012 include the M&G UK Select Fund, which terminated during the financial year.

Aggregated Financial Statements (audited)

NOTES TO THE FINANCIAL STATEMENTS

7 Contingent assets, liabilities and outstanding commitments

The Company has not recognised a contingent asset of £62,837. In May 2012 there was a European Court of Justice (ECJ) ruling confirming the ability to recover excess withholding tax applied by French tax authorities suffered on dividends in prior accounting periods. Full recovery of this asset is not certain, however, an estimated accrual is included within the daily price of the sub-fund's shares. The contingent asset will be reflected in the financial statements when receipt of the reclaims becomes virtually certain.

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.12: same).

Warrants

There were no outstanding commitments at the balance sheet date (30.06.12: £263,000).

8 Related parties

The required disclosures are set out in the notes to the financial statements of each of the sub-funds.

9 Financial instruments

The required disclosures are set out in the notes to the financial statements of each of the sub-funds.

10 Portfolio transaction costs

	2013 £'000	2012 ^[a] £'000
a) Purchases		
Purchases excluding transaction costs	11,888,285	14,602,172
Commissions	1,161	1,034
Taxes	2,654	3,871
Total transaction costs	3,815	4,905
Total purchases including transaction costs ^[b]	11,892,100	14,607,077
b) Sales		
Sales excluding transaction costs	13,714,609	116,222,159
Commissions	(2,452)	(969)
Taxes	(2)	0
Total transaction costs	(2,454)	(969)
Total sales net of transaction costs	13,712,155	116,221,190

^[a] The comparative figures for 2012 include the M&G UK Select Fund, which terminated during the financial year.

^[b] The comparative figures for 2012 include investment costs from merged funds totalling £936,326,000.

11 Shareholder funds

The required disclosures are set out in the notes to the financial statements of each of the sub-funds.

12 Finance costs

	2013 £'000	2012 ^[a] £'000
Income shares (Sterling)		
Class 'A' - Dividend distributions	32,472	39,903
Interest distributions	34,256	42,891
Class 'C' - Dividend distributions	34,524	35,361
Class 'I' - Dividend distributions	6,120	5,305
Interest distributions	74,714	76,130
Class 'R' - Dividend distributions	34	n/a
Interest distributions	26	n/a
Class 'X' - Dividend distributions	2,616	2,987
Interest distributions	16,545	19,345
Accumulation shares (Sterling)		
Class 'A' - Dividend distributions	32,947	42,146
Interest distributions	40,769	45,496
Class 'C' - Dividend distributions	28,240	31,256
Class 'I' - Dividend distributions	2,862	1,303
Interest distributions	3,830	3,196
Class 'R' - Dividend distributions	20	n/a
Interest distributions	5	n/a
Class 'X' - Dividend distributions	4,685	6,181
Interest distributions	2,286	2,766
Accumulation shares (Euro)		
Class 'A' - Dividend distributions	679	1,667
Interest distributions	21,965	12,683
Class 'C' - Dividend distributions	3,900	6,942
Interest distributions	27,142	19,659
Accumulation shares (Swiss franc)		
Class 'A-H' - Dividend distributions	0	n/a
Interest distributions	1,304	n/a
Class 'C-H' - Dividend distributions	0	n/a
Interest distributions	0	n/a
Accumulation shares (US dollar)		
Class 'A' - Dividend distributions	0	n/a
Interest distributions	0	n/a
Class 'C' - Dividend distributions	0	n/a
Interest distributions	0	n/a
	371,941	395,217
Income tax deducted at source	43,824	46,369
	415,765	441,586
Income deducted on cancellation of shares	15,313	6,121
Income received on issue of shares	(7,488)	(23,398)
Finance costs: Distributions	423,590	424,309
Finance costs: Interest	22	20
Total finance costs	423,612	424,329
Net revenue per statement of total return	420,558	418,987
Expenses offset against capital	11,878	10,565
Relief on expenses offset against capital	(41)	(30)
Stock dividends not distributed	(9,260)	(5,138)
Undistributed income brought forward	487	415
Undistributed income carried forward	(32)	(490)
Finance costs: Distributions	423,590	424,309

^[a] The comparative figures for 2012 include the M&G UK Select Fund, which terminated during the financial year.

Aggregated Financial Statements (audited)

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

14 August 2013

M&G Corporate Bond Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective of the M&G Corporate Bond Fund

The Fund aims to achieve a higher total return (the combination of income and growth of capital) from investment than would be obtainable in UK government fixed interest securities (ie gilts) of similar maturities.

Investment policy of the M&G Corporate Bond Fund

The Fund invests mainly in sterling denominated corporate debt instruments. The Fund's exposure to corporate debt may be gained through the use of derivatives. Any currency exposures within the Fund may be managed by currency hedges into sterling. The Fund may also invest in other assets including collective investment schemes, other transferable securities and other debt instruments (including corporate debt and government and public securities denominated in any currency), cash and near cash, deposits, warrants, money market instruments and other derivative instruments.

Investment approach

The M&G Corporate Bond Fund is invested primarily in sterling-denominated investment grade debt. However, up to 20% of the portfolio may be invested in higher yielding corporate bonds, government debt, convertibles and preference stocks, as well as money market instruments. The fund's exposure to corporate debt may be gained through the use of derivatives.

The investment approach is very much 'top-down', therefore, the fund manager's economic outlook will determine the portfolio's duration, and in which asset classes and sectors it is concentrated.

The fund manager uses proprietary research, rather than external research. M&G's in-house team of credit analysts provides bottom-up analysis of the corporate bond markets, which complements the fund manager's top-down views.

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.

* 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 1 July 2013, for the year ended 30 June 2013

We made a number of changes to fund positioning to reflect shifting market conditions over the course of the year under review.

We began the period with a broadly cautious positioning from a credit risk^[a] perspective, due to our concern that the eurozone crisis had begun to worsen. We reduced investments in economically-sensitive areas, such as banks, and increased our allocation to government bonds^[b]. However, as near-term threats to global financial stability seemed to ease, we started to reverse this, reducing our government bond weighting and increasing our financial bond holdings. However, we remain underweight in banks relative to our peer group and continue to be highly selective when lending to firms within the sector. During the review period, we bought bonds from banks including JPMorgan Chase, Royal Bank of Scotland and HSBC, as well as Italy's Intesa Sanpaolo and Spain's BBVA.

Our more positive view on the global outlook can also be seen in the changes we have made to our interest rate risk positioning over the past year. This can be measured by the fund's duration positioning – duration measures a portfolio's price sensitivity to fluctuations in market interest rates, with a higher duration portfolio benefiting more from a fall in rates, but suffering greater price declines when rates rise. The fund's duration remained short relative to a comparable index during the entire period under review. However, we reduced it from 7.0 years at the beginning of July 2012, to 6.4 years at the end of December 2012, and held it around this level until the market sell-off in late May and June 2013. Following the large moves in government bond yields^[c] caused by remarks from Federal Reserve Chairman Ben Bernanke in May, we slightly increased the fund's duration, to around 6.7 years.

Richard Woolnough Fund manager

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

^[a] Risk that a financial obligation will not be paid and a loss will result for the lender.

^[b] Bonds are loans that are extended by investors to governments (government bonds) and companies (corporate bonds) for a specified amount of time. Bond investors pay the issuer – the government or company – an initial lump sum and receive regular interest payments in exchange. At the end of the bond's life the issuer pays back the investors' initial investment.

^[c] A bond's prospective rate of return.

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

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
First interim	01.10.13	30.11.13
Second interim	02.01.14	28.02.14
Third interim	01.04.14	31.05.14
Final	01.07.14	31.08.14

	Final distribution		Ongoing Charges Figure ^[b]	
	Inc 31.08.13 ^[a]	Acc 01.07.13 ^[a]	30.06.13	30.06.12
Sterling	p	p	%	%
Class 'A'	0.2412	0.3588	1.16	1.16
Class 'I'	0.2816	0.4272	0.66	0.66
Class 'R'	0.6868	0.7012	0.91 ^[c]	n/a
Class 'X'	0.2216	0.3224	1.41	1.41
Euro	€	€	%	%
Class 'A'	n/a	11.3712	1.41	1.40
Class 'C'	n/a	15.5068	0.66	0.66

^[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.

^[c] The Ongoing Charges Figure shown here is an estimate of the charges, as the share class has not been in existence for a full financial year.

Income accrued from interest-bearing securities is distributed on an effective yield basis.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.13		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	37.19	55.82	36.00	52.65	+3.31	+6.02
Class 'I'	37.20	57.18	36.01	53.72	+3.30	+6.44
Class 'R'	99.41	102.00	n/a	n/a	n/a	n/a
Class 'X'	37.20	54.56	36.00	51.56	+3.33	+5.82
Euro	€	€	€	€	%	%
Class 'A'	n/a	15.2626	n/a	15.2546	n/a	+0.05
Class 'C'	n/a	15.7305	n/a	15.6031	n/a	+0.82

PERFORMANCE SINCE LAUNCH

	six months 02.01.13 %	one year 02.07.12 %	five years 01.07.08 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	-0.6	+4.4	+9.0	+6.6 ^[c]
Class 'I'	-0.4	+4.9	+9.5	+8.1 ^[d]
Class 'R'	-0.4	n/a	n/a	+1.7 ^[e]
Class 'X'	-0.7	+4.2	+8.8	+6.4 ^[f]
Euro ^[g]				
Class 'A'	-5.5	-1.4	+7.9	+4.0 ^[h]
Class 'C'	-5.1	-0.6	+8.8	+4.3 ^[h]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid with net income reinvested.

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

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

^[e] 3 August 2012, the launch date of the share class. Not annualised.

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

^[g] Bid to bid with gross income reinvested.

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

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From	29.06.12	30.06.11	30.06.10	30.06.09	30.06.08
To	28.06.13	29.06.12	30.06.11	30.06.10	30.06.09
	%	%	%	%	%
Sterling					
Class 'A'	+5.0	+9.8	+5.0	+15.3	+10.9

Source: Morningstar, Inc., bid to bid with net income reinvested.

M&G Corporate Bond Fund

FUND STATISTICS

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008 ^[a]	30.15	27.22	37.57	34.91
	2009	33.09	27.84	44.12	36.05
	2010	35.37	32.35	48.76	43.55
	2011 ^[b]	35.68	33.22	51.02	46.32
	2012	38.62	35.32	56.87	50.89
	2013 ^[c]	39.35	37.03	58.69	55.37
Class 'I'	2008 ^[a]	30.14	27.24	37.63	35.11
	2009	33.12	27.85	44.55	36.28
	2010	35.42	32.36	49.41	43.99
	2011 ^[b]	35.72	33.24	51.96	47.00
	2012	38.68	35.33	58.14	51.83
	2013 ^[c]	39.38	37.05	60.08	56.72
Class 'R'	2012 ^[d]	103.34	99.29	103.80	99.29
	2013 ^[c]	105.23	98.99	107.20	101.18
Class 'X'	2008 ^[a]	30.14	27.21	37.12	34.44
	2009	33.09	27.83	43.43	35.54
	2010	35.36	32.36	47.92	42.86
	2011 ^[b]	35.67	33.22	50.02	45.49
	2012	38.61	35.33	55.64	49.89
	2013 ^[c]	39.35	37.04	57.38	54.12
Euro (gross)		€	€	€	€
Class 'A'	2008 ^[a]	n/a	n/a	11.5180	8.6047
	2009	n/a	n/a	11.4460	8.7929
	2010	n/a	n/a	13.6873	11.1372
	2011 ^[b]	n/a	n/a	14.2073	12.3152
	2012	n/a	n/a	16.5404	14.1904
	2013 ^[c]	n/a	n/a	16.3087	14.9194
Class 'C'	2008 ^[a]	n/a	n/a	11.3572	8.5742
	2009	n/a	n/a	11.4886	8.7669
	2010	n/a	n/a	13.8092	11.1827
	2011 ^[b]	n/a	n/a	14.4782	12.4837
	2012	n/a	n/a	16.9264	14.4621
	2013 ^[c]	n/a	n/a	16.7857	15.3344

[a] On 1 September 2008 the fund's objective was changed.

[b] The Prudential Corporate Bond Trust merged into the M&G Corporate Bond Fund immediately after 17 June 2011.

[c] To 1 July 2013.

[d] From 3 August 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 price of shares and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

Interest income per share	Calendar year	Distributed			Reinvested	
		Interims	Final	Interim	Total	
Sterling (net)		p	p	p	p	p
Class 'A'	2008	0.5352	0.2788	0.2860	1.1000	1.3777
	2009	0.5521	0.2860	0.3100	1.1481	1.4987
	2010	0.6160	0.3000	0.3020	1.2180	1.6424
	2011	0.5900	0.2900	0.2840	1.1640	1.6316
	2012	0.5392	0.2620	0.2520	1.0532	1.5236
	2013 ^[a]	0.4924	0.2412	-	0.7336	1.0848
Class 'I'	2008	0.5896	0.3052	0.3144	1.2092	1.5184
	2009	0.6089	0.3160	0.3420	1.2669	1.6628
	2010	0.6820	0.3320	0.3360	1.3500	1.8448
	2011	0.6600	0.3240	0.3200	1.3040	1.8488
	2012	0.6112	0.2980	0.2900	1.1992	1.7656
	2013 ^[a]	0.5665	0.2816	-	0.8481	1.2827
Class 'R'	2012	n/a	n/a	0.4416	0.4416	0.4412
	2013 ^[a]	1.4076	0.6868	-	2.0944	2.1328
Class 'X'	2008	0.5052	0.2636	0.2712	1.0400	1.2869
	2009	0.5246	0.2720	0.2940	1.0906	1.4022
	2010	0.5840	0.2820	0.2840	1.1500	1.5268
	2011	0.5560	0.2740	0.2660	1.0960	1.5072
	2012	0.5040	0.2460	0.2320	0.9820	1.3904
	2013 ^[a]	0.4532	0.2216	-	0.6748	0.9784
Euro (gross)		€	€	€	€	€
Class 'A'	2008	n/a	n/a	n/a	n/a	43.6640
	2009	n/a	n/a	n/a	n/a	44.4032
	2010	n/a	n/a	n/a	n/a	52.8624
	2011	n/a	n/a	n/a	n/a	50.6087
	2012	n/a	n/a	n/a	n/a	50.4388
	2013 ^[a]	n/a	n/a	n/a	n/a	34.9864
Class 'C'	2008	n/a	n/a	n/a	n/a	54.2380
	2009	n/a	n/a	n/a	n/a	51.5891
	2010	n/a	n/a	n/a	n/a	61.3939
	2011	n/a	n/a	n/a	n/a	60.5233
	2012	n/a	n/a	n/a	n/a	62.8895
	2013 ^[a]	n/a	n/a	n/a	n/a	45.6414

[a] Up to final: ex-distribution date 1 July 2013; payment date 31 August 2013.

M&G Corporate Bond Fund

FUND STATISTICS

NET ASSETS

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling					
Class 'A'	Jun 2011	33.91	48.11	3,369,352,994	2,283,562,546
	Jun 2012	36.00	52.65	4,078,914,994	2,718,625,546
	Jun 2013	37.19	55.82	2,871,182,994	2,465,058,546
Class 'I'	Jun 2011	33.93	48.89	5,333,008,275	106,645,000
	Jun 2012	36.01	53.72	6,819,224,275	198,509,000
	Jun 2013	37.20	57.18	6,266,716,275	225,344,000
Class 'R'	Jun 2013	99.41	102.00	1,887,000	490,500
Class 'X'	Jun 2011	33.92	47.21	1,862,277,907	112,680,357
	Jun 2012	36.00	51.56	1,793,124,907	112,936,357
	Jun 2013	37.20	54.56	1,675,035,907	94,330,357
Euro					
		€	€		
Class 'A'	Jun 2011	n/a	12.3630	n/a	561,647
	Jun 2012	n/a	15.2546	n/a	3,542,947
	Jun 2013	n/a	15.2626	n/a	1,892,147
Class 'C'	Jun 2011	n/a	12.5521	n/a	38,500
	Jun 2012	n/a	15.6031	n/a	873,100
	Jun 2013	n/a	15.7305	n/a	142,500
Total net asset value of sub-fund					
	Year ended	£		€ [a]	
	Jun 2011	4,794,224,000		5,301,284,000	
	Jun 2012	6,220,370,000		7,715,147,000	
	Jun 2013	5,607,891,000		6,536,775,000	

[a] Based on the midday exchange rate on the last business day of each financial year.

PORTFOLIO

PORTFOLIO STATEMENT

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'AAA' credit rated bonds			
		12.45	15.68
£2,500,000 Abbey National Treasury Services 5.125% 2022	2,842	0.05	
£5,860,000 Abbey National Treasury Services FRN 2017	6,061	0.11	
£8,485,914 Alba FRN 2042	8,519	0.15	
£3,561,000 Alba FRN 2049	3,513	0.06	
£7,213,896 Alba FRN 2051	7,228	0.13	
\$10,000,000 American Tower 3.07% 2048	6,273	0.11	
£16,414,000 Arkle Master Issuer 3.986% 2060	17,608	0.31	
£5,700,000 Arkle Master Issuer 4.681% 2060	6,252	0.11	
£14,085,000 Arran Residential Mtg Fund 1 FRN 2047	14,367	0.26	
£400,000 BL Superstores Finance 4.482% 2030	434	0.01	
£5,059,455 Brass No.1 FRN 2048	5,148	0.09	
£5,000,000 Broadgate Financing 4.821% 2036	5,398	0.10	
£700,000 Broadgate Financing 4.851% 2033	754	0.01	
£2,006,485 Broadgate Financing 4.949% 2031	2,262	0.04	
£10,700,000 Broadgate Financing FRN 2030	9,898	0.18	
£3,250,000 Channel Tunnel Rail Link 5.234% 2035	3,825	0.07	
£18,340,000 Cie de Financement Foncier 5.5% 2027	20,785	0.37	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'AAA' credit rated bonds (continued)			
£640,000 European Coal & Steel Community 6.875% 2019	793	0.01	
£5,000,000 European Investment Bank 4.25% 2021	5,583	0.10	
£10,000,000 European Investment Bank 4.5% 2029	10,996	0.20	
£2,500,000 European Investment Bank 4.75% 2018	2,879	0.05	
£18,000,000 European Investment Bank 5.5% 2025	21,998	0.39	
£442,360 First Flexible FRN 2034	407	0.01	
£11,000,000 Fosse Master Issuer Var. Rate 2054	12,027	0.22	
£4,873,219 Gosforth Funding FRN 2049	4,875	0.09	
£10,000,000 Holmes Master Issuer FRN 2054	10,177	0.18	
£4,100,879 Isobel Finance No.1 FRN 2038	4,111	0.07	
£10,547,000 Lanark Master Issuer FRN 2054	10,934	0.19	
£37,500,000 Lloyds TSB Bank 5.125% 2025	42,398	0.76	
\$25,000,000 Microsoft 2.375% 2023	15,297	0.27	
\$8,750,000 Microsoft 3.5% 2042	4,962	0.09	
\$25,000,000 Microsoft 3.75% 2043	14,634	0.26	
\$3,000,000 Microsoft 5.2% 2039	2,186	0.04	
\$1,500,000 Microsoft 5.3% 2041	1,103	0.02	
£22,000,000 Permanent Master Issuer 4.805% 2042	24,266	0.43	
£5,000,000 Permanent Master Issuer FRN 2042	5,172	0.09	
£5,000,000 Sandown Gold FRN 2039	5,076	0.09	
£5,450,000 Silverstone Master Issuer 5.063% 2055	6,039	0.11	
£5,000,000 Silverstone Master Issuer FRN 2055	5,191	0.09	
£6,088,667 Tenterden Funding FRN 2044	6,163	0.11	
£51,400,000 Treasury 3.25% 2044	48,473	0.87	
£150,000,000 Treasury 3.75% 2052	155,969	2.78	
£2,000,000 Treasury 4% Perp.	1,880	0.03	
£75,000,000 Treasury 4.25% 2027	86,711	1.55	
£10,000,000 Treasury 4.25% 2049	11,453	0.21	
£44,500,000 Treasury 5% 2025	55,097	0.98	
'AA' credit rated bonds			
		10.52	9.15
\$10,396,381 Aire Valley Mortgages 06-1A FRN 2066	6,334	0.11	
£2,500,000 Aire Valley Mortgages 06-1X 1B3 FRN 2066	2,073	0.04	
£710,188 Aire Valley Mortgages 06-1X 2A1 FRN 2066	666	0.01	
£5,762,273 Aire Valley Mortgages 06-1X 2A2 FRN 2066	5,397	0.10	
£8,700,000 Allianz Finance 4.5% 2043	8,407	0.15	
\$35,000,000 Apple 2.4% 2023	21,319	0.38	
\$50,000,000 Apple 3.85% 2043	29,205	0.52	
£1,767,840 Autolink Concessionaires 8.39% 2022	2,127	0.04	
£815,000 Broadgate Financing 4.999% 2033	901	0.02	
\$9,950,000 CNOOC Finance 3% 2023	5,854	0.10	
£8,333,000 Deutsche Bahn Finance 2.75% 2022	8,252	0.15	
£2,400,000 Federal National Mortgage Association 5.375% 2021	2,823	0.05	
£5,601,000 Federal National Mortgage Association 5.375% 2028	6,680	0.12	
£7,000,000 GE Capital UK Funding 4.375% 2019	7,481	0.13	
£1,000,000 GE Capital UK Funding 5.125% 2023	1,089	0.02	
£9,000,000 GE Capital UK Funding 5.875% 2020	10,384	0.19	
£3,000,000 GE Capital UK Funding 6.25% 2038	3,538	0.06	
£8,000,000 GE Capital UK Funding 6.75% 2018	9,464	0.17	
£8,500,000 GE Capital UK Funding 8% 2039	12,013	0.22	
£3,000,000 General Electric Capital 4.875% 2037	2,800	0.05	
£3,000,000 General Electric Capital 5.25% 2028	3,221	0.06	
£1,500,000 General Electric Capital 5.375% 2040	1,581	0.03	
£1,000,000 General Electric Capital 5.5% 2021	1,116	0.02	
\$15,000,000 General Electric Capital 5.875% 2038	10,700	0.19	
£14,824,000 General Electric Capital 6.25% 2020	17,398	0.31	
£4,976,109 General Electric Capital 6.44% 2022	5,574	0.10	
£8,192,342 Integrated Accommodation Services 6.48% 2029	10,090	0.18	

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'AA' credit rated bonds (continued)			
£960,000 Investor 5.5% 2037	1,075	0.02	
£1,611,000 Isobel Finance No.1 FRN 2038	1,611	0.03	
£12,175,000 Land Securities Capital Markets Var. Rate 2019	13,633	0.24	
£7,037,000 Land Securities Capital Markets Var. Rate 2022	8,107	0.14	
£12,937,000 Land Securities Capital Markets Var. Rate 2025	14,576	0.26	
£13,110,000 Land Securities Capital Markets Var. Rate 2026	15,022	0.27	
£14,000,000 Land Securities Capital Markets 'A5BR' Var. Rate 2027	16,186	0.29	
£553,000 Land Securities Capital Markets 'A5IC' Var. Rate 2027	639	0.01	
£6,807,000 Mercantile Investment Trust 6.125% 2030	7,111	0.13	
£8,157,000 Metropolitan Life Global Funding (formerly MetLife Global Funding) 3.5% 2026	7,774	0.14	
£9,011,203 NATS EN Route 5.25% 2026	10,189	0.18	
\$3,030,000 Nordea Bank 4.875% 2021	2,193	0.04	
£242,531 Opera Finance FRN 2017	238	0.00	
\$2,000,000 Pfizer 7.2% 2039	1,743	0.03	
£2,600,000 Places For People Homes 5.09% 2043	2,840	0.05	
£1,600,000 Places For People Homes 8.625% 2020	2,029	0.04	
£2,600,000 Quadrant Housing Finance Step-Up 2033	3,532	0.06	
£10,000,000 Rabobank Nederland 4% 2022	10,195	0.18	
\$3,000,000 Rabobank Nederland 5.8% 2110	2,093	0.04	
€2,763,000 Rabobank Nederland Var. Rate 2035	2,413	0.04	
£12,000,000 Reseau Ferre de France 4.83% 2060	12,053	0.21	
£10,000,000 Reseau Ferre de France 5% 2052	10,244	0.18	
£10,000,000 Reseau Ferre de France 5.25% 2028	11,222	0.20	
£7,000,000 Reseau Ferre de France 5.25% 2035	7,595	0.14	
£10,000,000 Reseau Ferre de France 5.5% 2021	11,776	0.21	
\$25,000,000 Roche Holdings 7% 2039	22,043	0.39	
£3,650,000 RSL Finance No.1 6.625% 2038	4,599	0.08	
£3,000,000 Sanctuary Capital 6.697% 2039	4,083	0.07	
£1,800,000 Scotland Gas Networks 4.75% 2017	1,969	0.04	
\$1,000,000 Security Capital 7.7% 2028	875	0.02	
\$10,000,000 Shell International Finance 6.375% 2038	8,369	0.15	
£4,770,000 SLM Student Loan Trust 5.15% 2039	4,571	0.08	
£14,000,000 Société Nationale des Chemins de Fer Français 5.375% 2027	15,862	0.28	
£2,905,118 Telereal Securitisation 5.5534% 2033	3,468	0.06	
£4,841,900 Telereal Securitisation 5.9478% 2033	5,884	0.10	
£23,000,000 Transport for London 2.25% 2022	21,892	0.39	
£11,000,000 Wal-Mart Stores 4.875% 2039	11,974	0.21	
£15,200,000 Wal-Mart Stores 5.25% 2035	17,354	0.31	
£30,000,000 Wal-Mart Stores 5.625% 2034	36,147	0.64	
\$35,000,000 Wal-Mart Stores 5.625% 2040	26,111	0.47	
£3,000,000 Wal-Mart Stores 5.75% 2030	3,647	0.07	
\$7,250,000 Wal-Mart Stores 6.2% 2038	5,764	0.10	
\$9,000,000 Wal-Mart Stores 6.5% 2037	7,397	0.13	
£1,900,000 Witan Investment Trust 6.125% 2025	2,093	0.04	
\$1,250,000 Wyeth 5.95% 2037	958	0.02	
£11,000,000 Yorkshire Building Society 4.75% 2018	12,215	0.22	
'A' credit rated bonds			
\$5,000,000 ABN Amro Bank 4.25% 2017	3,495	0.06	
£8,000,000 Aegon 6.625% 2039	9,148	0.16	
		31.03	32.86

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'A' credit rated bonds (continued)			
£1,600,000 Affinity Water Programme Finance 4.5% 2036	1,580	0.03	
\$3,659,220 Aire Valley Mortgages 07-1A 2A1 FRN 2066	2,229	0.04	
£2,905,421 Aire Valley Mortgages 07-1X 2A3 FRN 2066	2,719	0.05	
€10,100,000 Allianz Var. Rate 2042	9,480	0.17	
£2,750,000 America Movil 5% 2026	2,894	0.05	
£1,500,000 American International Group 6.765% 2017	1,744	0.03	
£5,000,000 Amgen 4% 2029	4,692	0.08	
\$4,500,000 Amgen 5.375% 2043	3,027	0.05	
£34,000,000 Amgen 5.5% 2026	38,300	0.68	
£4,804,000 Anglian Water Services Financing 5.837% 2022	5,639	0.10	
£5,000,000 Anheuser-Busch InBev 9.75% 2024	7,629	0.14	
£2,000,000 Annington Finance No.4 Var. Rate 2023	2,152	0.04	
£2,400,000 ASIF II 6.375% 2020	2,877	0.05	
€899,000 ASIF III Jersey 4.75% 2013	777	0.01	
£10,974,000 ASIF III Jersey 5% 2018	12,216	0.22	
£7,000,000 ASIF III Jersey 5.375% 2016	7,721	0.14	
\$10,442,000 AT&T 4.3% 2042	5,943	0.11	
£41,000,000 AT&T 4.875% 2044	39,695	0.71	
\$2,150,000 AT&T 5.35% 2040	1,415	0.03	
\$8,500,000 AT&T 5.55% 2041	5,795	0.10	
\$8,000,000 AT&T 6.5% 2037	5,964	0.11	
\$14,000,000 AT&T 6.55% 2039	10,474	0.19	
£5,570,000 Australia & New Zealand Banking Group Var. Rate 2018	5,623	0.10	
£1,150,000 AWG Step-Up 2014	1,209	0.02	
£12,770,000 AWG Step-Up 2023	16,317	0.29	
£1,550,000 AWG Step-Up 2029	1,965	0.04	
\$5,000,000 Bank of America 3.3% 2023	3,104	0.06	
£16,500,000 Bank of America 6.125% 2021	19,114	0.34	
£1,100,000 Bank of America 7% 2028	1,379	0.02	
\$5,000,000 Bank of America NA FRN 2016	3,165	0.06	
£3,400,000 Bank of Scotland 2.64% IL 2020	5,204	0.09	
£6,500,000 Barclays Bank 9.5% 2021	8,022	0.14	
£5,500,000 BAT International Finance 6% 2022	6,566	0.12	
£2,500,000 BAT International Finance 6.375% 2019	3,045	0.05	
\$12,000,000 BAT International Finance 9.5% 2018	10,556	0.19	
\$2,000,000 BG Energy Capital 4% 2020	1,393	0.03	
£29,000,000 BG Energy Capital 5.125% 2025	32,147	0.57	
£2,820,000 BL Superstores Finance 5.27% 2030	3,081	0.05	
£6,000,000 BUPA Finance 7.5% 2016	6,875	0.12	
£9,100,000 Centrica 6.375% 2022	11,077	0.20	
£4,000,000 Centrica 6.4% 2026	4,933	0.09	
£16,390,000 Centrica 7% 2018	20,031	0.36	
£4,000,000 Close Brothers Group 6.5% 2017	4,221	0.08	
€1,000,000 Cloverie (Zurich Ins) Var. Rate 2039	1,036	0.02	
\$1,000,000 Comcast 6.45% 2037	778	0.01	
\$3,000,000 Comcast 6.5% 2035	2,356	0.04	
£3,864,000 Coventry Building Society 5.875% 2022	4,284	0.08	
£4,120,000 Coventry Building Society 6% 2019	4,648	0.08	
£5,000,000 Daimler International Finance 3.5% 2019	5,221	0.09	
\$7,500,000 DBS Bank Var. Rate 2022	4,931	0.09	
£9,000,000 DNB Bank 4.25% 2020	9,678	0.17	
£9,418,000 DNB Bank Var. Rate 2020	10,220	0.18	
£20,000,000 DWR Cymru Financing 6.907% 2021	24,668	0.44	
£2,029,323 Eddystone Finance 06-1 A1B FRN 2021	1,671	0.03	
£7,284,685 Eddystone Finance 06-1 A2 FRN 2021	6,957	0.12	

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding		Value £'000	30.06.13 %	30.06.12 %
'A' credit rated bonds (continued)				
£50,000	Eddystone Finance 06-1 B FRN 2021	46	0.00	
£1,000,000	EDF 5.125% 2050	959	0.02	
£12,000,000	EDF 5.5% 2037	12,477	0.22	
£50,000,000	EDF 5.5% 2041	51,827	0.92	
£37,000,000	EDF 6.125% 2034	41,778	0.74	
£12,650,000	ELM for Swiss Reinsurance Var. Rate Perp.	13,082	0.23	
£9,100,000	Eni Coordination Centre 4.75% 2021	9,555	0.17	
£5,000,000	Eni Coordination Centre 6.125% 2018	5,800	0.10	
£1,000,000	Eurosail FRN 2045	891	0.02	
£22,900,000	Experian Finance 4.75% 2018	25,215	0.45	
€15,753,000	GDF Suez 5.95% 2111	15,744	0.28	
£11,000,000	GlaxoSmithKline Capital 3.375% 2027	10,324	0.18	
£11,118,000	Goldman Sachs Group 7.125% 2025	13,865	0.25	
£2,856,992	Granite Master Issuer 05-1 A6 FRN 2054	2,778	0.05	
£3,000,000	Granite Master Issuer 05-1 B3 FRN 2054	2,753	0.05	
£4,850,000	Granite Master Issuer 05-1 M3 FRN 2054	4,312	0.08	
£3,579,815	Granite Master Issuer 05-2 A7 FRN 2054	3,481	0.06	
£2,000,000	Granite Master Issuer 05-2 M3 FRN 2054	1,778	0.03	
£1,500,000	Granite Master Issuer 05-4 B3 FRN 2054	1,376	0.02	
€2,500,000	Granite Master Issuer 05-4 B4 FRN 2054	1,968	0.04	
£1,900,000	Granite Master Issuer 05-4 M3 FRN 2054	1,689	0.03	
£1,150,000	Granite Master Issuer 06-1 B3 FRN 2054	1,055	0.02	
€1,000,000	Granite Master Issuer 06-1 B4 FRN 2054	787	0.01	
\$6,600,000	Granite Master Issuer 06-1 M2 FRN 2054	3,841	0.07	
£3,000,000	Granite Master Issuer 06-1X M3 FRN 2054	2,667	0.05	
£850,000	Granite Master Issuer 06-2 M4 FRN 2054	756	0.01	
\$9,500,000	Granite Master Issuer 06-3 B2 FRN 2054	5,738	0.10	
\$9,000,000	Granite Master Issuer 06-3 M2 FRN 2054	5,259	0.09	
\$1,000,000	Granite Master Issuer 06-4 B1 FRN 2054	604	0.01	
\$4,596,000	Granite Master Issuer 07-1 1B1 FRN 2054	2,761	0.05	
\$2,500,000	Granite Master Issuer 07-1 1M1 FRN 2054	1,455	0.03	
€4,006,000	Granite Master Issuer 07-1 3B1 FRN 2054	3,153	0.06	
£2,300,000	Granite Master Issuer 07-1 3M2 FRN 2054	2,045	0.04	
\$2,500,000	Granite Master Issuer 07-1 M1 FRN 2054	1,461	0.03	
€1,100,000	Granite Master Issuer 07-2 3B2 FRN 2054	866	0.02	
£1,800,000	Granite Master Issuer 07-2 3M3 FRN 2054	1,600	0.03	
£4,474,769	Granite Master Issuer 07-2 4A2 FRN 2054	4,352	0.08	
\$1,250,000	Granite Master Issuer 07-2 M1 FRN 2054	727	0.01	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding		Value £'000	30.06.13 %	30.06.12 %
'A' credit rated bonds (continued)				
\$480,011	Granite Mortgages 03-2 1C FRN 2043	309	0.01	
€320,008	Granite Mortgages 03-2 2M FRN 2043	264	0.00	
\$5,309,841	Granite Mortgages 03-2 3A FRN 2043	3,074	0.05	
£5,564,757	Granite Mortgages Var. Rate 2043	5,442	0.10	
€2,000,000	Granite Mortgages 04-1 2C FRN 2044	1,646	0.03	
€2,500,000	Granite Mortgages 04-1 2M FRN 2044	2,016	0.04	
£1,246,108	Granite Mortgages 04-1 3A FRN 2044	1,216	0.02	
£2,000,000	Granite Mortgages 04-2 3C FRN 2044	1,860	0.03	
£8,964,542	Granite Mortgages 04-3 3A2 FRN 2044	8,758	0.16	
£2,589,334	Greene King Finance 5.318% 2031	2,703	0.05	
\$1,000,000	GTE Southwest 8.5% 2031	843	0.02	
£12,000,000	Hammerson 6% 2026	14,066	0.25	
£4,496,000	Hammerson 6.875% 2020	5,446	0.10	
£6,000,000	Hammerson 7.25% 2028	7,800	0.14	
€2,500,000	Hannover Finance Luxembourg Var. Rate 2024	2,175	0.04	
€5,000,000	Hannover Finance Luxembourg Var. Rate 2040	4,752	0.08	
€700,000	Hannover Finance Luxembourg Var. Rate 2043	624	0.01	
£3,000,000	Heathrow Funding (formerly BAA Funding) 3.334% IL 2041	4,603	0.08	
£11,500,000	Heathrow Funding (formerly BAA Funding) 5.225% 2025	12,703	0.23	
£1,250,000	Heathrow Funding (formerly BAA Funding) 5.875% 2043	1,406	0.03	
£16,000,000	Heathrow Funding (formerly BAA Funding) 6.75% 2028	19,904	0.35	
£10,353,000	Heathrow Funding (formerly BAA Funding) 7.075% 2028	13,222	0.24	
£8,500,000	Heathrow Funding (formerly BAA Funding) 9.2% 2023	11,564	0.21	
£9,500,000	Heathrow Funding (formerly BAA Funding) 12.45% 2016	12,046	0.21	
£2,250,000	High Speed Rail Finance 4.375% 2038	2,235	0.04	
£600,000	HSBC Bank 4.75% 2046	518	0.01	
£1,500,000	HSBC Bank 5.375% 2033	1,500	0.03	
£1,607,000	HSBC Bank 6.5% 2023	1,862	0.03	
£23,000,000	HSBC Bank Var. Rate 2020	24,008	0.43	
£12,500,000	HSBC Bank Var. Rate 2023	13,258	0.24	
£19,000,000	HSBC Bank Var. Rate 2030	18,926	0.34	
£7,000,000	HSBC Holdings 5.75% 2027	7,321	0.13	
£3,000,000	HSBC Holdings 6% 2040	3,146	0.06	
£9,000,000	HSBC Holdings 6.75% 2028	10,326	0.19	
£7,050,000	HSBC Holdings 7% 2038	8,245	0.15	
£31,500,000	HSBC Holdings Var. Rate 2022	34,625	0.62	
£5,500,000	Hutchison Ports UK Finance 6.75% 2015	6,141	0.11	
£8,633,000	Intu SGS Finance 4.625% 2033	8,588	0.15	
£35,357,000	JPMorgan Chase 3.5% 2026	33,638	0.60	
\$6,000,000	JPMorgan Chase 4.4% 2020	4,121	0.07	
\$3,000,000	JPMorgan Chase 6.3% 2019	2,267	0.04	
£4,950,000	JPMorgan Chase Var. Rate 2017	4,694	0.08	
€5,000,000	JPMorgan Chase Var. Rate 2019	4,295	0.08	
£15,000,000	JPMorgan Chase Bank 5.375% 2016	16,364	0.29	
€2,500,000	JPMorgan Chase Bank Var. Rate 2021	2,213	0.04	
£3,408,305	Juturna European Loan Conduit No.16 5.0636% 2033	3,710	0.07	
£15,702,000	La Poste 5.625% 2016	17,608	0.31	
£24,000,000	Lloyds TSB Bank 7.5% 2024	30,550	0.55	
£5,902,000	London Merchant Securities 6.5% 2026	6,845	0.12	
£4,000,000	London Stock Exchange Group 9.125% 2019	5,164	0.09	
£1,750,000	Longstone Finance 4.896% 2036	1,694	0.03	

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'A' credit rated bonds (continued)			
£885,000 Marstons Issuer Var. Rate 2027	913	0.02	
£2,000,000 Marstons Issuer Var. Rate 2032	1,904	0.03	
£11,500,000 McDonald's 6.375% 2020	14,107	0.25	
£4,773,200 Mitchells & Butlers Finance 5.574% 2030	5,235	0.09	
£1,213,597 Mitchells & Butlers Finance 5.965% 2025	1,324	0.02	
£1,400,000 Mitchells & Butlers Finance 6.013% 2030	1,475	0.03	
£3,000,000 Mitchells & Butlers Finance FRN 2033	2,160	0.04	
€2,000,000 Morgan Stanley 3.75% 2017	1,811	0.03	
€16,000,000 Morgan Stanley 5.375% 2020	15,493	0.28	
€2,470,000 Morgan Stanley 5.75% 2017	2,726	0.05	
€11,250,000 Morgan Stanley FRN 2016	9,423	0.17	
€1,000,000 Morgan Stanley FRN 2017	829	0.01	
£2,411,347 Mortgages No 7 FRN 2038	2,245	0.04	
£22,220,000 Motability Operations Group 6.625% 2019	27,427	0.49	
£13,000,000 Muenchener Rueckversicherung Var. Rate 2028	15,297	0.27	
€4,000,000 Muenchener Rueckversicherung Var. Rate 2041	3,908	0.07	
£11,000,000 Muenchener Rueckversicherung Var. Rate 2042	12,420	0.22	
£3,500,000 National Grid Electricity Transmission 2.983% IL 2018	5,754	0.10	
£2,500,000 National Grid Electricity Transmission 3.806% IL 2020	4,344	0.08	
£7,000,000 National Grid Electricity Transmission 4% 2027	6,881	0.12	
\$5,000,000 Nationwide Building Society 6.25% 2020	3,673	0.07	
£2,400,000 Nationwide Building Society 8.625% 2018	2,739	0.05	
£3,249,597 Newgate Funding FRN 2050	3,094	0.06	
£2,590,000 Northern Electric Finance 8.875% 2020	3,493	0.06	
£3,750,000 Northern Powergrid Yorkshire 4.375% 2032	3,662	0.07	
\$1,867,341 Paragon Mortgages No 7 FRN 2034	1,109	0.02	
£3,600,000 PepsiCo 2.5% 2022	3,394	0.06	
£224,991 PICTS 5.218% 2039	194	0.00	
€4,000,000 Principal Financial Global Funding II 4.5% 2017	3,769	0.07	
£2,530,000 Province of Quebec Canada 12.25% 2020	3,983	0.07	
£4,750,000 Rabobank Nederland 5.25% 2027	4,734	0.08	
£4,100,000 Rabobank Nederland Var. Rate Perp.	4,253	0.08	
€296,169 RMAC FRN 2037	231	0.00	
£1,215,706 RMAC Securities FRN 2044	1,063	0.02	
£1,605,000 Rolls-Royce 6.75% 2019	1,976	0.04	
£2,000,000 Royal Bank of Scotland 6.375% 2028	2,246	0.04	
£21,500,000 RSA Insurance Group Var. Rate 2039	26,462	0.47	
£2,000,000 RSA Insurance Group Var. Rate Perp.	2,100	0.04	
£351,545 Sandwell Commercial Finance FRN 2037	323	0.01	
£3,550,000 Santander UK 6.5% 2015	3,862	0.07	
£3,500,000 Scottish & Southern Energy 5% 2018	3,944	0.07	
£1,500,000 Scottish & Southern Energy 8.375% 2028	2,153	0.04	
£1,000,000 Segro 5.25% 2015	1,070	0.02	
£16,450,000 Segro 5.625% 2020	18,616	0.33	
£15,000,000 Segro 6% 2019	17,360	0.31	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'A' credit rated bonds (continued)			
£14,000,000 Segro 6.75% 2021	16,951	0.30	
£4,957,000 Segro 6.75% 2024	5,859	0.10	
£1,500,000 Segro 7% 2022	1,843	0.03	
€2,000,000 Snam 5% 2019	1,896	0.03	
€5,000,000 Society of Lloyd's Var. Rate 2024	4,320	0.08	
€9,000,000 Society of Lloyd's Var. Rate 2025	9,675	0.17	
£13,177,000 Southern Water Services Finance 5% 2021	14,374	0.26	
£14,955,000 Southern Water Services Finance 6.125% 2019	17,383	0.31	
\$3,570,000 Standard Chartered 3.95% 2023	2,182	0.04	
\$3,000,000 Standard Chartered 5.7% 2022	2,036	0.04	
€4,000,000 Standard Chartered Bank 5.875% 2017	3,860	0.07	
\$3,750,000 Standard Chartered Bank 6.4% 2017	2,770	0.05	
£8,550,000 Standard Chartered Bank 7.75% 2018	9,928	0.18	
£1,000,000 Standard Chartered Bank Var. Rate Perp.	1,062	0.02	
\$2,500,000 Standard Chartered Var. Rate 2022	1,637	0.03	
£2,690,000 Standard Life Var. Rate Perp. (6.546%)	2,821	0.05	
£5,500,000 Standard Life Var. Rate Perp. (6.75%)	5,810	0.10	
£2,500,000 Suncorp Insurance Funding Var. Rate 2027	2,469	0.04	
£3,000,000 Suncorp-Metway 5.125% 2014	3,134	0.06	
\$1,100,000 Swiss Re Capital I LP Var. Rate Perp.	748	0.01	
£5,333,000 Thames Water Utilities Cayman 4.375% 2034	5,206	0.09	
£7,000,000 Thames Water Utilities Cayman 4.625% 2046	6,705	0.12	
£20,000,000 Thames Water Utilities Cayman 7.241% 2058	23,735	0.42	
£3,727,000 Thames Water Utilities Finance 3.375% IL 2021	6,373	0.11	
£4,378,000 Thames Water Utilities Finance 5.125% 2037	4,656	0.08	
£600,000 Thames Water Utilities Finance 6.5% 2032	749	0.01	
£10,800,000 Thames Water Utilities Finance 6.75% 2028	13,752	0.25	
£12,016,000 THFC Funding No.3 5.2% 2043	12,892	0.23	
£355,573 Trafford Centre Finance FRN 2015	351	0.01	
£5,400,000 Trafford Centre Finance FRN 2038	4,266	0.08	
£1,000,000 UBS Jersey Var. Rate 2021	1,057	0.02	
£10,000,000 UBS London 6.375% 2016	11,343	0.20	
£3,269,000 Unite USAF II 3.374% 2028	3,178	0.06	
\$2,500,000 United Parcel Service 6.2% 2038	2,017	0.04	
\$3,500,000 Verizon Communications 5.85% 2035	2,475	0.04	
\$3,500,000 Verizon Communications 6% 2041	2,553	0.05	
\$1,000,000 Verizon Communications 6.4% 2038	758	0.01	
\$3,000,000 Verizon Communications 6.9% 2038	2,399	0.04	
\$2,000,000 Verizon Communications 7.35% 2039	1,674	0.03	
\$4,000,000 Verizon Communications 7.75% 2030	3,400	0.06	
\$1,000,000 Verizon Maryland 5.125% 2033	632	0.01	
\$6,000,000 Verizon New Jersey 7.85% 2029	4,726	0.08	
\$2,000,000 Verizon New York 7.375% 2032	1,578	0.03	
\$5,000,000 Verizon Pennsylvania 8.35% 2030	4,178	0.07	
£7,742,000 Verizon Wireless Capital 8.875% 2018	10,144	0.18	
\$10,000,000 Vodafone Group 4.375% 2043	5,616	0.10	
\$2,000,000 Vodafone Group 7.875% 2030	1,690	0.03	
£21,000,000 Vodafone Group 8.125% 2018	26,800	0.48	
£7,935,000 Wales & West Utilities Finance 4.625% 2023	8,661	0.15	
£8,000,000 Wales & West Utilities Finance 5% 2028	8,674	0.15	
£4,500,000 Wales & West Utilities Finance 5.75% 2030	5,209	0.09	

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'A' credit rated bonds (continued)			
£287,000 Wales & West Utilities Finance 6.25% 2021	346	0.01	
£9,000,000 Wells Fargo 4.875% 2035	8,688	0.15	
£34,500,000 Wells Fargo Bank (formerly Wachovia) 5.25% 2023	37,658	0.67	
£3,139,191 White City Property Finance 5.1202% 2035	3,336	0.06	
£5,000,000 Yorkshire Water Services Bradford Finance 3.625% 2029	4,670	0.08	
£10,000,000 Yorkshire Water Services Bradford Finance 6% 2019	11,787	0.21	
£5,662,000 Yorkshire Water Services Odsal Finance 6.5876% 2023	7,033	0.13	
£6,420,000 Zurich Finance Var. Rate Perp.	6,853	0.12	
		35.56	31.98
'BBB' credit rated bonds			
£7,000,000 3I Group 5.75% 2032	6,758	0.12	
£1,400,000 3I Group 6.875% 2023	1,588	0.03	
£5,000,000 AA Bond Co 6.269% 2043	5,072	0.09	
£5,000,000 AA Bond Co 4.7201% 2043	5,060	0.09	
\$5,000,000 ABN AMRO Bank Var. Rate 2022	3,504	0.06	
€2,755,000 Achmea Var. Rate 2043	2,417	0.04	
£9,500,000 Ahold Finance 6.5% 2017	10,867	0.19	
£8,400,000 Akzo Nobel 8% 2016	9,721	0.17	
\$8,000,000 Altria Group 9.95% 2038	7,679	0.14	
\$10,000,000 Altria Group 10.2% 2039	9,796	0.17	
£5,000,000 Anglian Water Services Financing 4.5% 2026	4,851	0.09	
£6,650,000 Anglian Water Services Financing Var. Rate 2024	6,939	0.12	
£419,000 Anglian Water Services Financing Var. Rate 2040	462	0.01	
£4,100,000 APT Pipelines 4.25% 2024	4,022	0.07	
£10,000,000 Aspire Defence Finance 'A' 4.674% 2040	9,978	0.18	
£9,000,000 Aspire Defence Finance 'B' 4.674% 2040	8,980	0.16	
€1,300,000 Assicurazioni Generali Var. Rate 2042	1,183	0.02	
£5,950,000 Assicurazioni Generali Var. Rate Perp. (6.269%)	4,754	0.08	
£7,950,000 Assicurazioni Generali Var. Rate Perp. (6.416%)	6,628	0.12	
£400,000 Atlantia 6.25% 2022	428	0.01	
£18,000,000 Aviva Var. Rate 2036	17,460	0.31	
€4,750,000 Aviva Var. Rate 2038	4,453	0.08	
£10,584,000 Aviva Var. Rate 2041	10,702	0.19	
£11,500,000 Aviva Var. Rate 2058	11,096	0.20	
£19,350,000 Aviva Var. Rate Perp.	18,454	0.33	
£13,250,000 AXA 4.125% 2022	13,404	0.24	
£4,000,000 AXA 7.125% 2020	4,492	0.08	
£14,630,000 AXA Var. Rate Perp. (6.6862%)	14,059	0.25	
£5,378,000 AXA Var. Rate Perp. (6.772%)	5,247	0.09	
£8,500,000 BAE Systems 10.75% 2014	9,555	0.17	
€4,000,000 Bank of America Var. Rate 2017	3,176	0.06	
€4,000,000 Bank of America Var. Rate 2018	3,167	0.06	
£5,000,000 Bank of Scotland 6.375% 2019	5,274	0.10	
€700,000 Bankinter 11 Fondo de Titulizacion Hipotecaria FRN 2048	356	0.01	
£3,250,000 Barclays Bank 5.75% 2026	3,228	0.06	
€5,000,000 Barclays Bank 6% 2021	4,644	0.08	
£1,000,000 Barclays Bank 10% 2021	1,269	0.02	
£6,650,000 Barclays Bank Var. Rate 2023	7,160	0.13	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'BBB' credit rated bonds (continued)			
£4,722,000 Barclays SLCSM Funding (formerly Standard Life Funding) Var. Rate Perp.	4,583	0.08	
€9,500,000 Bayer Var. Rate 2105	8,489	0.15	
€3,400,000 BBVA Senior Finance 3.75% 2018	2,943	0.05	
£9,500,000 BG Energy Capital Var. Rate 2072	10,090	0.18	
£700,000 Birmingham Airport Finance 6.25% 2021	753	0.01	
€1,080,000 Bord Gáis Éireann 3.625% 2017	969	0.02	
£10,000,000 Bouygues 5.5% 2026	10,500	0.19	
\$3,000,000 British Sky Broadcasting 6.1% 2018	2,257	0.04	
\$2,000,000 British Sky Broadcasting 9.5% 2018	1,721	0.03	
£6,264,000 British Telecommunications 3.5% IL 2025	11,289	0.20	
£3,000,000 British Telecommunications 5.75% 2028	3,373	0.06	
£6,000,000 British Telecommunications 6.375% 2037	7,107	0.13	
£10,000,000 British Telecommunications 8.5% 2016	12,092	0.22	
£4,000,000 British Telecommunications 8.625% 2020	5,250	0.09	
£10,000,000 BSKyB Finance UK 5.75% 2017	11,418	0.20	
£5,000,000 Carlsberg Breweries 7.25% 2016	5,853	0.11	
\$5,000,000 CBS 7.875% 2030	4,148	0.07	
£24,000,000 Central Networks West 6% 2025	28,235	0.50	
£4,500,000 Channel Link Enterprises Finance FRN 2050	4,197	0.07	
£1,402,000 Citigroup 4.5% 2031	1,250	0.02	
£6,000,000 Citigroup 5.125% 2018	6,429	0.12	
£8,500,000 Citigroup 5.875% 2024	9,195	0.17	
£2,000,000 Citigroup Var. Rate 2030	1,639	0.03	
£12,000,000 CPUK Finance 7.239% 2042	14,176	0.25	
£7,000,000 Credit Agricole 7.375% 2023	7,945	0.14	
\$2,500,000 Credit Suisse Group Guernsey I Var. Rate 2041	1,723	0.03	
£2,000,000 Credit Suisse Var. Rate 2023	2,168	0.04	
\$3,000,000 CVS Caremark 6.125% 2039	2,289	0.04	
£6,250,000 Delamare Finance 5.5457% 2029	7,077	0.13	
\$750,000 Deutsche Bank Var. Rate 2028	458	0.01	
£9,000,000 Deutsche Telekom 6.5% 2022	10,889	0.20	
£2,500,000 Deutsche Telekom 7.625% 2030	3,374	0.06	
\$6,000,000 Deutsche Telekom 8.75% 2030	5,511	0.10	
£16,250,000 Deutsche Telekom 8.875% 2028	23,926	0.43	
\$8,000,000 DIRECTV Financing 6.35% 2040	5,457	0.10	
£442,000 EDF Energy Networks 5.125% 2023	492	0.01	
£9,197,000 EDF Energy Networks 5.375% 2016	10,227	0.18	
£6,176,000 EDF Energy Networks 5.5% 2026	7,057	0.13	
£10,600,000 EDF Energy Networks 6.375% 2031	12,826	0.23	
£4,100,000 EDF Var. Rate Perp.	4,039	0.07	
£4,000,000 Enel 5.75% 2037	3,511	0.06	
£1,750,000 Enel 6.25% 2019	1,901	0.03	
£5,000,000 Enel Finance International 5.625% 2024	4,894	0.09	
£10,500,000 Enel Finance International 5.75% 2040	9,128	0.16	
\$13,500,000 Enel Finance International 6% 2039	8,127	0.14	
\$5,000,000 Enel Finance International 6.25% 2017	3,604	0.06	
£132,000 ENW Finance 6.125% 2021	155	0.00	
€5,000,000 Eutelsat 5% 2019	4,879	0.09	
£6,000,000 Eversholt Funding 5.831% 2020	6,822	0.12	
£13,113,000 Eversholt Funding 6.359% 2025	15,324	0.27	
£6,500,000 Eversholt Funding 6.697% 2035	7,739	0.14	
£8,000,000 Fidelity International 6.75% 2020	8,803	0.16	
£8,000,000 Firstgroup 6.875% 2024	8,906	0.16	

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'BBB' credit rated bonds (continued)			
£10,000,000 Firstgroup 8.125% 2018	11,914	0.21	
£9,000,000 France Telecom 5.25% 2025	9,671	0.17	
\$5,000,000 France Telecom 5.375% 2042	3,249	0.06	
£5,500,000 France Telecom 5.375% 2050	5,430	0.10	
£8,250,000 France Telecom 7.25% 2020	10,185	0.18	
£6,000,000 France Telecom 8.125% 2028	8,111	0.15	
€1,508,000 France Telecom 8.125% 2033	1,957	0.04	
\$4,000,000 France Telecom 8.5% 2031	3,545	0.06	
£5,000,000 Friends Life 8.25% 2022	5,212	0.09	
£12,000,000 G4S 7.75% 2019	14,272	0.25	
£17,250,000 Gatwick Funding 5.25% 2026	18,612	0.33	
£18,000,000 Gatwick Funding 6.125% 2028	20,932	0.37	
£9,250,000 Go-Ahead Group 5.375% 2017	10,032	0.18	
£3,000,000 Goldman Sachs Group 5.5% 2021	3,109	0.06	
£8,650,000 Goldman Sachs Group 6.125% 2017	9,502	0.17	
\$3,000,000 Goldman Sachs Group 6.75% 2037	1,977	0.04	
£5,500,000 Goldman Sachs Group 6.875% 2038	6,001	0.11	
€3,900,000 Granite Master Issuer 05-1 C2 FRN 2054	2,877	0.05	
£1,500,000 Granite Master Issuer 05-1 C3 FRN 2054	1,290	0.02	
€5,700,000 Granite Master Issuer 05-2 C2 FRN 2054	4,205	0.07	
£582,000 Granite Master Issuer 05-4 C3 FRN 2054	501	0.01	
\$1,614,307 Granite Master Issuer 05-4 C2 FRN 2054	915	0.02	
€5,700,000 Granite Master Issuer 05-4 C4 FRN 2054	4,205	0.07	
\$5,750,000 Granite Master Issuer 06-1A FRN 2054	3,258	0.06	
\$5,000,000 Granite Master Issuer 06-1 C2 FRN 2054	2,790	0.05	
£1,300,000 Granite Master Issuer 06-1 C3 FRN 2054	1,118	0.02	
€2,000,000 Granite Master Issuer 06-1X C4 FRN 2054	1,476	0.03	
\$2,000,000 Granite Master Issuer 06-2 C1 FRN 2054	1,133	0.02	
£364,000 Granite Master Issuer 06-2 C3 FRN 2054	313	0.01	
\$5,000,000 Granite Master Issuer 06-3 C2 FRN 2054	2,833	0.05	
€1,500,000 Granite Master Issuer 06-3 C3 FRN 2054	1,107	0.02	
\$5,000,000 Granite Master Issuer 07-1 1C1 FRN 2054	2,833	0.05	
\$2,500,000 Granite Master Issuer 07-1 2C1 FRN 2054	1,416	0.03	
€1,000,000 Granite Master Issuer 07-1 2C2 FRN 2054	738	0.01	
€23,227,000 Granite Master Issuer 07-1 3C1 FRN 2054	17,137	0.31	
£3,300,000 Granite Master Issuer 07-1 3C2 FRN 2054	2,838	0.05	
\$3,500,000 Granite Master Issuer 07-2 2C1 FRN 2054	1,983	0.04	
€1,000,000 Granite Master Issuer 07-2 2C2 FRN 2054	738	0.01	
€7,500,000 Granite Master Issuer 07-2 3C2 FRN 2054	5,533	0.10	
£6,000,000 Granite Master Issuer 07-2 3C3 FRN 2054	5,160	0.09	
£5,000,000 Great Rolling Stock 6.25% 2020	5,800	0.10	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'BBB' credit rated bonds (continued)			
£9,981,000 Heathrow Funding (formerly BAA Funding) 6% 2020	11,018	0.20	
£13,500,000 Heathrow Funding (formerly BAA Funding) 7.125% 2024	15,912	0.28	
€14,000,000 Henkel Var. Rate 2104	12,653	0.23	
£2,083,000 HSBC Capital Funding Var. Rate Perp.	2,230	0.04	
\$3,000,000 Hutchison Whampoa International Var. Rate Perp.	2,031	0.04	
£5,500,000 Iberdrola Finanzas 6% 2022	5,882	0.11	
£5,000,000 Iberdrola Finanzas 7.375% 2024	5,828	0.10	
£6,000,000 Imperial Tobacco Finance 5.5% 2026	6,641	0.12	
£7,100,000 Imperial Tobacco Finance 7.75% 2019	8,863	0.16	
£23,000,000 Imperial Tobacco Finance 8.125% 2024	30,140	0.54	
£37,000,000 Imperial Tobacco Finance 9% 2022	50,145	0.89	
€4,000,000 ING Bank Var. Rate 2023 (6.125%)	3,702	0.07	
£10,500,000 ING Bank Var. Rate 2023 (6.875%)	11,426	0.20	
£15,500,000 Intercontinental Hotels Group 6% 2016	17,499	0.31	
\$8,500,000 Intesa Sanpaolo 3.875% 2018	5,367	0.10	
€1,229,000 Intesa Sanpaolo 4% 2017	1,068	0.02	
\$3,000,000 Intesa Sanpaolo 6.5% 2021	1,992	0.04	
£10,500,000 Italy (Republic of) 6% 2028	10,430	0.19	
\$2,000,000 JPMorgan Chase Var. Rate Perp.	1,481	0.03	
\$1,000,000 Kerr-McGee 6.95% 2024	776	0.01	
\$6,000,000 Kinder Morgan Energy Partners 6.95% 2038	4,569	0.08	
£17,500,000 KPN 5% 2026	17,610	0.31	
£14,000,000 KPN 5.75% 2029	14,837	0.26	
£2,000,000 KPN 6% 2019	2,271	0.04	
\$4,000,000 KPN 8.375% 2030	3,203	0.06	
\$5,834,000 Kraft Foods 3.5% 2022	3,796	0.07	
\$5,000,000 Kraft Foods 6.875% 2039	3,941	0.07	
£25,407,000 Kraft Foods 7.25% 2018	30,935	0.55	
£21,000,000 Legal & General Group Var. Rate 2041	27,509	0.49	
£12,500,000 Lend Lease Europe Finance 6.125% 2021	13,013	0.23	
€3,000,000 Leo-Mesdag FRN 2019	2,310	0.04	
£2,000,000 Linde Finance Var. Rate 2066	2,283	0.04	
€6,500,000 Linde Finance Var. Rate Perp.	5,570	0.10	
£5,000,000 Liverpool Victoria Var. Rate 2043	4,626	0.08	
£1,596,000 Lloyds TSB Bank 6.625% 2015	1,686	0.03	
£10,000,000 Lloyds TSB Bank 7.625% 2025	11,124	0.20	
£5,500,000 Lloyds TSB Bank 9.625% 2023	6,847	0.12	
£7,500,000 Lloyds TSB Bank Var. Rate 2020	7,514	0.13	
£2,000,000 Lloyds TSB Bank Var. Rate 2021	2,336	0.04	
£15,532,000 Lloyds TSB Bank Var. Rate 2025	15,176	0.27	
\$3,000,000 Lorillard Tobacco 6.875% 2020	2,258	0.04	
£3,088,000 Marks & Spencer 4.75% 2025	2,949	0.05	
£3,800,000 Marks & Spencer 6.125% 2019	4,144	0.07	
£21,000,000 Marks & Spencer 6.125% 2021	22,403	0.40	
\$10,000,000 Marks & Spencer 7.125% 2037	6,814	0.12	
£1,000,000 Merrill Lynch 5.5% 2021	1,045	0.02	
€6,665,000 Mondi Finance 3.375% 2020	5,804	0.10	
€7,000,000 Mondi Finance 5.75% 2017	6,830	0.12	
£1,000,000 MUFG Capital Finance Var. Rate Perp.	1,073	0.02	
£17,500,000 National Express 6.25% 2017	19,222	0.34	
£3,000,000 National Express 6.625% 2020	3,438	0.06	
£2,110,000 National Westminster Bank 6.5% 2021	2,063	0.04	
€5,000,000 Nationwide Building Society 6.75% 2020	4,634	0.08	
£1,000,000 Nationwide Building Society Var. Rate Perp.	940	0.02	

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'BBB' credit rated bonds (continued)			
£2,000,000 Next 5.375% 2021	2,201	0.04	
£20,400,000 Next 5.875% 2016	22,790	0.41	
£7,000,000 NGG Finance Var. Rate 2073	6,886	0.12	
£7,000,000 NIE Finance 6.375% 2026	8,144	0.15	
€5,500,000 Nordenia International 9.75% 2017	5,308	0.09	
£11,000,000 Northern Gas Networks Finance 5.875% 2019	12,864	0.23	
£2,000,000 Northern Powergrid Holdings 7.25% 2022	2,463	0.04	
£3,897,000 Northumbrian Water Finance 5.125% 2042	4,080	0.07	
£10,806,000 Northumbrian Water Finance 6% 2017	12,537	0.22	
£9,610,000 Northumbrian Water Finance 6.875% 2023	12,107	0.22	
\$14,000,000 Pearson Funding Four 3.75% 2022	8,985	0.16	
\$1,000,000 Pernod-Ricard 5.5% 2042	656	0.01	
£10,000,000 Phoenix Natural Gas Finance 5.5% 2017	11,050	0.20	
£8,300,000 PostNL 7.5% 2018	9,420	0.17	
£14,500,000 Reed Elsevier Investments 5.625% 2016	16,152	0.29	
£6,000,000 Reed Elsevier Investments 7% 2017	7,206	0.13	
£11,500,000 Rentokil Initial 5.75% 2016	12,487	0.22	
\$500,000 Rhodia 6.875% 2020	368	0.01	
£6,998,640 RMPA Services 5.337% 2038	7,576	0.14	
€1,000,000 Royal Bank of Scotland 6.934% 2018	896	0.02	
£10,000,000 RWE Finance 5.625% 2023	11,484	0.20	
£2,500,000 RWE Finance 6.125% 2039	2,887	0.05	
£7,000,000 Santander International Debt 3.16% 2015	6,964	0.12	
£1,500,000 Santander UK Var. Rate 2023	1,705	0.03	
£6,800,000 Santander UK Var. Rate Perp. (7.037%)	6,324	0.11	
£1,000,000 Santander Var. Rate Perp. (7.125%)	910	0.02	
£3,500,000 Scottish & Southern Energy Var. Rate Perp.	3,601	0.06	
£2,000,000 Scottish Widows 5.5% 2023	1,928	0.03	
£1,000,000 Severn Trent 1.3% IL 2022	1,070	0.02	
£5,218,000 Severn Trent Utilities Finance 3.625% 2026	5,039	0.09	
£7,475,000 Severn Trent Utilities Finance 6% 2018	8,594	0.15	
£1,250,000 Severn Trent Utilities Finance 6.125% 2024	1,482	0.03	
£9,000,000 Severn Trent Utilities Finance 6.25% 2029	11,056	0.20	
£15,000,000 Siemens Financier Var. Rate 2066	16,343	0.29	
\$5,046,000 Smiths Group 6.05% 2014	3,413	0.06	
£4,578,000 Smiths Group 7.25% 2016	5,152	0.09	
£8,625,000 Société Générale Var. Rate Perp.	8,773	0.16	
\$5,000,000 Société Générale Var. Rate Perp.	3,299	0.06	
£2,500,000 South East Water Finance 2.5329% IL 2041	3,438	0.06	
£3,000,000 South East Water Finance 5.6577% 2019	3,390	0.06	
£189,000 Southern Gas Network 4.875% 2020	210	0.00	
£6,995,000 Southern Gas Network 4.875% 2023	7,682	0.14	
£17,390,000 Southern Gas Network 5.125% 2018	19,567	0.35	
£6,100,000 Southern Gas Network FRN 2015	5,918	0.11	
£2,200,000 Southern Water Services Finance Var. Rate 2038	2,139	0.04	
£8,000,000 Spain (Kingdom of) 5.25% 2029	7,256	0.13	
£145,000 SPI Electricity & Gas Australia Holdings 7.125% 2018	174	0.00	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'BBB' credit rated bonds (continued)			
\$2,900,000 SSE Var. Rate Perp.	1,927	0.03	
£18,000,000 Stagecoach Group 5.75% 2016	19,866	0.35	
£10,054,000 Talisman Energy 6.625% 2017	11,714	0.21	
£12,000,000 Tate & Lyle International Finance 6.75% 2019	14,294	0.25	
£3,050,000 TDC 5.625% 2023	3,396	0.06	
€1,600,000 Telecom Italia 5.25% 2055	1,092	0.02	
£6,000,000 Telecom Italia 5.875% 2023	5,654	0.10	
£6,000,000 Telecom Italia 6.375% 2019	6,131	0.11	
£16,100,000 Telefónica Emisiones 5.289% 2022	15,847	0.28	
£8,000,000 Telefónica Emisiones 5.375% 2018	8,429	0.15	
£4,000,000 Telefónica Emisiones 5.445% 2029	3,678	0.07	
£11,000,000 Telefónica Emisiones 5.597% 2020	11,317	0.20	
\$1,000,000 Telefónica Europe 8.25% 2030	778	0.01	
£367,268 Telereal Securitisation 6.1645% 2033	420	0.01	
£700,000 Tesco 4% IL 2016	1,161	0.02	
£540,000 Tesco 5% 2023	579	0.01	
£2,500,000 Tesco 5.2% 2057	2,416	0.04	
£10,000,000 Tesco 6.125% 2022	11,535	0.21	
£2,391,463 Tesco Property Finance 2 6.0517% 2039	2,706	0.05	
£36,218,264 Tesco Property Finance 3 5.744% 2040	38,257	0.68	
£13,413,627 Tesco Property Finance 4 5.8006% 2040	14,270	0.25	
£19,902,231 Tesco Property Finance 5 5.6611% 2041	21,098	0.38	
£2,000,000 Textron 6.625% 2020	2,232	0.04	
£8,000,000 Thames Water Utilities Cayman Var. Rate 2025	8,745	0.16	
£3,926,000 Thames Water Utilities Cayman Var. Rate 2030	4,362	0.08	
\$1,500,000 Time Warner 6.5% 2036	1,100	0.02	
\$2,000,000 Time Warner 7.625% 2031	1,625	0.03	
\$3,000,000 Time Warner 7.7% 2032	2,491	0.04	
£23,500,000 Time Warner Cable 5.25% 2042	22,685	0.40	
\$10,500,000 Time Warner Cable 5.875% 2040	6,607	0.12	
\$5,000,000 Time Warner Cable 7.3% 2038	3,683	0.07	
\$2,000,000 Time Warner Entertainment 8.375% 2033	1,725	0.03	
£7,880,000 UBS Jersey Var. Rate 2024	8,910	0.16	
\$1,950,000 UBS NY 7% 2015	1,417	0.03	
\$4,000,000 United Business Media 5.75% 2020	2,584	0.05	
£9,500,000 United Business Media 6.5% 2016	10,627	0.19	
£3,000,000 United Utilities Water 5.625% 2027	3,453	0.06	
£2,550,000 United Utilities Water 5.75% 2022	2,979	0.05	
£4,257,000 United Utilities Water 6.125% 2015	4,723	0.08	
£3,813,000 Vector 7.625% 2019	4,423	0.08	
£2,700,000 Veolia Environnement Var. Rate Perp.	2,565	0.05	
\$5,000,000 Vivendi 4.75% 2022	3,280	0.06	
\$2,500,000 Vivendi 6.625% 2018	1,898	0.03	
£1,000,000 Wales & West Utilities Finance Var. Rate 2036	1,165	0.02	
£3,333,000 Wessex Water Services Finance 4% 2021	3,469	0.06	
£10,000,000 Western Power Distribution East Midlands 5.25% 2023	11,258	0.20	
£7,000,000 Western Power Distribution South West 5.75% 2040	7,933	0.14	
£10,000,000 WPP Finance 6.375% 2020	12,010	0.21	
£29,750,000 WPP Group 6% 2017	33,504	0.60	
£3,426,000 Yorkshire Power Finance 7.25% 2028	4,315	0.08	
£14,000,000 Yorkshire Water Services Bradford Finance Var. Rate 2025	15,545	0.28	
€2,002,000 Ziggo 3.625% 2020	1,679	0.03	

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'BB' credit rated bonds		3.77	2.75
£7,500,000 Brit Insurance Holdings Var. Rate 2030	6,598	0.12	
£350,000 Cheltenham & Gloucester 11.75% Perp.	448	0.01	
€3,500,000 Commerzbank 6.375% 2019	3,108	0.06	
€3,590,000 Commerzbank 6.625% 2019	3,639	0.06	
£352,957 Coventry & Rugby Hospital 3.246% IL 2040	502	0.01	
€3,250,000 Crown European Holdings 7.125% 2018	2,983	0.05	
£5,000,000 Daily Mail & General Trust 5.75% 2018	5,346	0.10	
£5,500,000 Daily Mail & General Trust 6.375% 2027	5,548	0.10	
£5,000,000 Daily Mail & General Trust 10% 2021	6,397	0.11	
\$2,900,000 Dufry Finance 5.5% 2020	1,932	0.03	
£2,306,000 EDP Finance 6.625% 2017	2,449	0.04	
£2,500,000 EDP Finance 8.625% 2024	2,838	0.05	
£2,000,000 Enterprise Inns 6.375% 2031	1,663	0.03	
£5,000,000 Enterprise Inns 6.875% 2025	4,725	0.08	
£5,000,000 F&C Finance 9% 2016	5,368	0.10	
\$500,000 Fresenius Medical Care US Finance 6.875% 2017	358	0.01	
\$2,000,000 Fresenius US Finance II 9% 2015	1,444	0.03	
£4,000,000 GKN 5.375% 2022	4,022	0.07	
£5,500,000 GKN 6.75% 2019	6,086	0.11	
\$3,520,000 HCA - The Healthcare Co. 7.25% 2020	2,471	0.04	
£3,000,000 Heathrow Finance (formerly BAA) 7.125% 2017	3,182	0.06	
£5,000,000 HJ Heinz Finance UK 6.25% 2030	5,140	0.09	
€4,000,000 Kabel Deutschland Vertrieb & Service 6.5% 2018	3,645	0.06	
£2,667,000 Koninklijke KPN Var. Rate 2073	2,507	0.04	
£500,000 Ladbrokes Group Finance 7.625% 2017	555	0.01	
£11,000,000 Lafarge 10% 2017	13,162	0.23	
£2,500,000 LBG Capital No.1 7.5884% 2020	2,507	0.04	
£1,750,000 LBG Capital No.2 7.625% 2019	1,733	0.03	
£870,000 LBG Capital No.2 9% 2019	926	0.02	
£1,000,000 LBG Capital No.2 9% 2029	1,050	0.02	
£750,000 LBG Capital No.2 9.334% 2020	801	0.01	
£1,000,000 LBG Capital No.2 9.875% 2023	1,062	0.02	
£500,000 LBG Capital No.2 10.5% 2023	540	0.01	
£600,000 LBG Capital No.2 11.25% 2023	663	0.01	
£2,000,000 LBG Capital No.2 15% 2019	2,763	0.05	
£1,265,000 LBG Capital No.2 15% 2029	1,999	0.04	
£11,500,000 Old Mutual 8% 2021	11,912	0.21	
€1,000,000 OI European Group 6.75% 2020	948	0.02	
€1,350,000 Piaggio & C 7% 2016	1,200	0.02	
£2,000,619 Portugal (Republic of) 'RG' 9% 2016	2,168	0.04	
£6,000,000 Portugal (Republic of) 'BR' 9% 2016	6,500	0.12	
\$7,059,000 Royal Bank of Scotland Group 6.1% 2023	4,392	0.08	
\$6,000,000 Royal Bank of Scotland Group 6.125% 2022	3,731	0.07	
€4,095,000 Smurfit Kappa Acquisitions 7.25% 2017	3,663	0.07	
€4,571,000 Smurfit Kappa Acquisitions 7.75% 2019	4,202	0.08	
\$1,667,000 Stora Enso 6.404% 2016	1,160	0.02	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'BB' credit rated bonds (continued)			
CHF3,000,000 Sunrise Communications International 7% 2017	2,197	0.04	
€3,500,000 Sunrise Communications International 7% 2017	3,156	0.06	
€2,052,000 UPCB Finance 7.625% 2020	1,857	0.03	
€2,000,000 UPCB Finance II 6.375% 2020	1,750	0.03	
£6,500,000 UPM-Kymmene 6.625% 2017	6,955	0.12	
£10,600,000 Virgin Media Secured Finance 5.5% 2021	10,335	0.18	
£32,000,000 Virgin Media Secured Finance 7% 2018	33,227	0.59	
€2,500,000 Wind Acquisition Finance 7.375% 2018	2,156	0.04	
'B' credit rated bonds		0.56	0.69
\$4,000,000 Abengoa 8.875% 2017	2,449	0.04	
€1,000,000 Abengoa 9.625% 2015	876	0.02	
CHF1,000,000 Aguila 3 7.875% 2018	715	0.01	
€1,125,000 Ardagh Packaging Finance 7.375% 2017	1,014	0.02	
€4,000,000 Bank of Ireland 10% 2022	3,672	0.07	
€2,236,000 Elli Finance UK 8.75% 2019	2,393	0.04	
€2,803,000 Inaer Aviation Finance 9.5% 2017	2,373	0.04	
€1,095,000 Iron Mountain 6.75% 2018	956	0.02	
\$750,000 Iron Mountain 7.75% 2019	531	0.01	
£157,045 Road Management Consolidated 9.18% 2021	159	0.00	
\$1,500,000 Sprint Capital 6.9% 2019	1,020	0.02	
\$2,000,000 Sprint Nextel 6% 2016	1,382	0.03	
\$4,500,000 Sprint Nextel 8.375% 2017	3,290	0.06	
€1,430,000 Techem 6.125% 2019	1,287	0.02	
€3,000,000 TVN Finance 10.75% 2017	2,723	0.05	
€3,961,000 Unitymedia Hessen 7.5% 2019	3,605	0.06	
\$3,000,000 Unitymedia Hessen 7.5% 2019	2,078	0.04	
£668,000 Virgin Media Finance 8.875% 2019	727	0.01	
'CCC' credit rated bonds		0.07	0.00
€1,000,000 Ardagh Glass Finance (formerly Ardagh Glass Group) 7.125% 2017	862	0.02	
€2,000,000 Ardagh Glass Finance (formerly Ardagh Glass Group) 8.75% 2020	1,766	0.03	
€1,500,000 Beverage Packaging Holdings 9.5% 2017	1,304	0.02	
Bonds with no credit rating		4.60	4.39
€3,500,000 AmicusHorizon Finance 5.25% 2043	3,574	0.06	
£4,680,000 Annington Repackaging No.1 5.3236% 2023	5,133	0.09	
€9,000,000 AP Moeller - Maersk 4% 2025	8,382	0.15	
\$2,140,000 Aquarius + Investments for Swiss Reinsurance Var. Rate Perp.	1,489	0.03	
€2,000,000 Bank of Ireland 10% 2016	1,742	0.03	
£345,000 BLD Property Holdings 6.125% 2014	359	0.01	
£1,308,000 British Land 5.264% 2035	1,223	0.02	
£902,000 British Land (Bearer) 5.264% 2035	876	0.02	
£4,353,324 British Land 5.357% 2028	4,514	0.08	
£5,695,000 British Land (Bearer) 5.357% 2028	5,942	0.11	
£932,000 British Land 6.75% 2020	1,096	0.02	
£214,735 Capital Shopping Centres Debenture 5.562% 2027	216	0.00	
€3,000,000 Circle Anglia Social 7.25% 2038	4,220	0.08	
€1,800,000 Davide Campari-Milano 4.5% 2019	1,612	0.03	
£8,920,000 Delamare Finance 6.067% 2029	9,602	0.17	
£3,277,647 Fintrust Debenture 9.25% 2023	4,277	0.08	
€2,000,000 First Hydro Finance 9% 2021	2,620	0.05	
€3,000,000 Foreign & Colonial Investment Trust 11.25% 2014	3,311	0.06	
£10,000,000 GESB 8.35% 2018	12,148	0.22	
£34,120 Great Portland Estates 5.625% 2029	35	0.00	

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
Bonds with no credit rating (continued)			
£7,800,000 Grosvenor UK Finance 6.5% 2026	9,296	0.17	
£721,000 Guardian Royal Exchange 6.625% 2023	835	0.01	
£4,861,736 Highbury Finance 7.017% 2023	5,775	0.10	
£2,192,000 Housing Finance 5% 2027	2,291	0.04	
£4,582,000 Housing Finance 8.625% 2023	6,342	0.11	
£450,000 Housing Finance 8.75% 2021	522	0.01	
£8,500,000 Housing Finance 11.5% 2016	10,923	0.19	
£8,271,321 Housing Securities 8.375% 2019	10,373	0.18	
£5,800,000 John Lewis 6.125% 2025	6,673	0.12	
£23,000,000 John Lewis 8.375% 2019	29,081	0.52	
£3,000,000 LAB Investments 7.125% 2019	3,637	0.06	
£3,000,000 Libra Longhurst Group Treasury 5.125% 2038	3,177	0.06	
£6,000,000 Lloyds TSB Bank FRN 2016	5,697	0.10	
£3,478,000 Midland Heart Capital 5.087% 2044	4,158	0.07	
£7,477,000 Moat Homes Finance 5% 2041	7,757	0.14	
£1,500,000 Notting Hill Housing Trust 5.25% 2042	1,694	0.03	
£9,300,000 Peel South East 10% 2026	11,927	0.21	
£5,000,000 Pennon Group Var. Rate Perp.	5,047	0.09	
£9,598,000 Places For People Homes 5.875% 2031	10,753	0.19	
£526,222 Road Management Services 3.642% IL 2028	652	0.01	
£282,000 Safeway 6.125% 2018	327	0.01	
£4,750,000 South East Water Finance 5.875% 2040	5,198	0.09	
£18,200,000 Suez Environnement 5.375% 2030	19,922	0.36	
£2,282,748 Summit Finance Law 6.484% 2028	2,478	0.04	
£250,000 Washington Mutual Bank ^[a] 5.5% 2019	0	0.00	
£15,000,000 WM Morrison Supermarkets 3.5% 2026	13,884	0.25	
£6,679,000 WM Morrison Supermarkets 4.625% 2023	7,022	0.13	
Credit default swaps		0.03	0.03
\$(10,000,000) General Electric Capital Sep 2016	47	0.00	
€(10,000,000) Heathrow Funding Jun 2018	(28)	0.00	
€10,000,000 Imperial Tobacco Group Jun 2018	(65)	0.00	
€(30,000,000) iTraxx Europe Sub Fin Series 19 5 Year Jun 2018	964	0.02	
€(20,000,000) Royal Bank of Scotland Jun 2018	493	0.01	
Forward currency contracts		(0.04)	0.02
€21,950,128 Bought for £18,661,832 (expires 10.07.13)	171	0.00	
€(170,562,001) Sold for £146,163,781 (expires 10.07.13)	(174)	0.00	
€(51,256,683) Sold for £43,734,388 (expires 15.08.13)	(260)	(0.01)	
€(140,158,694) Sold for £119,441,417 (expires 18.09.13)	(903)	(0.02)	
CHF74,310 Bought for £51,381 (expires 10.07.13)	0	0.00	
CHF(4,310,942) Sold for £2,941,919 (expires 10.07.13)	(55)	0.00	
\$19,682,251 Bought for £12,563,794 (expires 10.07.13)	359	0.01	
\$(100,173,153) Sold for £66,239,824 (expires 10.07.13)	471	0.01	
\$(523,197,431) Sold for £342,062,131 (expires 15.08.13)	(1,524)	(0.03)	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
Forward currency contracts (continued)			
\$(32,803,642) Sold for £21,378,309 (expires 18.09.13)	(169)	0.00	
Interest rate futures contracts			
(5,500) 10 Year US Treasury Note Sep 2013	12,800	0.23	
722 5 Year US Treasury Note Sep 2013	446	0.01	
(600) German Euro Bund Sep 2013	869	0.01	
(1,725) UK Long Gilt Sep 2013	8,348	0.15	
(450) Ultra Long US Treasury Bond Sep 2013	2,374	0.04	
'AAA' rated money market funds ^[b]		0.53	0.71
29,682,000 Northern Trust Global Fund - Sterling	29,682	0.53	
Portfolio of investments (notes 1b & 1d on page 24)	5,580,727	99.52	98.25
Net other assets	27,164	0.48	1.75
Net assets attributable to shareholders	5,607,891	100.00	100.00

[a] Defaulted bond.

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

Counterparty exposure

Counterparty	Financial derivative exposure			Total as at 30.06.13 £'000
	Credit default swaps £'000	Forward currency contracts £'000	Futures £'000	
Barclays	0	(4)	0	(4)
BNP Paribas	246	219	0	465
Credit Suisse	871	(100)	0	771
Deutsche Bank	247	(414)	0	(167)
Goldman Sachs	47	0	0	47
J.P.Morgan	0	(251)	0	(251)
National Australia Bank	0	(915)	0	(915)
RBS	0	(619)	24,837	24,218
Total	1,411	(2,084)	24,837	24,164

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO TRANSACTIONS

For the year ended 30 June 2013

Largest purchases	£'000
UK Long Gilt Bond Dec 2012 ^[a]	628,810
UK Long Gilt Bond Mar 2013 ^[a]	616,974
UK Long Gilt Bond Sep 2012 ^[a]	587,111
10 Year US Treasury Note Jun 2013 ^[a]	518,583
10 Year US Treasury Note Mar 2013 ^[a]	373,532
10 Year US Treasury Note Dec 2012 ^[a]	370,103
UK Long Gilt Bond Jun 2013 ^[a]	350,655
UK Long Gilt Bond Sep 2013 ^[a]	155,024
Treasury 5% 2025 (£)	137,875
German Euro Bund Jun 2013 ^[a]	123,326
German Euro Bund Mar 2013 ^[a]	117,266
Treasury 4.25% 2027 (£)	89,450
German Euro Bund Dec 2012 ^[a]	78,243
Virgin Media Secured Finance 7% 2018 (£)	72,127
Treasury 3.75% 2052 (£)	63,346
Treasury 4.5% 2034 (£)	59,530
Treasury 3.25% 2044 (£)	58,791
5 Year US Treasury Note Sep 2013 ^[a]	56,199
Ultra Long US Treasury Bond Mar 2013 ^[a]	51,756
Ultra Long US Treasury Bond Dec 2012 ^[a]	50,550
Northern Trust Global Fund - Sterling ^[b]	1,379,039
Other purchases	1,389,952
Total purchases	7,328,242
Largest sales	£'000
UK Long Gilt Bond Dec 2012 ^[a]	628,804
UK Long Gilt Bond Mar 2013 ^[a]	616,980
10 Year US Treasury Note Jun 2013 ^[a]	518,583
10 Year US Treasury Note Sep 2013 ^[a]	516,739
10 Year US Treasury Note Mar 2013 ^[a]	373,533
10 Year US Treasury Note Dec 2012 ^[a]	370,103
UK Long Gilt Bond Sep 2013 ^[a]	356,846
UK Long Gilt Bond Jun 2013 ^[a]	350,655
UK Long Gilt Bond Sep 2012 ^[a]	320,241
German Euro Bund Jun 2013 ^[a]	123,326
German Euro Bund Mar 2013 ^[a]	117,266
Treasury 2.5% IL 2020 (£)	111,180
Treasury 5% 2025 (£)	92,591
Treasury 2.5% IL 2016 (£)	86,086
German Euro Bund Dec 2012 ^[a]	78,243
Treasury 1.875% IL 2022 (£)	75,009
German Euro Bund Sep 2013 ^[a]	73,515
Treasury 2.5% IL 2013 (£)	70,266
Virgin Media Secured Finance 7% 2018 (£)	66,893
US Treasury 1.75% 2022 (\$)	61,425
Northern Trust Global Fund - Sterling ^[b]	1,393,302
Other sales	2,137,175
Total sales	8,538,761

^[a] Purchases and sales of Futures have been included at the value of their exposure.

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

FINANCIAL STATEMENTS

For the year ended 30 June 2013.

STATEMENT OF TOTAL RETURN

	Note	2013		2012	
		£'000	£'000	£'000	£'000
Income					
Net capital gains	3		222,052		309,192
Revenue	4	274,858		275,127	
Expenses	5	(61,104)		(54,519)	
Finance costs: Interest	12	(11)		(12)	
Net revenue before taxation		213,743		220,596	
Taxation	6	0		(124)	
Net revenue after taxation			213,743		220,472
Total return before distributions			435,795		529,664
Finance costs: Distributions	12		(213,916)		(220,367)
Change in net assets attributable to shareholders from investment activities			221,879		309,297

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2013		2012	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		6,220,370		4,794,224
Amounts received on issue of shares	542,535		1,290,623	
Transfer of assets from the Prudential Corporate Bond Trust and the Prudential Distribution Trust	0		37,465	
Amounts paid on cancellation of shares	(1,421,839)		(256,083)	
Stamp Duty Reserve Tax		(879,304)		1,072,005
Change in net assets attributable to shareholders from investment activities (see above)		221,879		309,297
Retained distributions on Accumulation shares		44,933		44,877
Unclaimed distributions		13		14
Closing net assets attributable to shareholders		5,607,891		6,220,370

M&G Corporate Bond Fund

FINANCIAL STATEMENTS

BALANCE SHEET

	as at 30 June 2013		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		5,583,905		6,121,180
Debtors				
Amounts receivable on issues	3,490		14,303	
Currency deals outstanding	1,614		5,034	
Debt security interest receivable	109,424		118,298	
Distributions receivable	12		19	
Premium from credit default swaps receivable	27		185	
Sales awaiting settlement	8,101		8,203	
Tax recoverable	36		0	
		122,704		146,042
Cash and bank balances				
Amounts held at futures clearing houses and brokers	2,765		10,628	
Cash held as bank balances	582		45,309	
Cash held on deposit	0		5,587	
		3,347		61,524
Total other assets		126,051		207,566
Total assets		5,709,956		6,328,746
Liabilities				
Investment liabilities		(3,178)		(9,531)
Creditors				
Amounts payable on cancellations	(16,611)		(1,794)	
Currency deals outstanding	(1,614)		(4,996)	
Derivative expense payable	(1,752)		0	
Expenses payable	(3,177)		(3,379)	
Income tax payable	(19,056)		(22,534)	
Net distributions payable on income shares	(28,297)		(35,419)	
Purchases awaiting settlement	(13,029)		(30,723)	
		(83,536)		(98,845)
Bank overdrafts	(15,351)		0	
		(15,351)		0
Total other liabilities		(98,887)		(98,845)
Total liabilities		(102,065)		(108,376)
Net assets attributable to shareholders		5,607,891		6,220,370

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 28 June 2013, being the last business day of the financial year. The fair value of non-derivative securities is bid price, excluding any accrued interest; the fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles; and the fair value of exchange traded futures is the cost of closing out the contract at the balance sheet date. Over the counter credit default swaps are valued by Markit Valuations Limited, an independent credit derivative price provider.

c) Investment gains and losses

Gains and losses, including exchange differences, on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date, including unrealised exchange differences, are treated as capital.

d) Exchange rates

Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into Sterling at the rate of exchange ruling as at 12 noon on 28 June 2013, being the last business day of the financial year.

e) Derivative financial instruments

The treatment of the returns on forward currency contracts and derivative contracts depend upon the nature of the transaction. Both motive and circumstances are used to determine whether the returns should be treated as capital or revenue. Where positions are undertaken to protect or enhance capital, and the circumstances support this, the returns are recognised in net capital gains or losses; similarly where the motives and circumstances are to generate or protect revenue, and the circumstances support this, the returns are included within net revenue before taxation. Where positions generate total returns it will generally be appropriate to apportion such returns between capital and revenue to properly reflect the nature of the transaction.

f) Interest and distribution income

Interest on debt securities is recognised on an accruals basis, taking into account the effective yield on the investment and is treated as revenue. The effective yield basis amortises any discount or premium on the purchase of an investment over its remaining life based on estimated future cashflows. Any adjustments resulting from changes in cashflow estimates are treated as capital.

Distributions from collective investment schemes are recognised net of attributable tax credits when the security is quoted ex-distribution and are treated as revenue.

Bank interest and deposit interest are recognised on an accruals basis and treated as revenue.

g) Expenses

All expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

M&G Corporate Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

h) Apportionment of income and expenses to multiple share classes

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

i) Taxation

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

j) Deferred taxation

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

k) Distribution policy

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

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

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk, interest rate risk and currency risk in relation to the investment portfolio. The Prospectus permits the sub-fund to use derivative instruments to hedge against medium and long-term risk.

Short-term foreign currency exposures are generally covered by short-dated currency contracts. Income arising in foreign currencies is generally converted into Sterling shortly after receipt and is not hedged in advance of receipt.

The sub-fund holds overseas investments and exchange rate fluctuations can affect both capital and income values. During the year it has been the policy to hedge some of the investment portfolio against currency movements through the use of forward currency contracts.

The ACD considers the credit rating, yield and maturity of each security, in order to ensure that the yield fully reflects any perceived risk. The capital value of investments within the sub-fund will fall in the event of the default or perceived increased credit risk of an issuer.

The capital value of investments within the sub-fund may also be affected by interest rate fluctuations such that when interest rates rise, the capital value of investments is likely to fall and vice versa. The effect will be more apparent on funds which invest in long-dated securities, such as this sub-fund.

The capital value of investments within the sub-fund will fall in the event of the default or perceived increased credit risk of an issuer.

The sub-fund may undertake transactions in derivatives both on exchange and over the counter (OTC). These may include credit default swaps, options, contracts for differences and interest rate futures for the purposes of meeting the investment objective and protecting the risk to capital, duration and credit management, as well as for hedging. Although the fund manager will select the counterparties with which it enters into derivative transactions with due skill and care, there will be residual risk that the counterparty may default on its obligations or become insolvent. The use of these instruments may expose the sub-fund to volatile investment returns and increase the volatility of the net asset value of the sub-fund. All derivative positions are disclosed separately in the portfolio statement.

Credit default swaps are bought and sold in response to detailed credit research to take advantage of anticipated movements in credit spreads on individual stocks and baskets of securities. When the sub-fund buys a credit default swap the default risk associated with the underlying security transfers to the counterparty. Conversely when the sub-fund sells a credit default swap the sub-fund assumes the credit risk of the underlying security. The selling of credit default swaps could expose the sub-fund to credit default risk. The sub-fund will contain a sufficient spread of investment grades of holdings to mitigate potential exposure to credit default risk.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise a sufficient number of securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 127, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.12: same).

3 Net capital gains

	2013 £'000	2012 £'000
Non-derivative securities	204,093	298,402
Derivative contracts	42,683	(27,386)
Forward currency contracts	(25,696)	29,416
Currency gains	995	8,779
Transaction charges	(23)	(19)
Net capital gains	222,052	309,192

M&G Corporate Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

4 Revenue

	2013 £'000	2012 £'000
Bank interest	23	48
Deposit interest	0	249
Derivative revenue	(15,197)	(4,685)
Interest distributions	237	264
Interest on debt securities	289,625	272,718
Premium from credit default swaps	170	6,533
Total revenue	274,858	275,127

5 Expenses

	2013 £'000	2012 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	51,191	45,750
Administration fee	9,392	8,260
	60,583	54,010
Payable to the Depositary or associate		
Depositary's fee (including VAT)	212	189
Distribution fees	1	1
	213	190
Other expenses		
Audit fee (including VAT)	11	11
Regulatory fees	8	13
Safe custody charge	282	288
Tax consultancy fees (including VAT) ^[a]	7	7
	308	319
Total expenses	61,104	54,519

[a] Fees paid to overseas firms affiliated with PricewaterhouseCoopers LLP.

6 Taxation

	2013 £'000	2012 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Overseas tax	0	124
Current tax charge (note 6b)	0	124
Deferred tax (note 6c)	0	0
Total taxation	0	124
b) Factors affecting taxation charge for the year		
Net revenue before taxation	213,743	220,596
Corporation tax at 20%	42,749	44,119
Effects of:		
Prior year expenses utilised	(44)	0
Interest distributions	(42,705)	(44,094)
Overseas tax	0	124
Overseas tax expensed	0	(25)
Current tax charge (note 6a)	0	124
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund does not have an unrecognised deferred tax asset at the year end (30.06.12: £44,000).

Interest distributions have been made in respect of all distributions during the current and preceding years. Income tax at 20% will be accounted for on shareholders' behalf to HM Revenue & Customs where applicable.

7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.12: same).

8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in net assets attributable to shareholders and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's (ACD's) periodic charge and administration fee are disclosed in note 5. Amounts due at the year end to the ACD of £3,024,392 (30.06.12: £3,154,130) in respect of the ACD's periodic charge and administration fees are included within expenses payable as disclosed in the balance sheet.

At the balance sheet date, material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 16.44% (30.06.12: 12.48%) of the sub-fund's shares.

M&G Corporate Bond Fund

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9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.12: same).

Currency exposure

The currency profile of the sub-fund's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other assets		Total	
	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000
Euro	(5,890)	(11,232)	6,397	9,121	507	(2,111)
Swiss franc	(32)	(16)	94	222	62	206
US dollar	130,030	90,293	5,217	54,298	135,247	144,591
	124,108	79,045	11,708	63,641	135,816	142,686
Sterling	5,456,619	6,032,604	15,456	45,080	5,472,075	6,077,684
Total	5,580,727	6,111,649	27,164	108,721	5,607,891	6,220,370

Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000
Euro	146,303	148,720	138,513	175,403	284,816	324,123
Sterling	831,268	866,780	3,891,066	4,391,299	4,722,334	5,258,079
Swiss franc	0	6,585	2,912	2,857	2,912	9,442
US dollar	80,606	90,153	453,891	489,268	534,497	579,421
Total	1,058,177	1,112,238	4,486,382	5,058,827	5,544,559	6,171,065

	Weighted average gross interest rate of fixed interest-bearing assets		Weighted average period for which interest rates are fixed ^[a]	
	as at 30.06.13 %	as at 30.06.12 %	as at 30.06.13 years	as at 30.06.12 years
Euro	4.92	6.46	15.82	14.75
Sterling	4.15	4.29	14.61	13.96
Swiss franc	5.87	5.94	4.53	5.53
US dollar	4.92	4.26	19.92	17.16

^[a] Assuming the earliest maturity date for those assets with variable maturity dates.

Floating rate interest-bearing assets at the balance sheet date consist of bank balances, on which interest is calculated at a variable rate by reference to Sterling bank deposit rates or the international equivalent; floating rate notes, on which interest is calculated at a variable rate by reference to the London Interbank Offered Rate (LIBOR) or the Euro Interbank Offered Rate (EURIBOR); and variable rate bonds (30.06.12: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.12: same).

Risk analysis

Our core method of estimating each fund's overall risk position is to use value at risk based (VaR) techniques that enable us to measure each fund's sensitivity to core market risk factors such as credit and interest rates. VaR is a technique used to estimate the probability of portfolio losses based on the statistical analysis of historical price trends and volatilities.

The MAGIM risk model for VaR production was originally created in 2001 utilising the Algorithmics RiskWatch software, a market leading risk solution. From the variance / covariance matrices, a parametric Monte Carlo scenario set of 5,000 simulations is derived and applied to the M&G Corporate Bond Fund.

The key assumption within the variance / covariance matrix is the exponential weighted moving average approach that utilises a decay factor of 0.94 thereby weighting more recent data history with a higher significance.

The VaR analysis for the M&G Corporate Bond Fund is produced on a daily basis. Market risk factors that are analysed include LIBOR / swap rates, government yield curves, equity prices, foreign exchange rates, market volatility and credit spreads.

With a statistical level of confidence of 99%, the VaR model suggests that the potential loss incurred could be £154,700,701 over the next 30 days from the balance sheet date, 30 June 2013.

Please note, the market risk information is a relative estimate of risk rather than a precise and accurate number. The model is based on historical data and cannot take account of the fact that future market price movements, correlations between markets and levels of market liquidity in conditions of market stress may bear no relation to historical patterns.

10 Portfolio transaction costs

	2013 £'000	2012 £'000
a) Purchases ^[a]		
Purchases excluding transaction costs	7,328,242	8,500,731
b) Sales ^[a]		
Sales excluding transaction costs	8,538,761	7,554,080

^[a] Purchases and sales of Futures have been included at the value of their exposure.

There were no significant transaction costs during the year (30.06.12: same).

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares, Sterling Class 'I' (Net Income and Net Accumulation) shares, Sterling Class 'R' (Net Income and Net Accumulation) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

This sub-fund also contains Euro Class 'A' (Gross Accumulation) shares and Euro Class 'C' (Gross Accumulation) shares.

M&G Corporate Bond Fund

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11 Shareholder funds (continued)

The charging structure for each share class, as at 30 June 2013, is set out in the following table (30.06.12: same):

CHARGES AND EXPENSES

	Initial charge %	Withdrawal fee %	ACD's annual remuneration %
Sterling			
Class 'A'	3.00	n/a	1.00
Class 'I'	1.00	n/a	0.50
Class 'R' ^[a]	1.00	n/a	0.75
Class 'X'	nil	4.50 ^[b]	1.25
Euro			
Class 'A'	3.25	n/a	1.25
Class 'C'	1.25	n/a	0.50

^[a] With effect from 3 August 2012, the launch date of the Sterling Class 'R' share class.

^[b] The withdrawal fee diminishes over a period of five years. Please refer to the Key Investor Information Document (KIID) in conjunction with the Important Information for Investors document.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.13		30.06.12	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	1,067,845	1,376,111	1,468,336	1,431,351
Class 'I'	2,331,447	128,854	2,455,655	106,636
Class 'R'	1,876	500	n/a	n/a
Class 'X'	623,090	51,470	645,598	58,235
Euro				
Class 'A'	n/a	24,775	n/a	43,575
Class 'C'	n/a	1,923	n/a	10,984

The net asset value per share and the number of shares are given in the net assets table on page 14. The distribution per share is given in the distribution table on pages 29 and 30. Each share class has the same rights on winding-up.

12 Finance costs

	2013 £'000	2012 £'000
Income shares (Sterling)		
Class 'A' - First interim	9,998	10,234
- Second interim	8,592	9,916
- Third interim	7,683	10,910
- Final	6,925	10,687
Class 'I' - First interim	19,930	17,624
- Second interim	18,832	18,109
- Third interim	18,250	20,076
- Final	17,647	20,321
Class 'R' - First interim ^[a]	0	n/a
- Second interim ^[a]	0	n/a
- Third interim	9	n/a
- Final	13	n/a
Class 'X' - First interim	4,120	4,887
- Second interim	3,951	4,520
- Third interim	3,883	4,620
- Final	3,712	4,411
Accumulation shares (Sterling)		
Class 'A' - First interim	10,207	9,360
- Second interim	9,942	9,146
- Third interim	9,466	10,206
- Final	8,845	10,396
Class 'I' - First interim	851	651
- Second interim	1,088	795
- Third interim	891	870
- Final	963	879
Class 'R' - First interim ^[b]	0	n/a
- Second interim ^[b]	0	n/a
- Third interim	2	n/a
- Final	3	n/a
Class 'X' - First interim	372	406
- Second interim	350	380
- Third interim	323	397
- Final	304	394
Accumulation shares (Euro)		
Class 'A' - First interim	350	68
- Second interim	335	115
- Third interim	229	197
- Final	185	368
Class 'C' - First interim	105	25
- Second interim	83	31
- Third interim	20	80
- Final	19	113
	168,478	181,192
Income tax deducted at source	42,461	43,939
Finance costs: Interest distributions	210,939	225,131
Income deducted on cancellation of shares	4,673	1,017
Income received on issue of shares	(1,696)	(5,781)
Finance costs: Distributions	213,916	220,367
Finance costs: Interest	11	12
Total finance costs	213,927	220,379
Net revenue per statement of total return	213,743	220,472
Undistributed income brought forward	200	95
Undistributed income carried forward	(27)	(200)
Finance costs: Distributions	213,916	220,367

^[a] The total interim distributions for Sterling Class 'R' (Income) shares were £194.

^[b] The total interim distributions for Sterling Class 'R' (Accumulation) shares were £213.

M&G Corporate Bond Fund

FINANCIAL STATEMENTS

DISTRIBUTION TABLE						
Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equalisation	Distribution paid/payable	
					2012/13	2011/12
Sterling						
Class 'A' - First interim						
Group 1:	0.3150	0.0630	0.2520	-	0.2520	0.2840
Group 2:	0.1626	0.0325	0.1301	0.1219	0.2520	0.2840
- Second interim						
Group 1:	0.3075	0.0615	0.2460	-	0.2460	0.2640
Group 2:	0.1559	0.0312	0.1247	0.1213	0.2460	0.2640
- Third interim						
Group 1:	0.3080	0.0616	0.2464	-	0.2464	0.2752
Group 2:	0.1443	0.0289	0.1154	0.1310	0.2464	0.2752
- Final						
Group 1:	0.3015	0.0603	0.2412	-	0.2412	0.2620
Group 2:	0.1613	0.0323	0.1290	0.1122	0.2412	0.2620
Class 'I' - First interim						
Group 1:	0.3625	0.0725	0.2900	-	0.2900	0.3200
Group 2:	0.2021	0.0404	0.1617	0.1283	0.2900	0.3200
- Second interim						
Group 1:	0.3550	0.0710	0.2840	-	0.2840	0.3000
Group 2:	0.1761	0.0352	0.1409	0.1431	0.2840	0.3000
- Third interim						
Group 1:	0.3531	0.0706	0.2825	-	0.2825	0.3112
Group 2:	0.1425	0.0285	0.1140	0.1685	0.2825	0.3112
- Final						
Group 1:	0.3520	0.0704	0.2816	-	0.2816	0.2980
Group 2:	0.1934	0.0387	0.1547	0.1269	0.2816	0.2980
Class 'R' - First interim						
Group 1:	0.5520	0.1104	0.4416	-	0.4416	n/a
Group 2:	0.5520	0.1104	0.4416	-	0.4416	n/a
- Second interim						
Group 1:	0.8925	0.1785	0.7140	-	0.7140	n/a
Group 2:	0.1603	0.0321	0.1282	0.5858	0.7140	n/a
- Third interim						
Group 1:	0.8670	0.1734	0.6936	-	0.6936	n/a
Group 2:	0.3615	0.0723	0.2892	0.4044	0.6936	n/a
- Final						
Group 1:	0.8585	0.1717	0.6868	-	0.6868	n/a
Group 2:	0.4531	0.0906	0.3625	0.3243	0.6868	n/a
Class 'X' - First interim						
Group 1:	0.2900	0.0580	0.2320	-	0.2320	0.2660
Group 2:	0.1254	0.0251	0.1003	0.1317	0.2320	0.2660
- Second interim						
Group 1:	0.2825	0.0565	0.2260	-	0.2260	0.2480
Group 2:	0.1179	0.0236	0.0943	0.1317	0.2260	0.2480
- Third interim						
Group 1:	0.2840	0.0568	0.2272	-	0.2272	0.2560
Group 2:	0.1210	0.0242	0.0968	0.1304	0.2272	0.2560
- Final						
Group 1:	0.2770	0.0554	0.2216	-	0.2216	0.2460
Group 2:	0.1345	0.0269	0.1076	0.1140	0.2216	0.2460

DISTRIBUTION TABLE (continued)

Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
					2012/13	2011/12
Sterling						
Class 'A' - First interim						
Group 1:	0.4590	0.0918	0.3672	-	0.3672	0.4036
Group 2:	0.2409	0.0482	0.1927	0.1745	0.3672	0.4036
- Second interim						
Group 1:	0.4515	0.0903	0.3612	-	0.3612	0.3776
Group 2:	0.2381	0.0476	0.1905	0.1707	0.3612	0.3776
- Third interim						
Group 1:	0.4560	0.0912	0.3648	-	0.3648	0.3964
Group 2:	0.2089	0.0418	0.1671	0.1977	0.3648	0.3964
- Final						
Group 1:	0.4485	0.0897	0.3588	-	0.3588	0.3824
Group 2:	0.2339	0.0468	0.1871	0.1717	0.3588	0.3824
Class 'I' - First interim						
Group 1:	0.5390	0.1078	0.4312	-	0.4312	0.4608
Group 2:	0.2909	0.0582	0.2327	0.1985	0.4312	0.4608
- Second interim						
Group 1:	0.5345	0.1069	0.4276	-	0.4276	0.4356
Group 2:	0.1943	0.0389	0.1554	0.2722	0.4276	0.4356
- Third interim						
Group 1:	0.5349	0.1070	0.4279	-	0.4279	0.4560
Group 2:	0.2754	0.0551	0.2203	0.2076	0.4279	0.4560
- Final						
Group 1:	0.5340	0.1068	0.4272	-	0.4272	0.4428
Group 2:	0.2798	0.0560	0.2238	0.2034	0.4272	0.4428
Class 'R' - First interim						
Group 1:	0.5515	0.1103	0.4412	-	0.4412	n/a
Group 2:	0.5515	0.1103	0.4412	-	0.4412	n/a
- Second interim						
Group 1:	0.8960	0.1792	0.7168	-	0.7168	n/a
Group 2:	0.2249	0.0450	0.1799	0.5369	0.7168	n/a
- Third interim						
Group 1:	0.8935	0.1787	0.7148	-	0.7148	n/a
Group 2:	0.4481	0.0896	0.3585	0.3563	0.7148	n/a
- Final						
Group 1:	0.8765	0.1753	0.7012	-	0.7012	n/a
Group 2:	0.3179	0.0636	0.2543	0.4469	0.7012	n/a
Class 'X' - First interim						
Group 1:	0.4155	0.0831	0.3324	-	0.3324	0.3716
Group 2:	0.2304	0.0461	0.1843	0.1481	0.3324	0.3716
- Second interim						
Group 1:	0.4075	0.0815	0.3260	-	0.3260	0.3472
Group 2:	0.2046	0.0409	0.1637	0.1623	0.3260	0.3472
- Third interim						
Group 1:	0.4125	0.0825	0.3300	-	0.3300	0.3620
Group 2:	0.1865	0.0373	0.1492	0.1808	0.3300	0.3620
- Final						
Group 1:	0.4030	0.0806	0.3224	-	0.3224	0.3488
Group 2:	0.2496	0.0499	0.1997	0.1227	0.3224	0.3488

M&G Corporate Bond Fund

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DISTRIBUTION TABLE (continued)

Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
					2012/13	2011/12
Euro	€	€	€	€	€	€
Class 'A' - First interim						
Group 1:	12.3557	-	12.3557	-	12.3557	12.7037
Group 2:	7.5908	-	7.5908	4.7649	12.3557	12.7037
- Second interim						
Group 1:	11.9902	-	11.9902	-	11.9902	12.2557
Group 2:	5.6744	-	5.6744	6.3158	11.9902	12.2557
- Third interim						
Group 1:	11.6250	-	11.6250	-	11.6250	12.9314
Group 2:	5.9448	-	5.9448	5.6802	11.6250	12.9314
- Final						
Group 1:	11.3712	-	11.3712	-	11.3712	12.8960
Group 2:	6.9905	-	6.9905	4.3807	11.3712	12.8960
Class 'C' - First interim						
Group 1:	15.7517	-	15.7517	-	15.7517	15.4442
Group 2:	9.2352	-	9.2352	6.5165	15.7517	15.4442
- Second interim						
Group 1:	15.4072	-	15.4072	-	15.4072	15.1419
Group 2:	4.3426	-	4.3426	11.0646	15.4072	15.1419
- Third interim						
Group 1:	14.7274	-	14.7274	-	14.7274	15.9304
Group 2:	4.5826	-	4.5826	10.1448	14.7274	15.9304
- Final						
Group 1:	15.5068	-	15.5068	-	15.5068	16.0655
Group 2:	7.6715	-	7.6715	7.8353	15.5068	16.0655

First interim period	01.07.12 - 30.09.12
Second interim period	01.10.12 - 31.12.12
Third interim period	01.01.13 - 31.03.13
Final period	01.04.13 - 30.06.13

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2). It is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes.

M&G Dividend Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G Dividend Fund

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 invests in a well diversified portfolio of UK stocks with a strong emphasis on income. The aim is to provide a level of income that is in excess of that of the FTSE All-Share Index.

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.

* 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 1 July 2013, for the year ended 30 June 2013

Of note amongst the new holdings introduced to the fund during the review period were Standard Chartered Bank, pharmaceuticals company Novartis, health and household goods manufacturer Reckitt Benckiser, packaging and recycled materials producer DS Smith and outsourcing group Capita.

Standard Chartered was added to increase the fund's financials weighting. Its shares were trading at a discount to its peers, and the bank has exposure to longer term growth in emerging markets, having survived the financial crisis relatively unscathed. Novartis has a market-leading vaccines and diagnostics division, its shares were on an attractive valuation and the company has an excellent dividend^[a] track record. Reckitt Benckiser has a strong balance sheet and is a highly cash-generative business with good long-term prospects to grow profits and dividends. DS Smith serves the consumer goods packaging market. It is integrating a strategic acquisition made last year, which put the firm in a much stronger competitive position in our view. Meanwhile, Capita has returned to growth, winning a number of outsourcing contracts from the UK government, which is seeking to cut costs in the provision of public services.

Two holdings left the portfolio due to takeovers. These were Cove Energy, which was sold to Thailand's PTT Exploration and Production, and the UK's largest software company, Logica, which was bought out by Canadian rival, CGI. A number of holdings were sold, taking advantage of the market's strength. These included high street bookmaker William Hill, Lloyd's insurer Catlin and laundry services group Berendsen.

One of the fund's holdings, RSA Insurance, disappointingly chose to cut its dividend and the fund subsequently exited the position. As a result of this, a holding in a rival, Aviva, was also sold on fears that it would follow suit, which later transpired. Elsewhere of note, shares in BG Group were disposed of on concerns about the longer term returns from one of the energy company's bigger projects in Australia.

Phil Cliff

Fund manager

Phil Cliff is an employee of M&G Limited which is an associate of M&G Securities Limited. During the review period Alex Odd was the fund manager. Phil Cliff was appointed fund manager in July 2013.

^[a] 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.

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

M&G Dividend Fund

FUND STATISTICS

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

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.01.14	28.02.14
Final	01.07.14	31.08.14

	Final distribution		Ongoing Charges Figure ^[b]	
	Inc 31.08.13 ^[a]	Acc 01.07.13 ^[a]	30.06.13	30.06.12
Sterling	p	p	%	%
Class 'A'	1.5958	14.2252	1.66	1.66
Class 'C'	1.8841	n/a	0.16	0.16
Class 'I'	30.5678	30.9455	0.91 ^[c]	n/a
Class 'R'	3.0479	3.0839	1.16 ^[c]	n/a
Class 'X'	1.6081	14.0674	1.66	1.66

^[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.

^[c] The Ongoing Charges Figure shown here is an estimate of the charges, as the share class has not been in existence for a full financial year.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.13		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
	p	p	p	p	%	%
Sterling	56.16	516.08	51.02	449.77	+10.07	+14.74
Class 'A'	56.16	516.08	51.02	449.77	+10.07	+14.74
Class 'C'	63.37	n/a	56.71	n/a	+11.74	n/a
Class 'I'	1,081.55	1,127.13	n/a	n/a	n/a	n/a
Class 'R'	107.89	112.41	n/a	n/a	n/a	n/a
Class 'X'	56.42	510.54	51.26	444.94	+10.07	+14.74

PERFORMANCE SINCE LAUNCH

	six months 02.01.13 %	one year 02.07.12 %	five years 01.07.08 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+1.7	+9.5	+2.0	+6.6 ^[c]
Class 'C'	+2.3	+11.2	+3.6	+0.9 ^[d]
Class 'I'	+2.0	n/a	n/a	+8.5 ^[e]
Class 'R'	+1.9	n/a	n/a	+8.3 ^[e]
Class 'X'	+1.7	+9.5	+2.0	+3.3 ^[f]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid excluding reinvested income.

^[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. Not annualised.

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

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From To	29.06.12 28.06.13 %	30.06.11 29.06.12 %	30.06.10 30.06.11 %	30.06.09 30.06.10 %	30.06.08 30.06.09 %
Sterling					
Class 'A'	+14.7	-0.3	+24.0	+19.2	-18.3

Source: Morningstar, Inc., bid to bid with net income reinvested.

PRICES

Calendar year	Income shares		Accumulation shares		
	Highest	Lowest	Highest	Lowest	
Sterling (net)	p	p	p	p	
Class 'A'	2008	63.46	39.45	444.95	287.09
	2009	50.82	35.26	392.69	262.41
	2010	55.06	44.43	445.95	359.84
	2011 ^[a] ^[b] ^[c]	56.68	44.20	468.37	372.61
	2012 ^[d]	55.72	49.40	491.02	422.86
	2013 ^[e]	62.58	55.00	559.25	491.52
Class 'C'	2008	65.91	41.47	n/a	n/a
	2009	54.37	37.31	n/a	n/a
	2010	59.81	47.91	n/a	n/a
	2011 ^[a] ^[b] ^[c]	61.95	48.57	n/a	n/a
	2012 ^[d]	62.38	54.57	n/a	n/a
	2013 ^[e]	70.60	61.73	n/a	n/a
Class 'I'	2012 ^[f]	1,068.31	1,000.00	1,068.22	1,000.00
	2013 ^[e]	1,203.85	1,055.36	1,220.25	1,069.74
Class 'R'	2012 ^[f]	106.74	100.00	106.68	100.00
	2013 ^[e]	120.15	105.42	121.74	106.82
Class 'X'	2008	63.76	39.63	440.12	284.00
	2009	51.06	35.43	388.47	259.59
	2010	55.32	44.63	441.16	355.97
	2011 ^[a] ^[b] ^[c]	56.94	44.40	463.33	368.60
	2012 ^[d]	55.97	49.63	485.74	418.32
	2013 ^[e]	62.88	55.26	553.24	486.24

^[a] On 14 March 2011 the fund's objective and policy were changed.

^[b] The M&G Income Fund merged into the M&G Dividend Fund immediately after 12 August 2011.

^[c] The Prudential Equity Income Trust merged into the M&G Dividend Fund immediately after 14 October 2011.

^[d] The Prudential Higher Income Trust merged into the M&G Dividend Fund immediately after 22 June 2012.

^[e] To 1 July 2013.

^[f] From 3 August 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 price of shares and the income from them may go down as well as up, and you may get back less than you invested.

M&G Dividend Fund

FUND STATISTICS

INCOME

Dividend income per share

	Calendar year	Interim	Distributed Final	Total	Reinvested
		p	p	p	p
Sterling (net)					
Class 'A'	2008	1.0200	1.9330	2.9530	20.5905
	2009	1.0200	1.5300	2.5500	18.8075
	2010	0.7500	1.4650	2.2150	17.2858
	2011	0.7500	1.4740	2.2240	18.1748
	2012	0.7600	1.5260	2.2860	19.4823
	2013 [a]	0.7700	1.5958	2.3658	20.9852
Class 'C'	2008	1.0200	2.0500	3.0700	n/a
	2009	1.0200	1.6700	2.6900	n/a
	2010	0.7500	1.6200	2.3700	n/a
	2011	0.7500	1.6730	2.4230	n/a
	2012	0.7600	1.7650	2.5250	n/a
	2013 [a]	0.7700	1.8841	2.6541	n/a
Class 'I'	2013 [a]	14.4700	30.5678	45.0378	45.4155
Class 'R'	2013 [a]	1.4500	3.0479	4.4979	4.5339
Class 'X'	2008	1.0200	1.9490	2.9690	20.3844
	2009	1.0200	1.5410	2.5610	18.5999
	2010	0.7500	1.4750	2.2250	17.0982
	2011	0.7500	1.4840	2.2340	17.9772
	2012	0.7600	1.5360	2.2960	19.2827
	2013 [a]	0.7700	1.6081	2.3781	20.7574

[a] Up to final: ex-distribution date 1 July 2013;
payment date 31 August 2013.

NET ASSETS

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling		p	p		
Class 'A'	Jun 2011	54.01	455.34	702,534,364	17,931,765
	Jun 2012	51.02	449.77	941,137,965	23,716,713
	Jun 2013	56.16	516.08	836,342,965	19,662,513
Class 'C'	Jun 2011	59.12	n/a	28,342,100	n/a
	Jun 2012	56.71	n/a	1,125,179,420	n/a
	Jun 2013	63.37	n/a	1,002,602,420	n/a
Class 'I'	Jun 2013	1,081.55	1,127.13	1,429,000	159,470
Class 'R'	Jun 2013	107.89	112.41	572,000	59,000
Class 'X'	Jun 2011	54.26	450.44	38,485,085	751,000
	Jun 2012	51.26	444.94	47,054,602	966,163
	Jun 2013	56.42	510.54	48,928,602	982,563

Total net asset value of sub-fund

Year ended	£	€ [a]
Jun 2011	502,119,000	555,257,000
Jun 2012	1,253,323,000	1,554,501,000
Jun 2013	1,257,053,000	1,465,270,000

[a] Based on the midday exchange rate on the last business day of each financial year.

PORTFOLIO

PORTFOLIO STATEMENT

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
Oil & gas producers		13.97	17.65
15,000,000 BP	67,912	5.40	
2,900,000 Royal Dutch Shell 'B'	63,206	5.03	
3,000,000 Tullow Oil	30,360	2.42	
2,000,000 Zhaikmunai GDR	14,141	1.12	
Oil equipment, services & distribution		2.15	0.00
1,500,000 AMEC	15,060	1.20	
1,000,000 Petrofac	11,900	0.95	
Chemicals		0.87	0.77
5,000,000 Elementis	11,000	0.87	
Industrial metals & mining		2.09	2.16
2,750,000 First Quantum Minerals	26,265	2.09	
Mining		5.38	1.80
1,250,000 BHP Billiton	21,262	1.69	
1,000,000 Fresnillo	8,490	0.67	
1,400,000 Rio Tinto	37,926	3.02	
Aerospace & defence		1.58	2.44
7,500,000 Cobham	19,913	1.58	
General industrials		3.63	0.00
10,000,000 DS Smith	24,720	1.97	
3,500,000 RPC Group	14,368	1.14	
500,000 Smiths Group	6,545	0.52	
Electronic & electrical equipment		0.89	0.00
1,791,899 Domino Printing Sciences	11,146	0.89	
Industrial engineering		1.49	2.29
700,000 Spirax-Sarco Engineering	18,760	1.49	
Industrial transportation		1.35	1.24
6,000,000 BBA Aviation	16,926	1.35	
Support services		5.12	5.81
1,500,000 Capita Group	14,610	1.16	
2,750,000 Essentra (formerly Filtrona)	19,085	1.52	
7,500,000 Premier Farnell	15,127	1.20	
10,000,000 Regus	15,530	1.24	
Beverages		1.20	0.00
3,000,000 Britvic	15,150	1.20	
Food producers		4.70	4.28
3,000,000 Tate & Lyle	24,540	1.95	
1,300,000 Unilever	34,606	2.75	
Household goods & home construction		2.24	0.00
600,000 Reckitt Benckiser	28,134	2.24	
Personal goods		1.10	1.01
4,000,000 PZ Cussons	13,808	1.10	
Tobacco		7.42	7.38
1,650,000 British American Tobacco	56,562	4.50	
1,600,000 Imperial Tobacco	36,688	2.92	
Healthcare equipment & services		0.00	1.01
Pharmaceuticals & biotechnology		8.95	10.87
4,084,393 BTG	14,896	1.18	
3,000,000 GlaxoSmithKline	49,110	3.91	
600,000 Novartis (Regd.)	27,731	2.21	
1,000,000 Shire	20,690	1.65	
Food & drug retailers		2.78	0.74
10,500,000 Tesco	34,986	2.78	
General retailers		0.99	0.76
30,000,000 Dixons Retail	12,414	0.99	

M&G Dividend Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
Media			
2,000,000 British Sky Broadcasting Group	15,890	1.26	
1,080,500 Pearson	12,674	1.01	
3,000,000 UBM	19,830	1.58	
Travel & leisure			
8,000,000 Enterprise Inns	8,504	0.68	
7,500,000 Ladbrokes	14,850	1.18	
Mobile telecommunications			
15,000,000 Vodafone Group	28,178	2.24	
Gas, water & multi-utilities			
10,000,000 Centrica	36,110	2.87	
Banks			
11,000,000 Barclays	31,262	2.49	
10,000,000 HSBC Holdings	68,380	5.44	
2,250,000 Standard Chartered	31,995	2.54	
Non-life insurance			
2,136,000 Hiscox	11,865	0.94	
Life insurance			
14,000,000 Legal & General Group	23,982	1.91	
4,483,857 Resolution	12,766	1.02	
7,000,000 Standard Life	24,752	1.97	
Real estate investment trusts			
15,222,500 Hansteen Holdings	12,315	0.98	
Financial services			
1,200,000 Provident Financial	17,664	1.40	
Software & computer services			
1,000,000 Fidessa Group	19,020	1.51	
2,335,046 Micro Focus	16,415	1.31	
AIM quoted			
5,000,000 African Minerals	9,525	0.76	
10,000,000 Bowleven	6,025	0.48	
1,460,000 Gaming VC Holdings	4,103	0.33	
Unquoted / unlisted			
377,518 Izodia ^[a]	0	0.00	
'AAA' rated money market funds ^[b]			
5,341,000 Northern Trust Global Fund - Sterling	5,341	0.42	
Portfolio of investments (notes 1b & 1d on page 35 & 36)	1,285,013	102.22	102.36
Net other liabilities	(27,960)	(2.22)	(2.36)
Net assets attributable to shareholders	1,257,053	100.00	100.00

^[a] Suspended on 16 December 2002.

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

PORTFOLIO TRANSACTIONS

for the year ended 30 June 2013

	£'000
Largest purchases	
Rio Tinto	45,456
Standard Chartered	38,772
Novartis (Regd.)	32,145
Tesco	24,728
Reckitt Benckiser	23,235
Imperial Tobacco	21,897
HSBC Holdings	17,707
Capita Group	17,560
Barclays	17,107
Cobham	16,590
DS Smith	16,410
AMEC	15,524
Petrofac	14,991
British Sky Broadcasting Group	14,789
RPC Group	14,766
Britvic	13,055
Resolution	12,627
African Minerals	12,380
Domino Printing Sciences	12,133
Fresnillo	11,436
Northern Trust Global Fund - Sterling ^[a]	365,594
Other purchases	115,435
Total purchases	874,337
Largest sales	
BG Group	41,924
AstraZeneca	41,430
Vodafone Group	41,250
National Grid	30,772
GlaxoSmithKline	28,985
Aviva	25,425
William Hill	24,197
BAE Systems	23,578
RSA Insurance Group	23,397
Weir Group	21,421
United Utilities	20,963
Catlin Group	19,545
Severn Trent	18,818
Berendsen	16,783
HSBC Holdings	15,375
Cove Energy	14,602
Smith & Nephew	13,340
Go-Ahead Group	12,812
Imperial Tobacco	11,810
Sage Group	10,905
Northern Trust Global Fund - Sterling ^[a]	378,671
Other sales	186,895
Total sales	1,022,898

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

M&G Dividend Fund

FINANCIAL STATEMENTS

For the year ended 30 June 2013.

STATEMENT OF TOTAL RETURN

	Note	2013		2012	
		£'000	£'000	£'000	£'000
Income					
Net capital gains	3		150,466		34,271
Revenue	4	56,042		48,440	
Expenses	5	(11,878)		(10,565)	
Finance costs: Interest	12	(1)		0	
Net revenue before taxation		44,163		37,875	
Taxation	6	(270)		(51)	
Net revenue after taxation			43,893		37,824
Total return before distributions			194,359		72,095
Finance costs: Distributions	12		(55,834)		(48,303)
Change in net assets attributable to shareholders from investment activities			138,525		23,792

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2013		2012	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		1,253,323		502,119
Amounts received on issue of shares	56,271		21,894	
Transfer of assets from the M&G Income Fund	0		159,394	
Transfer of assets from the Prudential Equity Income Trust	0		590,016	
Transfer of assets from the Prudential Higher Income Trust	0		58,603	
Amounts paid on cancellation of shares	(195,688)		(107,306)	
		(139,417)		722,601
Stamp Duty Reserve Tax (SDRT)		(160)		(142)
Change in net assets attributable to shareholders from investment activities (see above)		138,525		23,792
Retained distributions on Accumulation shares		4,620		4,829
Unclaimed distributions		162		124
Closing net assets attributable to shareholders		1,257,053		1,253,323

BALANCE SHEET

	as at 30 June 2013		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		1,285,013		1,282,933
Debtors				
Amounts receivable from the M&G Income Fund	9		17	
Amounts receivable from the Prudential Higher Income Trust	0		72	
Amounts receivable on issues	3,347		482	
Distributions receivable	1		9	
Dividends receivable	5,050		6,530	
Overseas tax recoverable	301		57	
Tax recoverable	0		25	
		8,708		7,192
Cash and bank balances				
Cash held as bank balances	1		1	
		1		1
Total other assets		8,709		7,193
Total assets		1,293,722		1,290,126
Liabilities				
Creditors				
Amounts payable on cancellations	(925)		(1,189)	
Expenses payable	(644)		(597)	
Income tax payable	0		(71)	
Net distributions payable on Income shares	(33,477)		(34,944)	
Purchases awaiting settlement	(1,594)		0	
SDRT payable	(29)		(2)	
Total liabilities		(36,669)		(36,803)
Net assets attributable to shareholders		1,257,053		1,253,323

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 28 June 2013, being the last business day of the financial year. The fair value of non-derivative securities is bid price. Where the sub-fund holds unquoted investments the Authorised Corporate Director (ACD) will use their discretion to determine the most appropriate valuation.

c) Investment gains and losses

Gains and losses, including exchange differences, on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date, including unrealised exchange differences, are treated as capital.

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

d) Exchange rates

Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into Sterling at the rate of exchange ruling as at 12 noon on 28 June 2013, being the last business day of the financial year.

e) Dividend and interest income

Dividends from quoted equity and non-equity shares are recognised net of attributable tax credits when the security is quoted ex-dividend.

Overseas dividends received after the deduction of withholding tax are shown gross of taxation, with the taxation consequences shown within the taxation charge.

Dividends are recognised as either revenue or capital depending upon the nature and circumstances of the dividend receivable.

Distributions from collective investment schemes are recognised net of attributable tax credits when the security is quoted ex-distribution and are treated as revenue.

Bank interest is recognised on an accruals basis and treated as revenue.

f) Stock dividends

The ordinary element of stocks received in lieu of cash dividends is recognised as revenue of the sub-fund. Any enhancement above the cash dividend is treated as capital.

g) Underwriting commission

This is treated as revenue and recognised when the issue takes place, except where the sub-fund is required to take up all or some of the shares underwritten, in which case the commission is deducted from the cost of these shares.

h) Expenses

All expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

i) Apportionment of income and expenses to multiple share classes

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

j) Taxation

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

k) Deferred taxation

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

l) Distribution policy

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue. In determining the distribution of the sub-fund, all expenses, with the exception of bank overdraft interest, are offset against capital. The effect of this is that the distribution is determined as if these expenses had been charged to capital. Stock dividends form part of the distributable income.

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.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes Sourcebook.

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

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk and currency risk in relation to the investment portfolio. Generally, the ACD will not seek to hedge this exposure since the ACD believes that, in the long term, such hedging would be detrimental to total return.

All expenses, with the exception of bank overdraft interest and net of any tax relief available, are offset against capital in determining the distribution of the sub-fund, thereby increasing the level of distributable income whilst restraining the sub-fund's capital performance to an equivalent extent. This policy increases investment opportunities in lower yielding companies and the ACD believes that this should facilitate maximising the total return on the sub-fund, consistent with the yield target.

In the context of the sub-fund's objective, the ACD may, on occasion, make an investment with a view to securing a particular dividend to enhance distributable income. This can act as a constraint on short-term capital performance.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

M&G Dividend Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

2 Risk management policies (continued)

The sub-fund's assets comprise securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 127, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.12: same).

3 Net capital gains

	2013 £'000	2012 £'000
Non-derivative securities	150,601	32,919
Currency losses	(130)	(2)
Special dividends taken to capital	0	1,375
Transaction charges	(5)	(21)
Net capital gains	150,466	34,271

4 Revenue

	2013 £'000	2012 £'000
Bank interest	1	2
Interest distributions	35	74
Overseas dividends	6,058	2,875
Property income dividends	146	76
Stock dividends	512	1,103
UK dividends	49,266	44,310
Underwriting commission	24	0
Total revenue	56,042	48,440

5 Expenses

	2013 £'000	2012 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	9,800	8,956
Administration fee	1,992	1,542
	11,792	10,498
Payable to the Depository or associate		
Depository's fee (including VAT)	64	54
Other expenses		
Audit fee (including VAT)	9	9
Regulatory fees	1	1
Safe custody charge	12	3
	22	13
Total expenses	11,878	10,565

6 Taxation

	2013 £'000	2012 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Overseas tax	362	51
Prior year adjustment	(92)	0
Current tax charge (note 6b)	270	51
Deferred tax (note 6c)	0	0
Total taxation	270	51
b) Factors affecting taxation charge for the year		
Net revenue before taxation	44,163	37,875
Corporation tax at 20%	8,833	7,575
Effects of:		
UK dividends not taxable	(9,853)	(8,862)
Stock dividends not taxable	(103)	(221)
Overseas dividends not taxable	(1,211)	(575)
Current year expenses not utilised	2,334	2,083
Overseas tax	362	51
Prior year adjustment	(92)	0
Current tax charge (note 6a)	270	51
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset of £28,029,000 (30.06.12: £25,695,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.12: same).

8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in net assets attributable to shareholders and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's (ACD's) periodic charge and administration fee are disclosed in note 5. Amounts due at the year end to the ACD of £624,000 (30.06.12: £580,000) in respect of the ACD's periodic charge and administration fees are included within expenses payable as disclosed in the balance sheet.

During the year, there were transactions in shares in related parties of M&G Securities Limited with a total value of £370,000 (2012: £1,894,000).

At the balance sheet date, the sub-fund held shares in related parties of M&G Securities Limited with a value of £nil (30.06.12: £358,000).

At the balance sheet date, material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 53.79% (30.06.12: 50.59%) of the sub-fund's shares.

M&G Dividend Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.12: same).

Currency exposure

There was no significant foreign currency exposure within the sub-fund at the balance sheet date (30.06.12: same).

Interest rate profile

The majority of the sub-fund's assets comprise equity shares which neither pay interest nor have a maturity date (30.06.12: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.12: same).

10 Portfolio transaction costs

	2013 £'000	2012 £'000
a) Purchases		
Purchases excluding transaction costs	873,904	1,171,144
Commissions	433	198
Taxes	0	764
Total transaction costs	433	962
Total purchases including transaction costs	874,337	1,172,106 ^[a]
b) Sales		
Sales excluding transaction costs	1,023,482	432,387
Commissions	(583)	(275)
Taxes	(1)	0
Total transaction costs	(584)	(275)
Total sales net of transaction costs	1,022,898	432,112

[a] Includes investment costs from merged funds totalling £777,613,000.

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares, Sterling Class 'C' (Net Income) shares, Sterling Class 'I' (Net Income and Net Accumulation) shares, Sterling Class 'R' (Net Income and Net Accumulation) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

The charging structure for each share class, as at 30 June 2013, is set out in the following table (30.06.12: same):

CHARGES AND EXPENSES

	Initial charge %	Withdrawal fee %	ACD's annual remuneration %
Sterling			
Class 'A'	4.00	n/a	1.50
Class 'C'	nil	n/a	nil
Class 'I' ^[a]	1.00	n/a	0.75
Class 'R' ^[a]	1.00	n/a	1.00
Class 'X'	nil	4.50 ^[b]	1.50

[a] With effect from 3 August 2012, the launch date of the Sterling Class 'I' and Sterling Class 'R' share classes.

[b] The withdrawal fee diminishes over a period of five years. Please refer to the Key Investor Information Document (KIID) in conjunction with the Important Information for Investors document.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.13		30.06.12	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	469,662	101,475	480,191	106,671
Class 'C'	635,360	n/a	638,043	n/a
Class 'I'	15,455	1,798	n/a	n/a
Class 'R'	617	66	n/a	n/a
Class 'X'	27,604	5,016	24,119	4,299

The net asset value per share and the number of shares are given in the net assets table on page 33. The distribution per share is given in the distribution table on pages 39 and 40. Each share class has the same rights on winding-up.

M&G Dividend Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

12 Finance costs

	2013 £'000	2012 £'000
Income shares (Sterling)		
Class 'A' - Interim	7,057	7,336
- Final	13,346	14,362
Class 'C' - Interim	8,433	8,205
- Final	18,890	19,859
Class 'I' - Interim	1	n/a
- Final	437	n/a
Class 'R' - Interim ^[a]	0	n/a
- Final	17	n/a
Class 'X' - Interim	385	353
- Final	787	723
Accumulation shares (Sterling)		
Class 'A' - Interim	1,567	1,480
- Final	2,797	3,166
Class 'I' - Interim	1	n/a
- Final	49	n/a
Class 'R' - Interim ^[b]	0	n/a
- Final	2	n/a
Class 'X' - Interim	66	55
- Final	138	128
Finance costs: Dividend distributions	53,973	55,667
Income deducted on cancellation of shares	2,440	1,448
Income received on issue of shares	(579)	(8,812)
Finance costs: Distributions	55,834	48,303
Finance costs: Interest	1	0
Total finance costs	55,835	48,303
Net revenue per statement of total return	43,893	37,824
Expenses offset against capital	11,878	10,565
Relief on expenses offset against capital	(41)	(30)
Undistributed income brought forward	105	49
Undistributed income carried forward	(1)	(105)
Finance costs: Distributions	55,834	48,303

[a] The interim distribution for Sterling Class 'R' (Income) shares was £15.

[b] The interim distribution for Sterling Class 'R' (Accumulation) shares was £450.

DISTRIBUTION TABLE

Dividend distributions on Income shares	Net income	Equalisation	Distribution paid/payable	
			2013	2012
Sterling	p	p	p	p
Class 'A' - Interim				
Group 1:	0.7700	-	0.7700	0.7600
Group 2:	0.3746	0.3954	0.7700	0.7600
- Final				
Group 1:	1.5958	-	1.5958	1.5260
Group 2:	0.8612	0.7346	1.5958	1.5260
Class 'C' - Interim				
Group 1:	0.7700	-	0.7700	0.7600
Group 2:	0.4917	0.2783	0.7700	0.7600
- Final				
Group 1:	1.8841	-	1.8841	1.7650
Group 2:	0.4474	1.4367	1.8841	1.7650
Class 'I' - Interim				
Group 1:	14.4700	-	14.4700	n/a
Group 2:	-	14.4700	14.4700	n/a
- Final				
Group 1:	30.5678	-	30.5678	n/a
Group 2:	12.5061	18.0617	30.5678	n/a
Class 'R' - Interim				
Group 1:	1.4500	-	1.4500	n/a
Group 2:	1.4500	-	1.4500	n/a
- Final				
Group 1:	3.0479	-	3.0479	n/a
Group 2:	1.4152	1.6327	3.0479	n/a
Class 'X' - Interim				
Group 1:	0.7700	-	0.7700	0.7600
Group 2:	0.1014	0.6686	0.7700	0.7600
- Final				
Group 1:	1.6081	-	1.6081	1.5360
Group 2:	0.6789	0.9292	1.6081	1.5360

M&G Dividend Fund

FINANCIAL STATEMENTS

DISTRIBUTION TABLE (continued)

Dividend distributions on Accumulation shares	Net income	Equalisation	Amount reinvested	
			2013	2012
Sterling	p	p	p	p
Class 'A' - Interim				
Group 1:	6.7600	-	6.7600	6.1350
Group 2:	1.7796	4.9804	6.7600	6.1350
- Final				
Group 1:	14.2252	-	14.2252	13.3473
Group 2:	6.5967	7.6285	14.2252	13.3473
Class 'I' - Interim				
Group 1:	14.4700	-	14.4700	n/a
Group 2:	-	14.4700	14.4700	n/a
- Final				
Group 1:	30.9455	-	30.9455	n/a
Group 2:	16.8174	14.1281	30.9455	n/a
Class 'R' - Interim				
Group 1:	1.4500	-	1.4500	n/a
Group 2:	0.6640	0.7860	1.4500	n/a
- Final				
Group 1:	3.0839	-	3.0839	n/a
Group 2:	0.5409	2.5430	3.0839	n/a
Class 'X' - Interim				
Group 1:	6.6900	-	6.6900	6.0413
Group 2:	2.6399	4.0501	6.6900	6.0413
- Final				
Group 1:	14.0674	-	14.0674	13.2414
Group 2:	7.0369	7.0305	14.0674	13.2414

Interim period 01.07.12 - 31.12.12

Final period 01.01.13 - 30.06.13

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2). It is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes.

M&G Emerging Markets Bond Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective of the M&G Emerging Markets Bond Fund

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

Investment policy of the M&G Emerging Markets Bond Fund

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 M&G Emerging Markets Bond Fund aims to maximise total returns by investing mainly in emerging market sovereign and corporate debt. The 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 fully flexible strategy.

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.

* Please note that this 'Risk and reward profile' section is based on Sterling Class 'X' shares, the nominated share class.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 1 July 2013, for the year ended 30 June 2013

We significantly increased the portfolio's investments in emerging market corporate bonds^[a] and reduced its allocation to local currency denominated emerging market government bonds during the review period. While these corporate bond holdings were diversified from across the various emerging market regions and industry sectors, we favoured a higher allocation to Latin American issuers over those based in Asia, as we felt that valuations were relatively more attractive in the former. In addition, we were concerned that Asian economies were more exposed to the economic slowdown that we expected in China.

On a very selective basis, we also considerably increased the fund's allocation to issuers in the Middle East region, buying bonds issued by National Bank of Abu Dhabi and the Abu Dhabi-based energy investment company IPIC, for example. Our exposure to Eastern Europe was kept very underweight due to the weak economic outlook and expensive valuations during most of the year. However, we took advantage of the more attractive pricing levels to add positions in the region after a sell-off in financial markets in May and June.

In Latin America, our investments included bonds issued by Mexican auto parts manufacturer Metalsa, as we felt the company should benefit from its exposure to the strengthening US economy. In Brazil, our purchases included issues from mining group Vale Overseas, while we also bought bonds issued by Peruvian soft drinks supplier Corporacion Lindley. The company is the sole bottler and distributor of Coca Cola's product line in Peru and we felt it stood to benefit from the country's improving economy and consumer incomes.

The fund's currency positioning was largely exposed to the US dollar during the period and accounted for 88% of its allocation at the end of June. We continue to expect the US dollar to appreciate against emerging market currencies as the US economy strengthens and monetary policy tightens.

Mike Riddell
Fund manager

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

^[a] Emerging market bonds are interest-bearing loans issued by governments (government bonds) and companies (corporate bonds) in countries that are in the process of rapid economic growth and increasing industrialisation. As a result, investments in emerging markets are generally considered to be riskier than those in developed markets.

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 Emerging Markets Bond Fund

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.01.14	28.02.14
Final	01.07.14	31.08.14

	Final distribution		Ongoing Charges Figure ^[b]	
	Inc 31.08.13 ^[a]	Acc 01.07.13 ^[a]	30.06.13	30.06.12
Sterling	p	p	%	%
Class 'A'	0.9764	1.8528	1.50	1.49
Class 'I'	1.4792	1.2776	1.04	1.15 ^[d]
Class 'R'	1.2908	1.3564	1.29 ^[c]	n/a
Class 'X'	0.9728	1.8732	1.50	1.51
Euro	¢	¢	%	%
Class 'A'	n/a	16.0636	1.53	1.45 ^[d]
Class 'C'	n/a	18.8500	1.00	0.95 ^[d]
US dollar	¢	¢	%	%
Class 'A'	n/a	15.4190	1.56	1.60 ^[d]
Class 'C'	n/a	18.7970	1.00	0.98 ^[d]

^[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.

^[c] The Ongoing Charges Figure shown here is an estimate of the charges, as the share class has not been in existence for a full financial year.

^[d] The comparative Ongoing Charges Figure shown here is an estimate of the charges, as the share class has not been in existence for a full financial year.

Income accrued from interest-bearing securities is distributed on an effective yield basis.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.13		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	78.34	150.44	76.54	143.52	+2.35	+4.82
Class 'I'	104.99	108.35	102.58	103.15	+2.35	+5.04
Class 'R'	98.46	100.89	n/a	n/a	n/a	n/a
Class 'X'	77.19	150.87	75.41	143.86	+2.36	+4.87
Euro	€	€	€	€	%	%
Class 'A'	n/a	10.3786	n/a	10.4701	n/a	-0.87
Class 'C'	n/a	10.4403	n/a	10.4803	n/a	-0.38
US dollar	\$	\$	\$	\$	%	%
Class 'A'	n/a	10.3268	n/a	10.0418	n/a	+2.84
Class 'C'	n/a	10.4028	n/a	10.0533	n/a	+3.48

PERFORMANCE SINCE LAUNCH

	six months 02.01.13 %	one year 02.07.12 %	five years 01.07.08 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+2.3	+5.7	+11.1	+9.0 ^[c]
Class 'I'	+2.3	+6.0	n/a	+8.3 ^[d]
Class 'R'	+2.4	n/a	n/a	+2.5 ^[e]
Class 'X'	+2.4	+5.8	+11.1	+8.5 ^[f]
Euro ^[g]				
Class 'A'	-2.6	+0.0	n/a	+4.6 ^[d]
Class 'C'	-2.3	+0.5	n/a	+5.2 ^[d]
US dollar ^[g]				
Class 'A'	-4.2	+3.2	n/a	+4.0 ^[d]
Class 'C'	-3.9	+3.9	n/a	+4.7 ^[d]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid with net income reinvested.

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

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

^[e] 3 August 2012, the launch date of the share class. Not annualised.

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

^[g] Bid to bid with gross income reinvested.

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From	29.06.12	30.06.11	30.06.10	30.06.09	30.06.08
To	28.06.13	29.06.12	30.06.11	30.06.10	30.06.09
	%	%	%	%	%
Sterling					
Class 'X'	+5.5	+5.0	+3.0	+23.7	+18.9

Source: Morningstar, Inc., bid to bid with net income reinvested.

M&G Emerging Markets Bond Fund

FUND STATISTICS

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008 ^[a]	72.53	54.52	118.49	89.07
	2009	73.34	63.39	124.80	106.02
	2010	79.84	69.15	139.70	120.15
	2011	77.83	71.98	142.16	129.32
	2012	80.62	74.48	151.16	137.85
	2013 ^[b]	86.74	78.20	164.56	148.34
Class 'I'	2012 ^[c]	108.24	99.59	108.80	99.59
	2013 ^[b]	116.37	104.97	118.68	106.87
Class 'R'	2012 ^[d]	101.18	96.78	101.18	96.78
	2013 ^[b]	109.05	98.35	110.29	99.47
Class 'X'	2008 ^[a]	71.47	53.71	118.78	89.26
	2009	72.26	62.45	125.10	106.26
	2010	78.66	68.13	140.03	120.43
	2011	76.68	70.91	142.49	129.62
	2012	79.43	73.37	151.52	138.17
	2013 ^[b]	85.47	77.07	164.94	148.76
Euro (gross)		€	€	€	€
Class 'A'	2012 ^[c]	n/a	n/a	11.2521	9.9825
	2013 ^[b]	n/a	n/a	11.4669	10.3295
Class 'C'	2012 ^[c]	n/a	n/a	11.2665	9.9833
	2013 ^[b]	n/a	n/a	11.5279	10.3901
US dollar (gross)		\$	\$	\$	\$
Class 'A'	2012 ^[c]	n/a	n/a	10.9130	9.8706
	2013 ^[b]	n/a	n/a	11.2813	10.3252
Class 'C'	2012 ^[c]	n/a	n/a	10.9615	9.8773
	2013 ^[b]	n/a	n/a	11.3559	10.4011

[a] On 1 September 2008 the fund's objective was changed.

[b] To 1 July 2013.

[c] From 19 April 2012 (the launch date of the share class).

[d] From 3 August 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 price of shares and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

Interest income per share

	Calendar year	Interim	Distributed	Total	Reinvested
			Final		
Sterling (net)		p	p	p	p
Class 'A'	2008	1.1568	1.0412	2.1980	3.4872
	2009	1.6620	1.1164	2.7784	4.5824
	2010	1.4460	1.3220	2.7680	4.7584
	2011	1.2420	1.2560	2.4980	4.4524
	2012	0.9880	1.0020	1.9900	3.6596
	2013 ^[a]	0.9180	0.9764	1.8944	3.5716
Class 'I'	2012	n/a	0.5760	0.5760	0.5804
	2013 ^[a]	1.6000	1.4792	3.0792	2.7200
Class 'R'	2013 ^[a]	1.0540	1.2908	2.3448	2.4144
Class 'X'	2008	1.1368	1.0140	2.1508	3.4719
	2009	1.6400	1.1040	2.7440	4.6039
	2010	1.4240	1.3040	2.7280	4.7660
	2011	1.2260	1.2360	2.4620	4.4624
	2012	0.9760	0.9840	1.9600	3.6684
	2013 ^[a]	0.8960	0.9728	1.8688	3.5828
Euro (gross)		¢	¢	¢	¢
Class 'A'	2012	n/a	n/a	n/a	6.2020
	2013 ^[a]	n/a	n/a	n/a	31.4998
Class 'C'	2012	n/a	n/a	n/a	7.2140
	2013 ^[a]	n/a	n/a	n/a	37.0290
US dollar (gross)		¢	¢	¢	¢
Class 'A'	2012	n/a	n/a	n/a	5.6670
	2013 ^[a]	n/a	n/a	n/a	30.0970
Class 'C'	2012	n/a	n/a	n/a	6.8530
	2013 ^[a]	n/a	n/a	n/a	36.9520

[a] Up to final: ex-distribution date 1 July 2013;
payment date 31 August 2013.

M&G Emerging Markets Bond Fund

FUND STATISTICS

NET ASSETS					
	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling					
Class 'A'	Jun 2011	74.67	136.41	5,174,551	3,257,787
	Jun 2012	76.54	143.52	4,731,551	3,659,287
	Jun 2013	78.34	150.44	11,814,051	4,731,787
Class 'I'	Jun 2012	102.58	103.15	1,000	171,000
	Jun 2013	104.99	108.35	522,000	474,000
Class 'R'	Jun 2013	98.46	100.89	51,000	17,000
Class 'X'	Jun 2011	73.56	136.73	8,321,883	3,865,134
	Jun 2012	75.41	143.86	8,656,883	4,602,134
	Jun 2013	77.19	150.87	8,899,883	6,148,134
Euro					
		€	€		
Class 'A'	Jun 2012	n/a	10.4701	n/a	1,000
	Jun 2013	n/a	10.3786	n/a	8,100
Class 'C'	Jun 2012	n/a	10.4803	n/a	1,000
	Jun 2013	n/a	10.4403	n/a	1,000
US dollar					
		\$	\$		
Class 'A'	Jun 2012	n/a	10.0418	n/a	1,000
	Jun 2013	n/a	10.3268	n/a	1,000
Class 'C'	Jun 2012	n/a	10.0533	n/a	1,000
	Jun 2013	n/a	10.4028	n/a	1,000
Total net asset value of sub-fund					
	Year ended	£		€ [a]	
	Jun 2011	19,714,000		21,799,000	
	Jun 2012	22,229,000		27,571,000	
	Jun 2013	33,742,000		39,331,000	

[a] Based on the midday exchange rate on the last business day of each financial year.

PORTFOLIO

PORTFOLIO STATEMENT

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'AAA' credit rated bonds			
€500,000 Germany (Federal Republic of) 1.75% 2022	436	1.29	
€100,000 Germany (Federal Republic of) 2.25% 2021	91	0.27	
€300,000 Germany (Federal Republic of) 4.75% 2034	357	1.06	
€150,000 Germany (Federal Republic of) 4.75% 2040	187	0.55	
\$750,000 Temasek Financial I 2.375% 2023	438	1.30	
'AA' credit rated bonds			
\$250,000 Bermuda (Govt. of) 4.138% 2023	162	0.48	
CLP823,500,000 Chile (Republic of) 5.5% 2020	1,089	3.23	
\$249,000 CNOOC Finance 3% 2023	146	0.43	
\$1,400,000 IPIC GMTN 5.5% 2022	986	2.92	
\$1,050,000 MDC GMTN 5.5% 2021	748	2.22	
\$1,277,000 Qatar (State of) 6.4% 2040	982	2.91	
\$150,000 US Treasury 5.5% 2028	128	0.38	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'A' credit rated bonds			
\$550,000 Abu Dhabi National Energy 5.875% 2021	400	1.19	
\$350,000 Abu Dhabi National Energy 6.5% 2036	259	0.77	
MXN12,500,000 America Movil 6.45% 2022	603	1.79	
\$1,250,000 CNPC General Capital 3.4% 2023	760	2.25	
\$200,000 Corp Nacional del Cobre de Chile 3% 2022	118	0.35	
\$430,000 Corp Nacional del Cobre de Chile 5.625% 2035	282	0.84	
MXN25,000,000 Mexico (United Mexican States) 8.5% 2029	1,489	4.41	
MXN10,000,000 Mexico (United Mexican States) 8.5% 2038	579	1.72	
\$1,250,000 National Bank of Abu Dhabi 3% 2019	793	2.35	
\$750,000 Qtel International Finance 3.25% 2023	447	1.32	
\$500,000 Qtel International Finance 3.875% 2028	287	0.85	
\$1,100,000 Ras Laffen Liquefied Natural Gas III 6.75% 2019	843	2.50	
\$750,000 Vale Overseas 8.25% 2034	569	1.69	
'BBB' credit rated bonds			
\$1,000,000 Banco Santander 4.125% 2022	613	1.82	
\$750,000 Celulosa Arauco 5% 2021	494	1.46	
\$500,000 Columbia (Republic of) 10.375% 2033	519	1.54	
\$1,000,000 Continental Senior Trust II 3.25% 2018	633	1.88	
\$1,135,000 Ecopetrol 7.625% 2019	879	2.61	
\$1,250,000 Embraer Overseas 6.375% 2020	890	2.64	
\$750,000 Empresa Nacional del Petroleo 6.25% 2019	527	1.56	
\$1,000,000 Eurasian Development Bank 4.767% 2022	617	1.83	
\$500,000 Gazprom Capital 8.625% 2034	395	1.17	
\$1,250,000 Kazmunaygas National 5.75% 2043	730	2.16	
\$800,000 Lukoil International Finance 6.125% 2020	555	1.64	
\$850,000 Petroleum Company of Trinidad & Tobago 9.75% 2019	686	2.03	
\$750,000 Philippines (Republic of) 6.375% 2034	591	1.75	
\$1,000,000 Rosneft International 4.199% 2022	609	1.80	
£300,000 RZD Capital 7.487% 2031	324	0.96	
\$1,114,000 Transportadora de Gas del Perú 4.25% 2028	655	1.94	
'BB' credit rated bonds			
\$1,000,000 Bolivia (Republic of) 4.875% 2022	608	1.80	
\$1,500,000 Cementos Pacasmayo 4.5% 2023	911	2.70	
\$750,000 Colombia Telecommunications 5.375% 2022	459	1.36	
\$750,000 Corporacion Lindley 6.75% 2021	537	1.59	
€703,000 Frigoglass Finance 8.25% 2018	620	1.84	
\$50,000 Indonesia (Republic of) 11.625% 2019	44	0.13	
\$834,000 Metalsa 4.9% 2023	517	1.53	
\$850,000 Northern Lights III 7% 2019	573	1.70	
\$74,000 Perusahaan Penerbit 8.8% 2014	51	0.15	
'B' credit rated bonds			
'D' credit rated bonds			
€500,000 Magyar Telecom Bv 9.5% 2016	167	0.50	
Bonds with no credit rating			
\$1,250,000 ADIB Sukuk 6.375% Perp	808	2.39	
\$1,250,000 Banco de Crédito del Perú 4.25% 2023	756	2.24	
\$500,000 Bancolombia 6.125% 2020	339	1.00	
\$1,000,000 DP World 6.85% 2037	663	1.97	
\$1,250,000 Dolphin Energy 5.5% 2021	884	2.62	
€772,000 EP Energy 4.375% 2018	669	1.98	
\$1,200,000 Intercorp Retail Trustee 8.875% 2018	839	2.49	
€458,000 RPG Byty 6.75% 2020	361	1.07	
\$800,000 SB Capital 6.125% 2022	549	1.63	

M&G Emerging Markets Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
Credit default swaps		(0.53)	0.00
\$(4,000,000) iTraxx Sovereign Jun 2018	(207)	(0.61)	
\$750,000 Indonesia (Republic of) Sep 2017	11	0.03	
\$750,000 South Africa (Republic of) Sep 2017	18	0.05	
Forward currency contracts		0.41	(0.05)
COP4,174,042,500 Bought for \$2,250,000 (expires 22.08.13)	(58)	(0.17)	
€1,500,000 Bought for HUF1,287,655.57 (expires 22.08.13)	22	0.07	
KRW3,118,920,000 Bought for \$2,800,000 (expires 22.08.13)	(50)	(0.15)	
MXN46,000,000 Bought for \$3,555,006 (expires 22.08.13)	(26)	(0.08)	
MYR8,405,880 Bought for \$2,800,000 (expires 22.08.13)	(98)	(0.29)	
PEN7,428,240 Bought for \$2,850,000 (expires 22.08.13)	(124)	(0.37)	
PHP167,222,000 Bought for \$4,000,000 (expires 22.08.13)	(87)	(0.26)	
THB83,434,400 Bought for \$2,800,000 (expires 22.08.13)	(77)	(0.23)	
\$2,701,375 Bought for BRL5,500,000 (expires 22.08.13)	148	0.44	
\$4,000,000 Bought for CLP1,935,680,000 (expires 22.08.13)	125	0.37	
\$2,170,589 Bought for COP4,174,042,500 (expires 22.08.13)	6	0.02	
\$3,371,636 Bought for €2,600,000 (expires 22.08.13)	(17)	(0.05)	
\$4,581,000 Bought for £3,000,000 (expires 22.08.13)	9	0.03	
\$2,800,000 Bought for IDR27,538,000,000 (expires 22.08.13)	27	0.08	
\$1,700,000 Bought for KRW1,911,140,000 (expires 22.08.13)	20	0.06	
\$3,775,234 Bought for MXN46,000,000 (expires 22.08.13)	170	0.50	
\$1,400,000 Bought for MYR4,251,800 (expires 22.08.13)	39	0.12	
\$(4,049,404) Sold for £2,626,114.32 (expires 22.08.13)	(33)	(0.10)	
\$1,400,000 Bought for THB41,909,000 (expires 22.08.13)	34	0.10	
\$2,248,105 Bought for ZAR21,000,000 (expires 22.08.13)	108	0.32	
Interest rate futures contracts		0.13	0.00
(10) UK Long Gilt Bond Sep 2013	44	0.13	
'AAA' rated money market funds ^[a]		0.52	0.68
\$267,000 Northern Trust Global Fund - US dollar	175	0.52	
Portfolio of investments (notes 1b & 1d on page 46 & 47)	33,430	99.08	99.88
Net other assets	312	0.92	0.12
Net assets attributable to shareholders	33,742	100.00	100.00

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

PORTFOLIO STATEMENT (continued)

Counterparty exposure

Counterparty	Financial derivative exposure			Total as at 30.06.13 £'000
	Credit default swaps £'000	Forward currency contracts £'000	Futures £'000	
BNP Paribas	18	0	0	18
HSBC Bank	11	0	0	11
J.P.Morgan	(207)	0	0	(207)
RBS	0	0	44	44
State Street Bank	0	138	0	138
Total	(178)	138	44	4

PORTFOLIO TRANSACTIONS

for the year ended 30 June 2013

Largest purchases	£'000
10 Year US Treasury Note Mar 13 ^[a]	8,428
10 Year US Treasury Note Dec 12 ^[a]	8,332
10 Year US Treasury Note Jun 13 ^[a]	4,338
UK Long Gilt Bond Dec 12 ^[a]	2,389
UK Long Gilt Bond Mar 13 ^[a]	2,339
10 Year US Treasury Note Sep 13 ^[a]	2,111
Germany (Federal Republic of) 4.75% 2034 (€)	1,836
MDC-GMTN 5.5% 2021 (\$)	1,520
UK Long Gilt Bond Jun 13 ^[a]	1,178
Gazprom 8.625% 2034 (\$)	1,069
Petróleos Mexicanos 8.25% 2022 (€)	1,024
IPIC GMTN 5.5% 2022 (\$)	1,018
Dolphin Energy 5.5% 2021 (\$)	967
Cementos Pacasmayo 4.5% 2023 (\$)	961
Embraer Overseas 6.375% 2020 (\$)	956
Ras Laffen Liquefied Natural Gas III 6.75% 2019 (\$)	896
Abu Dhabi National Energy 5.875% 2021 (\$)	892
Intercorp Retail Trustee 8.875% 2018 (\$)	878
National Bank of Abu Dhabi 3% 2019 (\$)	839
Banco de Crédito del Perú 4.25% 2023 (\$)	821
Northern Trust Global Fund - US dollar ^[b]	16,121
Other purchases	31,956
Total purchases	90,869

Largest sales	£'000
10 Year US Treasury Note Dec 12 ^[a]	8,312
10 Year US Treasury Note Mar 13 ^[a]	8,301
10 Year US Treasury Note Jun 13 ^[a]	4,321
UK Long Gilt Bond Dec 12 ^[a]	2,383
UK Long Gilt Bond Mar 13 ^[a]	2,373
10 Year US Treasury Note Sep 13 ^[a]	2,153
Russian Federation 5% 2020 (\$)	1,981
Germany (Federal Republic of) 4.75% 2034 (€)	1,495
Malaysia (Govt. of) 3.434% 2014 (MYR)	1,322
Columbia (Republic of) 4.375% 2021 (\$)	1,244
Peru (Republic of) 7.35% 2025 (\$)	1,173
UK Long Gilt Bond Sep 13 ^[a]	1,170
UK Long Gilt Bond Jun 13 ^[a]	1,150
Malaysia (Govt. of) Sukuk Global 4.646% 2021 (\$)	1,149
Mexico (United Mexican States) 6.75% 2024 (€)	1,144
Petróleos Mexicanos 8.25% 2022 (€)	1,061
Perusahaan Penerbit 4% 2018 (\$)	990
Chile (Republic of) 3.25% 2021 (\$)	931
First Quantum Minerals 7.25% 2019 (\$)	902
Germany (Federal Republic of) 6.25% 2024 (€)	882
Northern Trust Global Fund - US dollar ^[b]	16,108
Other sales	19,986
Total sales	80,531

^[a] Purchases and sales of Futures have been included at the value of their exposure.

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

M&G Emerging Markets Bond Fund

FINANCIAL STATEMENTS

For the year ended 30 June 2013.

STATEMENT OF TOTAL RETURN

	Note	2013		2012	
		£'000	£'000	£'000	£'000
Income					
Net capital gains	3		258		502
Revenue	4	1,369		986	
Expenses	5	(461)		(305)	
Net revenue before taxation		908		681	
Taxation	6	(3)		0	
Net revenue after taxation			905		681
Total return before distributions			1,163		1,183
Finance costs: Distributions	12		(905)		(681)
Change in net assets attributable to shareholders from investment activities			258		502

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2013		2012	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		22,229		19,714
Amounts received on issue of shares	24,124		4,140	
Amounts paid on cancellation of shares	(13,283)		(2,423)	
		10,841		1,717
Change in net assets attributable to shareholders from investment activities (see above)		258		502
Retained distributions on Accumulation shares		414		296
Closing net assets attributable to shareholders		33,742		22,229

BALANCE SHEET

	as at 30 June 2013		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		34,207		22,297
Debtors				
Amounts receivable on issues	107		43	
Currency deals outstanding	0		12	
Debt security interest receivable	480		322	
Derivative income receivable	3		0	
Prepaid expenses	2		0	
		592		377
Cash and bank balances				
Cash held as bank balances	176		84	
		176		84
Total other assets		768		461
Total assets		34,975		22,758
Liabilities				
Investment liabilities		(777)		(95)
Creditors				
Amounts payable on cancellations	(76)		(31)	
Currency deals outstanding	0		(12)	
Expenses payable	(46)		(30)	
Income tax payable	(106)		(68)	
Net distributions payable on Income shares	(210)		(133)	
Purchases awaiting settlement	0		(160)	
		(438)		(434)
Bank overdrafts	(18)		0	
		(18)		0
Total other liabilities		(456)		(434)
Total liabilities		(1,233)		(529)
Net assets attributable to shareholders		33,742		22,229

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 28 June 2013, being the last business day of the financial year. The fair value of non-derivative securities is bid price, excluding any accrued interest; the fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles; and the fair value of exchange traded Futures is the cost of closing out the contract at the balance sheet date. Over the counter credit default swaps are valued by Markit Valuations Limited, an independent credit derivative price provider.

M&G Emerging Markets Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

c) Investment gains and losses

Gains and losses, including exchange differences, on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date, including unrealised exchange differences, are treated as capital.

d) Exchange rates

Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into Sterling at the rate of exchange ruling as at 12 noon on 28 June 2013, being the last business day of the financial year.

e) Derivative financial instruments

The treatment of the returns on forward currency contracts and derivative contracts depend upon the nature of the transaction. Both motive and circumstances are used to determine whether the returns should be treated as capital or revenue. Where positions are undertaken to protect or enhance capital, and the circumstances support this, the returns are recognised in net capital gains or losses; similarly where the motives and circumstances are to generate or protect revenue, and the circumstances support this, the returns are included within net revenue before taxation. Where positions generate total returns it will generally be appropriate to apportion such returns between capital and revenue to properly reflect the nature of the transaction.

f) Interest and distribution income

Interest on debt securities is recognised on an accruals basis, taking into account the effective yield on the investment and is treated as revenue. The effective yield basis amortises any discount or premium on the purchase of an investment over its remaining life based on estimated future cashflows. Any adjustments resulting from changes in cashflow estimates are treated as capital.

Distributions from Collective Investments schemes are recognised net of attributable tax credits when the security is quoted ex-distribution and treated as revenue.

Bank interest is recognised on an accruals basis and treated as revenue.

g) Expenses

All expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

h) Apportionment of income and expenses to multiple share classes

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

i) Taxation

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

j) Deferred taxation

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

k) Distribution policy

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

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

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk, interest rate risk and currency risk in relation to the investment portfolio. The Prospectus permits the sub-fund to use derivative instruments to hedge against medium and long-term risk.

Short-term foreign currency exposures are generally covered by short-dated currency contracts. Income arising in foreign currencies is generally converted into Sterling shortly after receipt and is not hedged in advance of receipt.

The sub-fund holds overseas investments and exchange rate fluctuations can affect both capital and income values. During the year it has been the policy to hedge some of the investment portfolio against currency movements through the use of forward currency contracts.

The ACD considers the credit rating, yield and maturity of each security, in order to ensure that the yield fully reflects any perceived risk. The capital value of investments within the sub-fund will fall in the event of the default or perceived increased credit risk of an issuer.

M&G Emerging Markets Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

2 Risk management policies (continued)

There is a greater risk of this occurring in respect of securities issued by emerging market nations as commonly included in the portfolio of this sub-fund. The ACD mitigates this risk through both stock selection and portfolio diversification strategies.

The capital value of investments within the sub-fund may also be affected by interest rate fluctuations such that when interest rates rise, the capital value of investments is likely to fall and vice versa. The effect will be more apparent on funds which invest in long-dated securities, such as this sub-fund.

The sub-fund may undertake transactions in derivatives both on exchange and over the counter (OTC). These may include credit default swaps, options, contracts for differences and interest rate futures for the purposes of meeting the investment objective and protecting the risk to capital, duration and credit management, as well as for hedging. Although the fund manager will select the counterparties with which it enters into derivative transactions with due skill and care, there will be residual risk that the counterparty may default on its obligations or become insolvent. The use of these instruments may expose the sub-fund to volatile investment returns and increase the volatility of the net asset value of the sub-fund. All derivative positions are disclosed separately in the portfolio statement.

Credit default swaps are bought and sold in response to detailed credit research to take advantage of anticipated movements in credit spreads on individual stocks and baskets of securities. When the sub-fund buys a credit default swap the default risk associated with the underlying security transfers to the counterparty. Conversely when the sub-fund sells a credit default swap the sub-fund assumes the credit risk of the underlying security. The selling of credit default swaps could expose the sub-fund to credit default risk. The sub-fund will contain a sufficient spread of investment grades of holdings to mitigate potential exposure to credit default risk.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise a sufficient number of securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 127, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.12: same).

3 Net capital gains

	2013 £'000	2012 £'000
Non-derivative securities	(14)	532
Derivative contracts	71	0
Forward currency contracts	255	8
Currency losses	(51)	(37)
Transaction charges	(3)	(1)
Net capital gains	258	502

4 Revenue

	2013 £'000	2012 £'000
Bank interest	1	0
Derivative revenue	(92)	0
Interest on debt securities	1,459	986
Premium from credit default swaps	1	0
Total revenue	1,369	986

5 Expenses

	2013 £'000	2012 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	385	258
Administration fee	47	31
	432	289
Payable to the Depository or associate		
Depository's fee (including VAT)	3	2
Other expenses		
Audit fee (including VAT)	11	11
Regulatory fees	4	0
Safe custody charge	2	3
Tax consultancy fees (including VAT) ^[a]	9	0
	26	14
Total expenses	461	305

[a] Fees paid to overseas firms affiliated with PricewaterhouseCoopers LLP.

6 Taxation

	2013 £'000	2012 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Overseas tax	3	0
Current tax charge (note 6b)	3	0
Deferred tax (note 6c)	0	0
Total taxation	3	0
b) Factors affecting taxation charge for the year		
Net revenue before taxation	908	681
Corporation tax at 20%	182	136
Effects of:		
Prior year expenses utilised	(182)	0
Interest distributions	0	(136)
Overseas tax	3	0
Current tax charge (note 6a)	3	0
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset of £30,000 (30.06.12: £212,000) arising as a result of having excess management expenses.

Interest distributions have been made in respect of all distributions during the current and preceding years. Income tax at 20% will be accounted for on shareholders' behalf to HM Revenue & Customs where applicable.

7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.12: same).

M&G Emerging Markets Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in net assets attributable to shareholders and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's (ACD's) periodic charge and administration fee are disclosed in note 5. Amounts due at the year end to the ACD of £26,000 (30.06.12: £16,000) in respect of the ACD's periodic charge and administration fees are included within expenses payable as disclosed in the balance sheet.

At the balance sheet date, there were no material shareholders of the sub-funds shares from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary (30.06.12: same).

9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.12: same).

Currency exposure

The currency profile of the sub-fund's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other assets / (liabilities)		Total	
	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000
Brazilian real	(1,627)	0	0	0	(1,627)	0
Chilean peso	(1,413)	1,102	25	23	(1,388)	1,125
Chinese yuan	0	2,946	0	0	0	2,946
Euro	1,945	770	45	39	1,990	809
Hungarian forint	(1,266)	0	0	0	(1,266)	0
Indonesian rupiah	(1,812)	0	0	0	(1,812)	0
Malaysian ringgit	861	2,080	0	23	861	2,103
Mexican peso	2,671	1,422	7	87	2,678	1,509
Peruvian nouveau sol	1,747	0	0	0	1,747	0
Philippine peso	2,541	1,176	0	0	2,541	1,176
South Korean won	693	344	0	5	693	349
Thailand baht	877	0	0	0	877	0
US dollar	29,589	12,379	399	57	29,988	12,436
Zambian kwacha	(1,369)	0	0	0	(1,369)	0
	33,437	22,219	476	234	33,913	22,453
Sterling	(7)	(17)	(164)	(207)	(171)	(224)
Total	33,430	22,202	312	27	33,742	22,229

Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000
Chilean peso	0	0	1,089	1,102	1,089	1,102
Euro	0	11	2,889	1,832	2,889	1,843
Malaysian ringgit	0	0	0	2,080	0	2,080
Mexican peso	0	84	2,671	2,341	2,671	2,425
South Korean won	0	0	0	344	0	344
Sterling	156	0	324	458	480	458
US dollar	175	211	26,280	13,835	26,455	14,046
Total	487	306	33,253	21,992	33,584	22,298

	Weighted average gross interest rate of fixed interest-bearing assets		Weighted average period for which interest rates are fixed ^[a]	
	as at 30.06.13 %	as at 30.06.12 %	as at 30.06.13 years	as at 30.06.12 years
Chilean peso	5.21	4.55	8.10	8.10
Euro	7.03	8.95	10.06	21.60
Malaysian ringgit	0.00	3.00	0.00	1.36
Mexican peso	6.78	5.48	17.52	9.59
South Korean won	0.00	3.31	0.00	1.69
Sterling	6.70	5.03	18.75	11.61
US dollar	5.21	3.65	12.68	11.41

^[a] Assuming the earliest maturity date for those assets with variable maturity dates.

Floating rate interest-bearing assets at the balance sheet date consist of bank balances, on which interest is calculated at a variable rate by reference to Sterling bank deposit rates or the international equivalent; floating rate notes, on which interest is calculated at a variable rate by reference to the London Interbank Offered Rate (LIBOR) or the Euro Interbank Offered Rate (EURIBOR); and variable rate bonds (30.06.12: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.12: same).

Risk analysis

Our core method of estimating each sub-fund's overall risk position is to use value at risk based (VaR) techniques that enable us to measure each sub-fund's sensitivity to core market risk factors such as credit and interest rates. VaR is a technique used to estimate the probability of portfolio losses based on the statistical analysis of historical price trends and volatilities.

The MAGIM risk model for VaR production was originally created in 2001 utilising the Algorithmics RiskWatch software, a market leading risk solution. From the variance / covariance matrices, a parametric Monte Carlo scenario set of 5,000 simulations is derived and applied to the M&G Emerging Markets Bond Fund.

The key assumption within the variance / covariance matrix is the exponential weighted moving average approach that utilises a decay factor of 0.94 thereby weighting more recent data history with a higher significance.

M&G Emerging Markets Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

9 Financial instruments (continued)

Risk analysis (continued)

The VaR analysis for the M&G Emerging Markets Bond Fund is produced on a daily basis. Market risk factors that are analysed include LIBOR / swap rates, government yield curves, equity prices, foreign exchange rates, market volatility and credit spreads.

With a statistical level of confidence of 99%, the VaR model suggests that the potential loss incurred could be £2,119,490 over the next 30 days from the balance sheet date, 30 June 2013.

Please note, the market risk information is a relative estimate of risk rather than a precise and accurate number. The model is based on historical data and cannot take account of the fact that future market price movements, correlations between markets and levels of market liquidity in conditions of market stress may bear no relation to historical patterns.

10 Portfolio transaction costs

	2013 £'000	2012 £'000
a) Purchases ^[a]		
Purchases including transaction costs	90,869	19,590
b) Sales ^[a]		
Sales excluding transaction costs	80,531	16,766

^[a] Purchases and Sales of Futures have been included at the value of their exposure.

There were no significant transaction costs during the year (30.06.12: same).

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares, Sterling Class 'I' (Net Income and Net Accumulation) shares, Sterling Class 'R' (Net Income and Net Accumulation) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

This sub-fund also contains Euro Class 'A' (Gross Accumulation) shares and Euro Class 'C' (Gross Accumulation) shares.

This sub-fund also contains US dollar Class 'A' (Gross Accumulation) shares and US dollar Class 'C' (Gross Accumulation) shares.

The charging structure for each share class, as at 30 June 2013, is set out in the following table (30.06.12: same):

CHARGES AND EXPENSES

	Initial charge %	Withdrawal fee %	ACD's annual remuneration %
Sterling			
Class 'A'	3.00	n/a	1.25
Class 'I'	1.00	n/a	0.75
Class 'R' ^[a]	1.00	n/a	1.00
Class 'X'	nil	4.50 ^[b]	1.25
Euro			
Class 'A'	4.00	n/a	1.25
Class 'C'	1.25	n/a	0.75
US dollar			
Class 'A'	4.00	n/a	1.25
Class 'C'	1.25	n/a	0.75

^[a] With effect from 3 August 2012, the launch date of the Sterling Class 'R' share class.

^[b] The withdrawal fee diminishes over a period of five years. Please refer to the Key Investor Information Document (KIID) in conjunction with the Important Information for Investors document.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.13		30.06.12	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	9,255	7,118	3,622	5,252
Class 'I'	548	514	1	176
Class 'R'	50	17	n/a	n/a
Class 'X'	6,869	9,276	6,528	6,621
Euro				
Class 'A'	n/a	72	n/a	8
Class 'C'	n/a	9	n/a	9
US dollar				
Class 'A'	n/a	7	n/a	6
Class 'C'	n/a	7	n/a	6

The net asset value per share and the number of shares are given in the net assets table on page 44. The distribution per share is given in the distribution table on pages 51 and 52. Each share class has the same rights on winding-up.

M&G Emerging Markets Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

12 Finance costs

	2013 £'000	2012 £'000
Income shares (Sterling)		
Class 'A' - Interim	86	43
- Final	115	48
Class 'I' - Interim	4	n/a
- Final ^[a]	8	0
Class 'R' - Interim ^[b]	0	n/a
- Final	1	n/a
Class 'X' - Interim	80	82
- Final	86	85
Accumulation shares (Sterling)		
Class 'A' - Interim	129	68
- Final	88	68
Class 'I' - Interim	3	n/a
- Final	6	1
Class 'R' - Interim ^[c]	0	n/a
- Final ^[c]	0	n/a
Class 'X' - Interim	72	74
- Final	115	85
Accumulation shares (Euro)		
Class 'A' - Interim ^[d]	0	n/a
- Final ^[e]	1	0
Class 'C' - Interim ^[f]	0	n/a
- Final ^[f]	0	0
Accumulation shares (US dollar)		
Class 'A' - Interim ^[g]	0	n/a
- Final ^[g]	0	0
Class 'C' - Interim ^[h]	0	n/a
- Final ^[h]	0	0
	794	554
Income tax deducted at source	180	136
Finance costs: Interest distributions	974	690
Income deducted on cancellation of shares	84	15
Income received on issue of shares	(153)	(24)
Finance costs: Distributions	905	681

^[a] The comparative final distribution for Sterling Class 'I' (Income) shares was £6.

^[b] The interim distribution for Sterling Class 'R' (Income) shares was £11.

^[c] The total distribution for Sterling Class 'R' (Accumulation) shares was £241.

^[d] The interim distribution for Euro Class 'A' (Accumulation) shares was €247.

^[e] The comparative final distribution for Euro Class 'A' (Accumulation) shares was €77.

^[f] The total distribution for Euro Class 'C' (Accumulation) shares was €370 (2012: €89).

^[g] The total distribution for US Dollar Class 'A' (Accumulation) shares was \$301 (2012: \$88).

^[h] The total distribution for US Dollar Class 'C' (Accumulation) shares was \$181 (2012: \$107).

DISTRIBUTION TABLE

Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equalisation	Distribution paid/payable	
	£	£	£	£	2013	2012
Sterling						
Class 'A' - Interim						
Group 1:	1.1475	0.2295	0.9180	-	0.9180	0.9880
Group 2:	0.4956	0.0991	0.3965	0.5215	0.9180	0.9880
- Final						
Group 1:	1.2205	0.2441	0.9764	-	0.9764	1.0020
Group 2:	0.6061	0.1212	0.4849	0.4915	0.9764	1.0020
Class 'I' - Interim						
Group 1:	2.0000	0.4000	1.6000	-	1.6000	n/a
Group 2:	0.1598	0.0320	0.1278	1.4722	1.6000	n/a
- Final						
Group 1:	1.8490	0.3698	1.4792	-	1.4792	0.5760
Group 2:	1.1934	0.2387	0.9547	0.5245	1.4792	0.5760
Class 'R' - Interim						
Group 1:	1.3175	0.2635	1.0540	-	1.0540	n/a
Group 2:	1.3175	0.2635	1.0540	-	1.0540	n/a
- Final						
Group 1:	1.6135	0.3227	1.2908	-	1.2908	n/a
Group 2:	0.8814	0.1763	0.7051	0.5857	1.2908	n/a
Class 'X' - Interim						
Group 1:	1.1200	0.2240	0.8960	-	0.8960	0.9760
Group 2:	0.6255	0.1251	0.5004	0.3956	0.8960	0.9760
- Final						
Group 1:	1.2160	0.2432	0.9728	-	0.9728	0.9840
Group 2:	0.5450	0.1090	0.4360	0.5368	0.9728	0.9840
Interest distributions on Accumulation shares						
Sterling						
Class 'A' - Interim						
Group 1:	2.1485	0.4297	1.7188	-	1.7188	1.8124
Group 2:	0.7808	0.1562	0.6246	1.0942	1.7188	1.8124
- Final						
Group 1:	2.3160	0.4632	1.8528	-	1.8528	1.8472
Group 2:	1.2519	0.2504	1.0015	0.8513	1.8528	1.8472
Class 'I' - Interim						
Group 1:	1.8030	0.3606	1.4424	-	1.4424	n/a
Group 2:	1.8030	0.3606	1.4424	-	1.4424	n/a
- Final						
Group 1:	1.5970	0.3194	1.2776	-	1.2776	0.5804
Group 2:	0.6729	0.1346	0.5383	0.7393	1.2776	0.5804
Class 'R' - Interim						
Group 1:	1.3225	0.2645	1.0580	-	1.0580	n/a
Group 2:	1.3225	0.2645	1.0580	-	1.0580	n/a
- Final						
Group 1:	1.6955	0.3391	1.3564	-	1.3564	n/a
Group 2:	0.9830	0.1966	0.7864	0.5700	1.3564	n/a
Class 'X' - Interim						
Group 1:	2.1370	0.4274	1.7096	-	1.7096	1.8184
Group 2:	1.0044	0.2009	0.8035	0.9061	1.7096	1.8184
- Final						
Group 1:	2.3415	0.4683	1.8732	-	1.8732	1.8500
Group 2:	1.1153	0.2231	0.8922	0.9810	1.8732	1.8500

M&G Emerging Markets Bond Fund

FINANCIAL STATEMENTS

DISTRIBUTION TABLE (continued)

Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
	€	€	€	€	2013	2012
Euro						
Class 'A' - Interim						
Group 1:	15.4362	-	15.4362	-	15.4362	n/a
Group 2:	11.8318	-	11.8318	3.6044	15.4362	n/a
- Final						
Group 1:	16.0636	-	16.0636	-	16.0636	6.2020
Group 2:	8.5380	-	8.5380	7.5256	16.0636	6.2020
Class 'C' - Interim						
Group 1:	18.1790	-	18.1790	-	18.1790	n/a
Group 2:	18.1790	-	18.1790	-	18.1790	n/a
- Final						
Group 1:	18.8500	-	18.8500	-	18.8500	7.2140
Group 2:	18.8500	-	18.8500	-	18.8500	7.2140
US dollar						
Class 'A' - Interim						
Group 1:	14.6780	-	14.6780	-	14.6780	n/a
Group 2:	14.6780	-	14.6780	-	14.6780	n/a
- Final						
Group 1:	15.4190	-	15.4190	-	15.4190	5.6670
Group 2:	15.4190	-	15.4190	-	15.4190	5.6670
Class 'C' - Interim						
Group 1:	18.1550	-	18.1550	-	18.1550	n/a
Group 2:	18.1550	-	18.1550	-	18.1550	n/a
- Final						
Group 1:	18.7970	-	18.7970	-	18.7970	6.8530
Group 2:	18.7970	-	18.7970	-	18.7970	6.8530

Interim period 01.07.12 - 31.12.12

Final period 01.01.13 - 30.06.13

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2). It is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes.

M&G European Corporate Bond Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective of the M&G European Corporate Bond Fund

The Fund aims to maximise total return (the combination of income and growth of capital) while generating a higher level of income than that from European government bonds of similar maturities.

Investment policy of the M&G European Corporate Bond Fund

The Fund invests mainly 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. The Fund may also invest in other assets, including collective investment schemes, other transferable securities, cash and near cash, deposits, warrants, money market instruments 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.

Investment approach

The M&G European Corporate Bond Fund aims to maximise total returns through investing in mainly European investment grade corporate bonds. The fund also has the flexibility to invest in high yield or government bonds. The fund manager believes 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 his outlook.

The fund has no benchmark, which allows for a flexible and high-conviction investment approach. A high level of diversification, across individual issuers, sectors and geographies is an essential part of the investment process.

An in-house team of independent credit analysts assists the fund manager in individual credit selection along with the monitoring of names held by the fund.

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.

* Please note that this 'Risk and reward profile' section is based on Sterling Class 'X' shares, the nominated share class.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 1 July 2013, for the year ended 30 June 2013

The fund continues to be mainly invested in companies based in economically stronger European countries such as Germany, the UK, the Netherlands and France. However, we will invest in the periphery of the eurozone on a selective basis, especially in companies with geographically diversified revenues. On this basis, we purchased bonds^[a] issued by Indesit, an Italian manufacturer of white goods with a strong presence across Europe.

In addition, we maintained an exposure to the US based on our positive outlook for the country's economy. During the period, we invested in a number of US names, including issues from 'AAA' rated pharmaceutical firm Johnson & Johnson, supermarket chain Wal-Mart and consumer goods company Procter & Gamble.

We continue to favour insurance companies and over the period we added to positions in names such as Swiss Re, Old Mutual and American International Group. Our other preferred industries include media and food & beverage, although we remain cautious on the automotive sector, which continues to suffer from weak demand in Europe.

The fund's duration (a measure of the portfolio's sensitivity to changes in interest rates) was reduced throughout most of the review period and was 3.3 years as at the end of March. This was short relative to the Merrill Lynch EMU Corporate Index and we believe was a prudent position for the fund to take given that interest rates were at very low levels. However, we think the extent of the sell-off in May and June was slightly excessive and that markets may have over-reacted a little. This is especially the case in Europe where growth remains weak and the European Central Bank will need to keep interest rates low for some time yet. As a result, we slightly increased duration following the sell-off to around 3.5 years by the end of the period.

Stefan Isaacs Fund manager

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

^[a] Bonds are loans that are extended by investors to governments (government bonds) and companies (corporate bonds) for a specified amount of time. Bond investors pay the issuer – the government or company – an initial lump sum and receive regular interest payments in exchange. At the end of the bond's life the issuer pays back the investors' initial investment.

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

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
First interim	01.10.13	30.11.13
Second interim	02.01.14	28.02.14
Third interim	01.04.14	31.05.14
Final	01.07.14	31.08.14

	Final distribution		Ongoing Charges Figure ^[b]	
	Inc 31.08.13 ^[a]	Acc 01.07.13 ^[a]	30.06.13	30.06.12
Sterling	p	p	%	%
Class 'A'	0.2880	0.3760	1.16	1.16
Class 'I'	5.6600	5.7840	0.66 ^[c]	n/a
Class 'R'	0.5200	0.5300	0.91 ^[c]	n/a
Class 'X'	0.2520	0.3280	1.41	1.42
Euro	¢	¢	%	%
Class 'A'	n/a	7.8513	1.16	1.17
Class 'C'	n/a	10.7105	0.66	0.66
Swiss franc	¢	¢	%	%
Class 'A-H'	n/a	5.1800	1.20 ^[c]	n/a
Class 'C-H'	n/a	6.5478	0.70 ^[c]	n/a

^[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.

^[c] The Ongoing Charges Figure shown here is an estimate of the charges, as the share class has not been in existence for a full financial year.

Income accrued from interest-bearing securities is distributed on an effective yield basis.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.13		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	71.26	94.26	63.36	82.23	+12.47	+14.63
Class 'I'	1,115.03	1,139.45	n/a	n/a	n/a	n/a
Class 'R'	111.50	113.75	n/a	n/a	n/a	n/a
Class 'X'	71.15	92.82	63.26	81.13	+12.47	+14.41
Euro	€	€	€	€	%	%
Class 'A'	n/a	15.3984	n/a	14.2268	n/a	+8.24
Class 'C'	n/a	16.7150	n/a	15.3656	n/a	+8.78
Swiss franc	CHF	CHF	CHF	CHF	%	%
Class 'A-H'	n/a	10.2664	n/a	n/a	n/a	n/a
Class 'C-H'	n/a	10.3076	n/a	n/a	n/a	n/a

PERFORMANCE SINCE LAUNCH

	six months 02.01.13 %	one year 02.07.12 %	five years 01.07.08 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+4.7	+13.3	+7.7	+6.2 ^[c]
Class 'I'	+4.9	n/a	n/a	+13.7 ^[d]
Class 'R'	+4.8	n/a	n/a	+13.5 ^[d]
Class 'X'	+4.6	+13.1	+7.5	+6.1 ^[c]
Euro ^[e]				
Class 'A'	-0.4	+7.0	+6.7	+4.2 ^[c]
Class 'C'	-0.2	+7.6	+7.3	+5.0 ^[c]
Swiss franc ^[e]				
Class 'A-H'	-0.4	n/a	n/a	+2.6 ^[f]
Class 'C-H'	-0.2	n/a	n/a	+3.0 ^[f]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid with net income reinvested.

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

^[d] 3 August 2012, the launch date of the share class. Not annualised.

^[e] Bid to bid with gross income reinvested.

^[f] 28 September 2012, the launch date of the share class. Not annualised.

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From To	29.06.12 28.06.13 %	30.06.11 29.06.12 %	30.06.10 30.06.11 %	30.06.09 30.06.10 %	30.06.08 30.06.09 %
Sterling					
Class 'A'	+13.8	-6.6	+13.7	+7.8	+11.6

Source: Morningstar, Inc., bid to bid with net income reinvested.

M&G European Corporate Bond Fund

FUND STATISTICS

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008 ^[a]	65.96	50.42	76.73	58.66
	2009	71.05	58.13	85.72	68.50
	2010	71.28	63.28	87.72	77.42
	2011	70.55	63.62	88.74	80.18
	2012	69.00	63.12	90.00	80.94
	2013 ^[b]	74.18	68.42	97.23	89.66
Class 'I'	2012 ^[c]	1,081.01	1,000.00	1,085.78	1,000.00
	2013 ^[b]	1,161.78	1,070.65	1,173.89	1,081.87
Class 'R'	2012 ^[c]	108.06	100.00	108.48	100.00
	2013 ^[b]	116.17	107.06	117.27	108.09
Class 'X'	2008 ^[a]	65.83	50.39	76.24	58.36
	2009	70.94	58.03	85.04	68.06
	2010	71.15	63.16	86.85	76.70
	2011	70.41	63.50	87.73	79.35
	2012	68.86	63.02	88.71	79.94
	2013 ^[b]	74.04	68.31	95.79	88.38
Euro (gross)		€	€	€	€
Class 'A'	2008 ^[a]	n/a	n/a	11.4288	10.2037
	2009	n/a	n/a	12.7674	10.5122
	2010	n/a	n/a	13.6789	12.7098
	2011	n/a	n/a	13.7832	13.2270
	2012	n/a	n/a	15.4044	13.6162
	2013 ^[b]	n/a	n/a	15.8842	15.3030
Class 'C'	2008 ^[a]	n/a	n/a	12.0953	10.8188
	2009	n/a	n/a	13.6157	11.1685
	2010	n/a	n/a	14.6475	13.5573
	2011	n/a	n/a	14.8188	14.2331
	2012	n/a	n/a	16.6767	14.6702
	2013 ^[b]	n/a	n/a	17.2295	16.6100
Swiss franc (gross)		CHF	CHF	CHF	CHF
Class 'A-H'	2012 ^[d]	n/a	n/a	10.2732	10.0000
	2013 ^[b]	n/a	n/a	10.5884	10.2039
Class 'C-H'	2012 ^[d]	n/a	n/a	10.2896	10.0000
	2013 ^[b]	n/a	n/a	10.6235	10.2443

^[a] On 1 September 2008 the fund's objective was changed.

^[b] To 1 July 2013.

^[c] From 3 August 2012 (the launch date of the share class).

^[d] From 28 September 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 price of shares and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

	Calendar year	Interest income per share			Total	Reinvested
		Interims	Distributed Final	Interim		
Sterling (net)		p	p	p	p	p
Class 'A'	2008	0.8948	0.4620	0.4308	1.7876	2.0380
	2009	1.3312	0.4109	0.5600	2.3021	2.7152
	2010	0.9640	0.4040	0.5000	1.8680	2.2776
	2011	0.9040	0.4580	0.4400	1.8020	2.2744
	2012	0.8260	0.3720	0.3232	1.5212	1.9536
	2013 ^[a]	0.7048	0.2880	-	0.9928	1.3008
Class 'I'	2012	n/a	n/a	4.4392	4.4392	4.4392
	2013 ^[a]	13.3012	5.6600	-	18.9612	19.1351
Class 'R'	2012	n/a	n/a	0.3972	0.3972	0.3972
	2013 ^[a]	1.2528	0.5200	-	1.7728	1.7828
Class 'X'	2008	0.8408	0.4392	0.4052	1.6852	1.9149
	2009	1.2701	0.3800	0.5260	2.1761	2.5546
	2010	0.8960	0.3680	0.4700	1.7340	2.0944
	2011	0.8360	0.4280	0.4060	1.6700	2.0756
	2012	0.7592	0.3380	0.2912	1.3884	1.7648
	2013 ^[a]	0.6356	0.2520	-	0.8876	1.1488
Euro (gross)		€	€	€	€	€
Class 'A'	2008	n/a	n/a	n/a	n/a	43.9341
	2009	n/a	n/a	n/a	n/a	49.8534
	2010	n/a	n/a	n/a	n/a	45.2734
	2011	n/a	n/a	n/a	n/a	44.6211
	2012	n/a	n/a	n/a	n/a	41.4915
	2013 ^[a]	n/a	n/a	n/a	n/a	27.1555
Class 'C'	2008	n/a	n/a	n/a	n/a	51.4435
	2009	n/a	n/a	n/a	n/a	58.5264
	2010	n/a	n/a	n/a	n/a	55.3539
	2011	n/a	n/a	n/a	n/a	55.0311
	2012	n/a	n/a	n/a	n/a	52.4129
	2013 ^[a]	n/a	n/a	n/a	n/a	35.6642
Swiss franc (gross)		€	€	€	€	€
Class 'A-H'	2012	n/a	n/a	n/a	n/a	nil
	2013 ^[a]	n/a	n/a	n/a	n/a	17.2685
Class 'C-H'	2012	n/a	n/a	n/a	n/a	nil
	2013 ^[a]	n/a	n/a	n/a	n/a	21.6228

^[a] Up to final: ex-distribution date 1 July 2013;
payment date 31 August 2013.

M&G European Corporate Bond Fund

FUND STATISTICS

NET ASSETS

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling					
Class 'A'	Jun 2011	69.76	88.27	28,359,100	299,387,565
	Jun 2012	63.36	82.23	36,922,100	216,086,565
	Jun 2013	71.26	94.26	39,770,100	95,567,565
Class 'I'	Jun 2013	1,115.03	1,139.45	32,900	9,300
Class 'R'	Jun 2013	111.50	113.75	19,000	1,000
Class 'X'	Jun 2011	69.65	87.27	1,858,097	47,425,951
	Jun 2012	63.26	81.13	1,858,097	39,489,951
	Jun 2013	71.15	92.82	1,919,097	36,173,951
Euro					
Class 'A'	Jun 2011	n/a	13.5298	n/a	16,802,358
	Jun 2012	n/a	14.2268	n/a	37,370,758
	Jun 2013	n/a	15.3984	n/a	69,521,958
Class 'C'	Jun 2011	n/a	14.5398	n/a	33,670,653
	Jun 2012	n/a	15.3656	n/a	49,132,253
	Jun 2013	n/a	16.7150	n/a	68,488,753
Swiss franc					
Class 'A-H'	Jun 2013	n/a	10.2664	n/a	11,408,700
Class 'C-H'	Jun 2013	n/a	10.3076	n/a	3,000
Total net asset value of sub-fund					
	Year ended	£		€ [a]	
	Jun 2011	975,077,000		1,078,206,000	
	Jun 2012	1,271,637,000		1,577,215,000	
	Jun 2013	2,135,799,000		2,489,570,000	

[a] Based on the midday exchange rate on the last business day of each financial year.

PORTFOLIO

PORTFOLIO STATEMENT

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'AAA' credit rated bonds			
€3,500,000 European Investment Bank 2.25% 2022	3,031	0.14	18.93
€1,000,000 European Investment Bank 3% 2015	1,051	0.05	12.70
€10,000,000 European Investment Bank 3.5% 2027	9,440	0.44	
€4,017,045 Fosse Master Issuer 1.51% 2054	3,476	0.16	
€10,000,000 Germany (Federal Republic of) 0.75% IL 2018	9,538	0.45	
€15,000,000 Germany (Federal Republic of) 1.5% IL 2016	15,692	0.73	
€30,000,000 Germany (Federal Republic of) 1.75% IL 2020	31,684	1.48	
€30,000,000 Germany (Federal Republic of) 2% 2016	26,921	1.26	
€30,835,000 Germany (Federal Republic of) 3.25% 2020	30,157	1.41	
€26,500,000 Germany (Federal Republic of) 3.5% 2016	24,585	1.15	
€110,000,000 Germany (Federal Republic of) 3.75% 2017	105,377	4.93	
€40,000,000 Germany (Federal Republic of) 4.25% 2014	35,053	1.64	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'AAA' credit rated bonds (continued)			
€23,000,000 Germany (Federal Republic of) 4.25% 2018	23,130	1.08	
€3,200,000 Germany (Federal Republic of) 5.5% 2031	3,998	0.19	
£7,310,952 Gosforth Funding 2012-2 FRN 2049	7,314	0.34	
€10,000,000 Grand Harbour 0% 2026 [a]	8,579	0.40	
€20,000,000 Johnson & Johnson 4.75% 2019	20,589	0.96	
€10,000,000 Johnson & Johnson 5.5% 2024	12,059	0.57	
£3,913,000 Lloyds TSB Bank 4.875% 2027	4,264	0.20	
£4,055,000 Lloyds TSB Bank 5.125% 2025	4,585	0.22	
€2,539,000 Microsoft 2.625% 2033	2,036	0.10	
€10,000,000 Permanent Master Issuer 1.611% 2042	8,791	0.41	
€5,000,000 Silverstone Master 1.708% 2055	4,404	0.21	
€10,000,000 Storm FRN 2054	8,729	0.41	
'AA' credit rated bonds			
€8,231,819 Aire Valley Mortgages FRN 2066	6,645	0.31	9.30
€5,400,000 CaixaBank 3% 2018	4,604	0.22	6.16
€10,000,000 Deutsche Bahn Finance 4.375% 2021	10,088	0.47	
€7,690,000 Deutsche Boerse 2.375% 2022	6,604	0.31	
€5,725,000 Fingrid 3.5% 2024	5,192	0.24	
€2,000,000 GE Capital European Funding 3.625% 2017	1,850	0.09	
€1,500,000 GE Capital European Funding 4.625% 2027	1,494	0.07	
€1,500,000 GE Capital European Funding 6.025% 2038	1,724	0.08	
€3,300,000 GE Capital Trust IV Var. Rate 2066	2,782	0.13	
£4,000,000 GE Capital UK Funding 5.875% 2033	4,504	0.21	
\$5,000,000 General Electric Capital 5.3% 2021	3,575	0.17	
£8,000,000 IXIS Corporate & Investment Bank 5.875% 2020	9,214	0.43	
€1,600,000 Kutxabank 3% 2017	1,382	0.07	
€4,095,000 MetLife Global Funding 2.375% 2019	3,588	0.17	
€10,800,000 MetLife Global Funding 4.625% 2017	10,396	0.49	
€1,500,000 Nestlé Finance International 1.5% 2019	1,282	0.06	
€10,000,000 Nestlé Finance International 1.75% 2022	8,279	0.39	
€5,350,000 New York Life Global Funding 4.375% 2017	5,088	0.24	
\$5,000,000 Nordea Bank 4.875% 2021	3,619	0.17	
€4,600,000 Novartis Finance 4.25% 2016	4,349	0.20	
€2,805,506 Paragon Mortgages No.8 FRN 2035	2,197	0.10	
€3,200,000 Pfizer 4.75% 2016	3,053	0.14	
€2,500,000 Pfizer 5.75% 2021	2,701	0.13	
€2,500,000 Procter & Gamble 2% 2022	2,095	0.10	
€5,000,000 Rabobank Nederland 4% 2022	4,759	0.22	
€4,100,000 Rabobank Nederland 4.125% 2025	3,893	0.18	
€1,600,000 Rabobank Nederland 4.75% 2018	1,565	0.07	
£6,000,000 Reseau Ferre de France 5.5% 2021	7,065	0.33	
£17,122,415 RMAC Securities FRN 2044	15,269	0.71	
€2,125,000 Roche Holdings 6.5% 2021	2,397	0.11	
\$1,000,000 Roche Holdings 7% 2039	882	0.04	
€2,500,000 Shell International Finance 4.375% 2018	2,462	0.12	
€9,000,000 Svenska Handelsbanken 2.625% 2022	7,801	0.37	
£15,000,000 Svenska Handelsbanken 2.75% 2022	14,145	0.66	
£2,530,000 Svenska Handelsbanken 4% 2019	2,707	0.13	
€1,600,000 Total Capital 4.875% 2019	1,617	0.08	
\$20,000,000 US Treasury 0.625% 2017	12,871	0.60	
€3,000,000 Wal-Mart Stores 4.875% 2029	3,136	0.15	
\$10,000,000 Wal-Mart Stores 6.5% 2037	8,218	0.38	
£3,000,000 Wal-Mart Stores 5.25% 2035	3,425	0.16	

M&G European Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'A' credit rated bonds			
		23.37	30.16
\$3,570,000 ABN Amro Bank 4.25% 2017	2,495	0.12	
€12,000,000 Allianz Finance II Var. Rate 2041	11,398	0.53	
€5,108,000 America Movil 3% 2021	4,416	0.21	
€5,000,000 America Movil 4.125% 2019	4,710	0.22	
€4,100,000 American International Group FRN 2013	3,517	0.16	
\$10,000,000 Anheuser-Busch Inbev Worldwide 8.2% 2039	9,479	0.44	
£1,000,000 ASIF II 6.375% 2020	1,199	0.06	
€3,300,000 ASIF III Jersey 4.75% 2013	2,853	0.13	
€5,575,000 ASIF III Jersey 5% 2018	6,206	0.29	
€8,890,000 AT&T 3.55% 2032	7,518	0.35	
€3,000,000 AT&T 4.875% 2044	2,905	0.14	
€5,000,000 AT&T 5.875% 2017	5,707	0.27	
€9,900,000 Banco Bilbao Vizcaya Argentaria 3.5% 2020	8,442	0.40	
€1,700,000 Banco Bilbao Vizcaya Argentaria 4.75% 2016	1,547	0.07	
€3,000,000 Banco Santander 3.625% 2017	2,661	0.12	
€1,500,000 Banco Santander 4.375% 2015	1,337	0.06	
€3,000,000 Bank of America 6.125% 2021	3,475	0.16	
€1,600,000 Bank of America 7% 2016	1,595	0.08	
€850,000 Bank of America FRN 2016	716	0.03	
\$5,000,000 Bank of America NA 5.3% 2017	3,549	0.17	
€6,000,000 Bankinter 2.75% 2016	5,137	0.24	
€18,000,000 Bankinter 3.125% 2018	15,370	0.72	
€2,500,000 Barclays Bank 9.5% 2021	3,085	0.14	
€4,000,000 BAT International Finance 5.375% 2017	3,973	0.19	
€5,000,000 BAT International Finance 7.25% 2024	6,463	0.30	
€2,590,000 BG Energy Capital 3% 2018	2,367	0.11	
€4,100,000 BG Energy Capital 3.625% 2019	3,856	0.18	
€6,000,000 BP Capital Markets 2.994% 2019	5,476	0.26	
€3,000,000 CEZ Finance 4.5% 2020	2,915	0.14	
€2,500,000 CEZ Finance 4.875% 2025	2,484	0.12	
€3,287,000 CEZ Finance 5.75% 2015	3,069	0.14	
€9,000,000 Citigroup 5% 2019	8,773	0.41	
€5,000,000 Citigroup 7.375% 2019	5,421	0.25	
€19,000,000 Cloverie (Zurich Ins) Var. Rate 2039	19,678	0.92	
€8,500,000 Cloverie 6.625%-FRN 2042	8,534	0.40	
€5,000,000 Daimler International Finance 3.5% 2019	5,221	0.24	
\$5,000,000 Danske Bank 3.875% 2016	3,459	0.16	
£4,500,000 DNB Bank 4.25% 2020	4,839	0.23	
€2,536,654 Eddystone Finance FRN 2021	2,089	0.10	
€5,000,000 Électricité de France 4% 2025	4,660	0.22	
€2,500,000 Électricité de France 4.125% 2027	2,329	0.11	
€1,500,000 Électricité de France 6.25% 2021	1,628	0.08	
€4,800,000 Elia System Operator 3.25% 2028	4,103	0.19	
€1,990,000 EnBW International 6.125% 2039	2,299	0.11	
€3,400,000 Enxsis Holding 1.875% 2020	2,862	0.13	
€2,425,000 Eni 4.25% 2020	2,303	0.11	
€1,050,000 Fortum 6% 2019	1,094	0.05	
€1,587,000 France Telecom 8.125% 2033	2,060	0.10	
€4,600,000 GDF Suez 5.95% 2111	4,597	0.22	
€1,050,000 GIE Suez Alliance 5.75% 2023	1,130	0.05	
\$5,000,000 Glaxosmithkline Capital 6.375% 2038	3,989	0.19	
€1,850,000 Goldman Sachs Group 4.5% 2016	1,710	0.08	
€2,000,000 Goldman Sachs Group 5.125% 2019	1,959	0.09	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'A' credit rated bonds (continued)			
€800,000 Goldman Sachs Group FRN 2015	680	0.03	
£1,252,935 Granite Master Issuer FRN 2054 05-2 A7	1,218	0.06	
£1,715,328 Granite Master Issuer FRN 2054 06-2 A6	1,668	0.08	
€4,678,342 Granite Master Issuer FRN 2054 05-1 A5	3,903	0.18	
€3,680,000 Granite Master Issuer FRN 2054 05-1 B2	2,897	0.14	
€2,600,000 Granite Master Issuer FRN 2054 06-1X B4	2,047	0.10	
£3,000,000 Granite Master Issuer FRN 2054 06-1X M3	2,667	0.12	
£500,000 Granite Master Issuer FRN 2054 06-2 M4	445	0.02	
\$1,250,000 Granite Master Issuer FRN 2054 06-3 M2	730	0.03	
£5,011,741 Granite Master Issuer FRN 2054 06-4 A8	4,874	0.23	
£3,500,000 Granite Master Issuer FRN 2054 07-1 3M2	3,112	0.15	
£5,075,581 Granite Master Issuer FRN 2054 07-1 5A1	4,936	0.23	
€1,600,000 Granite Master Issuer FRN 2054 07-2 3B2	1,259	0.06	
£1,491,590 Granite Master Issuer FRN 2054 07-2 4A2	1,451	0.07	
£984,665 Granite Mortgages FRN 2044	962	0.05	
£5,190,204 Great Hall Mortgages 0.6585% 2038	4,664	0.22	
€3,700,000 Hammerson 2.75% 2019	3,243	0.15	
€150,000 Hammerson 4.875% 2015	138	0.01	
€5,000,000 Hannover Finance Luxembourg Var. Rate 2024	4,350	0.20	
€5,000,000 Hannover Finance Luxembourg Var. Rate 2040	4,752	0.22	
€1,300,000 Hannover Finance Luxembourg Var. Rate 2043	1,160	0.05	
€3,000,000 Hannover Finance Luxembourg Var. Rate Perp.	2,598	0.12	
£2,000,000 Heathrow Funding (formerly BAA Funding) 5.225% 2025	2,209	0.10	
£3,000,000 HSBC Bank 4.75% 2046	2,588	0.12	
£3,500,000 HSBC Bank Capital Funding Sterling LP Var. Rate Perp.	3,456	0.16	
£3,000,000 HSBC Bank Var. Rate 2023	3,182	0.15	
£4,100,000 HSBC Holdings Var. Rate 2022	4,507	0.21	
\$5,000,000 ING Bank 3.75% 2017	3,442	0.16	
€3,500,000 ING Bank 4.5% 2022	3,377	0.16	
€888,000 ING Group 4.125% 2015	801	0.04	
€6,857,000 JPMorgan Chase 2.875% 2028	5,625	0.26	
\$3,000,000 JPMorgan Chase 6.3% 2019	2,267	0.11	
€5,800,000 JPMorgan Chase Var. Rate 2019	4,983	0.23	
€13,000,000 JPMorgan Chase Var. Rate 2021	11,510	0.54	
\$6,600,000 Legrand 8.5% 2025	5,446	0.25	
€3,000,000 Leo-Mesdag FRN 2019	2,310	0.11	
£989,000 Lloyds TSB Bank 7.5% 2024	1,259	0.06	
€2,000,000 McDonald's 2.375% 2024	1,651	0.08	
€2,854,000 Merck Financial Services 4.5% 2020	2,825	0.13	
\$7,665,470 Mitchells & Butlers Finance 0.7232% 2030	4,343	0.20	
£2,000,000 Mitchells & Butlers Finance FRN 2033	1,440	0.07	
€2,500,000 Morgan Stanley 3.75% 2017	2,264	0.11	
€2,000,000 Morgan Stanley 5% 2019	1,907	0.09	
€5,100,000 Morgan Stanley 5.375% 2020	4,938	0.23	
€800,000 Morgan Stanley 6.5% 2018	813	0.04	
€2,500,000 Morgan Stanley FRN 2016	2,094	0.10	
€4,000,000 Muenchener Rueckversicherungs Var. Rate 2041	3,908	0.18	

M&G European Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'A' credit rated bonds (continued)			
€11,700,000 Muenchener Ruckversicherungs Var. Rate 2042	11,596	0.54	
\$5,000,000 Nationwide Building Society 6.25% 2020	3,673	0.17	
€6,100,000 OMV 2.625% 2022	5,250	0.25	
€1,627,000 Optus Finance 3.5% 2020	1,505	0.07	
€5,000,000 Parker Hannifin 4.125% 2015	4,578	0.21	
€5,000,000 Philip Morris International 2.875% 2024	4,273	0.20	
€10,400,000 Principal Financial Global Funding II 4.5% 2017	9,800	0.46	
€3,400,000 Réseau de Transport d'Électricité 2.125% 2019	2,941	0.14	
€2,104,177 RMAC 0.334% 2005	1,614	0.08	
€7,000,000 Royal Bank of Scotland 5.375% 2019	6,777	0.32	
€8,571,000 Sbab Bank Ab 1.375% 2018	7,259	0.34	
£2,500,000 Segro 5.5% 2018	2,785	0.13	
£800,000 Segro 5.625% 2020	905	0.04	
£1,837,000 Segro 6.75% 2021	2,224	0.10	
€1,895,000 Snam 3.875% 2018	1,716	0.08	
€1,370,000 Snam 4.375% 2016	1,261	0.06	
€2,970,000 Snam 5% 2019	2,816	0.13	
€1,500,000 Standard Chartered Bank 5.875% 2017	1,447	0.07	
€7,865,000 Statkraft 2.5% 2022	6,686	0.31	
\$4,485,000 Swiss Re Capital I LP Var. Rate Perp.	3,050	0.14	
€4,000,000 Swiss Reinsurance Var. Rate Perp.	3,465	0.16	
€5,200,000 TeliaSonera 3% 2027	4,387	0.21	
€2,290,000 Telstra 3.5% 2022	2,106	0.10	
€1,300,000 TenneT 4.5% 2022	1,287	0.06	
€2,000,000 Terna Rete Elettrica Nazionale 4.125% 2017	1,843	0.09	
€3,000,000 Terna Rete Elettrica Nazionale 4.75% 2021	2,895	0.14	
€3,470,000 Teva Pharmaceutical Finance IV 2.875% 2019	3,092	0.14	
£9,678,000 Thames Water Utilities Cayman 7.241% 2058	11,485	0.54	
£5,100,000 UBS London 6.625% 2018	6,067	0.28	
€3,300,000 Verizon Wireless Capital 8.75% 2015	3,367	0.16	
€3,833,000 Wells Fargo 2.25% 2023	3,168	0.15	
€2,500,000 Zurich Finance Var. Rate 2023	2,156	0.10	
'BBB' credit rated bonds			
		32.27	32.73
€6,000,000 ABN Amro Bank 6.375% 2021	5,673	0.27	
€2,600,000 ABN Amro Bank FRN 2017	2,209	0.10	
€2,755,000 Achmea 6% 2043	2,417	0.11	
€5,000,000 Akzo Nobel 4% 2018	4,729	0.22	
\$1,000,000 Altria Group 10.2% 2039	980	0.05	
\$10,000,000 Altria Group 9.25% 2019	8,668	0.41	
\$4,333,000 Altria Group 9.95% 2038	4,159	0.20	
€8,100,000 American International Group Var. Rate 2067	6,463	0.30	
£10,000,000 American International Group Var. Rate 2067	9,300	0.44	
£5,000,000 Anglo American Capital 6.875% 2018	5,649	0.26	
\$4,100,000 Anglo American Capital 9.375% 2014	2,852	0.13	
€3,300,000 Areva 3.5% 2021	2,866	0.13	
€3,200,000 Areva 4.875% 2024	2,991	0.14	
€5,000,000 ASF 5.625% 2022	5,312	0.25	
€1,400,000 Assicurazioni Generali Var. Rate 2042	1,274	0.06	
£400,000 Atlantia 6.25% 2022	428	0.02	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'BBB' credit rated bonds (continued)			
€6,043,000 Axa Sa 5.125% 2043	5,157	0.24	
€16,400,000 Bank of America Var. Rate 2019	13,929	0.65	
€3,000,000 Barclays Bank 6.625% 2022	2,896	0.14	
£8,000,000 Barclays Bank FRN Perp.	5,150	0.24	
€8,000,000 Bayer Var. Rate 2105	7,148	0.34	
€5,100,000 BBVA Senior Finance 3.75% 2018	4,414	0.21	
\$5,000,000 BG Energy Capital 6.5% 2072	3,502	0.16	
€3,000,000 BG Energy Capital Var. Rate 2072	3,186	0.15	
€1,000,000 BNP Paribas 4.875% Perp.	745	0.03	
€1,000,000 BNP Paribas Var. Rate Perp.	823	0.04	
\$2,000,000 British Sky Broadcasting 6.1% 2018	1,505	0.07	
\$2,000,000 British Sky Broadcasting 9.5% 2018	1,721	0.08	
£8,000,000 British Telecommunications 8.5% 2016	9,674	0.45	
€1,389,000 Carlsberg Breweries 2.625% 2019	1,215	0.06	
€34,880,000 Channel Link Enterprises Finance FRN 2050	27,829	1.30	
£10,000,000 Citigroup 5.875% 2024	10,818	0.51	
€6,298,000 Citigroup Var. Rate 2017	5,109	0.24	
€1,500,000 Citigroup Var. Rate 2019	1,248	0.06	
€11,500,000 Citigroup Var. Rate 2030	9,423	0.44	
€4,091,000 Citycon 3.75% 2020	3,449	0.16	
€3,950,000 Coca-Cola Enterprises 3.125% 2017	3,621	0.17	
€4,000,000 Commerzbank 7.75% 2021	3,613	0.17	
€1,600,000 Compagnie de St. Gobain 4% 2018	1,489	0.07	
€2,468,000 CRH Finance 3.125% 2023	2,069	0.10	
€3,500,000 Danske Bank FRN 2021	3,483	0.16	
€4,000,000 Delta Lloyd Levens 9% 2042	3,775	0.18	
€1,120,000 Deutsche Telekom 4.375% 2014	995	0.05	
€9,100,000 Deutsche Telekom 5.375% 2021	9,265	0.43	
€2,100,000 Deutsche Telekom 6% 2017	2,093	0.10	
\$8,000,000 Deutsche Telekom 8.75% 2030	7,348	0.34	
€3,000,000 DONG Energy 4.875% 2021	2,981	0.14	
€3,000,000 DONG Energy 6.5% 2019	3,167	0.15	
€8,300,000 EDF 4.25% 2020	7,210	0.34	
€7,040,000 EnBW Energie Baden-Wuerttemberg Var. Rate 2072	6,734	0.32	
€2,500,000 Enel Finance International 4.875% 2020	2,295	0.11	
€2,280,000 Enel Finance International 5% 2022	2,070	0.10	
\$4,000,000 Enel Finance International 6.25% 2017	2,883	0.14	
€5,000,000 Erste Group Bank 7.125% 2022	4,721	0.22	
€2,500,000 Finmeccanica Finance 8% 2019	2,722	0.13	
€4,000,000 Firstgroup 6.125% 2019	4,322	0.20	
£2,000,000 Friends Life Group 8.25% 2022	2,085	0.10	
€3,200,000 Gas Natural Capital Markets 5% 2018	3,021	0.14	
€3,000,000 Gas Natural Fenosa Finance 3.875% 2023.	2,503	0.12	
£10,000,000 Gatwick Funding 5.25% 2026	10,790	0.51	
€5,000,000 Gecina 4.75% 2019	4,762	0.22	
€8,599,000 Gelf Bond Issuer 3.125% 2018	7,376	0.35	
€800,000 Glencore Finance Europe 5.25% 2013	695	0.03	
€50,000 Glencore Finance Europe 5.25% 2017	47	0.00	
\$3,000,000 Glencore Finance Europe 7.5% Perp.	2,120	0.10	
€6,000,000 Granite Master Issuer FRN 2054 05-2 C2	4,427	0.21	
€2,200,000 Granite Master Issuer FRN 2054 07-2 2C2	1,623	0.08	
€1,500,000 Granite Master Issuer FRN 2054 07-2 3C2	1,107	0.05	
£6,654,000 Heathrow Funding (formerly BAA Funding) 6% 2020	7,346	0.34	
£8,000,000 Heathrow Funding (formerly BAA Funding) 6.25% 2018	8,986	0.42	
£686,000 Heathrow Funding (formerly BAA Funding) 7.125% 2024	809	0.04	

M&G European Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'BBB' credit rated bonds (continued)			
€5,000,000 Henkel Var. Rate 2104	4,519	0.21	
£166,000 HSBC Capital Funding Var. Rate Perp.	178	0.01	
€5,800,000 HSBC Capital Funding Var. Rate Perp.	4,976	0.23	
€11,900,000 Iberdrola International 3.5% 2013	10,251	0.48	
€7,698,000 ICAP Group Holdings 7.5% 2014	6,946	0.33	
€5,000,000 Imperial Tobacco Finance 4.375% 2013	4,352	0.20	
€3,000,000 Imperial Tobacco Finance 5% 2019	2,969	0.14	
€1,600,000 Imperial Tobacco Finance 5.5% 2016	1,767	0.08	
€7,000,000 Imperial Tobacco Finance 8.375% 2016	7,074	0.33	
€3,696,000 Intesa Sanpaolo 4% 2017	3,211	0.15	
€4,000,000 Intesa Sanpaolo 4.125% 2020	3,453	0.16	
€1,600,000 Intesa Sanpaolo 4.75% 2017	1,438	0.07	
\$5,000,000 Intesa Sanpaolo 6.5% 2021	3,320	0.16	
€279,000 Intesa Sanpaolo FRN 2018	208	0.01	
€2,000,000 KPN 3.25% 2021	1,704	0.08	
€4,000,000 KPN 4.25% 2022	3,573	0.17	
€2,380,000 KPN 4.5% 2021	2,179	0.10	
\$6,500,000 KPN 8.375% 2030	5,205	0.24	
€17,150,000 Legal & General Group Var. Rate 2025	14,842	0.70	
€4,900,000 Linde Finance Var. Rate Perp.	4,199	0.20	
€4,000,000 Lloyds TSB Bank 7.625% 2025	4,450	0.21	
€3,000,000 Lloyds TSB Bank 10.75% 2021	3,504	0.16	
€10,000,000 Lloyds TSB Bank 11.875% 2021	10,403	0.49	
€13,434,000 Lloyds TSB Bank Var. Rate 2020	13,458	0.63	
\$5,000,000 Lorillard Tobacco 6.875% 2020	3,763	0.18	
€1,100,000 Lottomatica Group 3.5% 2020	946	0.04	
€2,000,000 Marks & Spencer 6.125% 2019	2,181	0.10	
\$1,000,000 Meccanica Holdings USA 6.25% 2019	669	0.03	
€5,000,000 Merrill Lynch 0.758% 2018	3,945	0.18	
€12,000,000 Mondri Consumer Packaging (formerly Nordenia International) 9.75% 2017	11,582	0.54	
€2,000,000 National Capital Instruments Euro FRN Perp.	1,498	0.07	
€2,850,000 National Express 6.625% 2020	3,266	0.15	
€1,050,000 National Grid 4.375% 2020	1,033	0.05	
€2,000,000 National Westminster Bank 6.5% 2021	1,956	0.09	
€3,333,000 Nationwide Building Society 4.125% 2023	2,724	0.13	
€15,500,000 Nationwide Building Society 6.75% 2020	14,364	0.67	
€4,000,000 Next 5.375% 2021	4,402	0.21	
€5,000,000 Next 5.875% 2016	5,586	0.26	
€5,048,000 Ngg Finance 4.25% 2076	4,276	0.20	
€7,000,000 Old Mutual 8% 2021	7,251	0.34	
€5,000,000 Old Mutual Var. Rate Perp.	4,350	0.20	
€5,300,000 Old Mutual Var. Rate Perp.	4,239	0.20	
€10,955,000 Origin Energy Finance 2.5% 2020	9,019	0.42	
€3,375,000 Origin Energy Finance 2.875% 2019	2,907	0.14	
€10,000,000 Pemex Project Funding Master Trust 5.5% 2025	9,463	0.44	
€1,900,000 Petróleos Mexicanos 8.25% 2022	2,364	0.11	
\$2,700,000 Qwest 6.875% 2033	1,710	0.08	
\$1,600,000 Qwest 7.5% 2014	1,131	0.05	
\$2,000,000 Reed Elsevier Capital 8.625% 2019	1,635	0.08	
€5,000,000 Reed Elsevier Investments 7% 2017	6,005	0.28	
€2,500,000 Rentokil Initial 4.625% 2014	2,204	0.10	
€600,000 Repsol International Finance 4.875% 2019	561	0.03	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'BBB' credit rated bonds (continued)			
\$6,500,000 Rhodia 6.875% 2020	4,787	0.22	
CHF1,000,000 Royal Bank of Scotland 2.375% 2015	691	0.03	
€5,000,000 Royal Bank of Scotland 6.934% 2018	4,480	0.21	
€10,000,000 Santander Consumer Finance 3.25% 2014	8,711	0.41	
€900,000 Santander International Debt 3.16% 2015	895	0.04	
€9,000,000 SES 4.625% 2020	8,776	0.41	
€2,000,000 SES 4.75% 2021	1,972	0.09	
€4,500,000 SES 4.875% 2014	4,019	0.19	
€2,550,000 Severn Trent Water 5.25% 2016	2,422	0.11	
€1,000,000 SG Capital Trust III Var. Rate Perp.	846	0.04	
\$3,500,000 Société Générale 6.625% 2049	2,309	0.11	
€4,941,000 Solvay Finance Var. Rate 2104	4,525	0.21	
€5,000,000 Spain (Kingdom of) 5.25% 2029	4,535	0.21	
€5,000,000 SSE 5.025% 2049	4,456	0.21	
€1,765,000 TDC 3.75% 2022	1,620	0.08	
€3,000,000 Telecom Italia 7% 2017	2,860	0.13	
€3,000,000 Telecom Italia 7.375% 2017	3,297	0.15	
€500,000 Telecom Italia Finance 7.75% 2033	477	0.02	
€2,000,000 Telefónica Emisiones 4.71% 2020	1,806	0.08	
€900,000 Telefónica Emisiones 4.75% 2017	828	0.04	
€2,000,000 Telefónica Emisiones 5.375% 2018	2,107	0.10	
€1,600,000 Teollisuuden Voima 6% 2016	1,550	0.07	
€1,600,000 Thames Water Utilities Cayman Var. Rate 2030	1,778	0.08	
€2,800,000 Time Warner Cable 5.25% 2042	2,703	0.13	
\$2,500,000 Time Warner Cable 7.3% 2038	1,842	0.09	
\$700,000 Time Warner Entertainment 8.375% 2033	604	0.03	
€5,500,000 UniCredit Var. Rate 2018	5,311	0.25	
€6,950,000 Ureco Finance 4% 2017	6,365	0.30	
€1,150,000 Ureco Finance 5.375% 2015	1,063	0.05	
€4,100,000 Vattenfall Treasury Var. Rate Perp.	3,690	0.17	
€5,000,000 Virgin Media Secured Finance 5.5% 2021	4,875	0.23	
€10,318,000 Virgin Media Secured Finance 7% 2018	10,713	0.50	
€6,000,000 Vivendi 2.5% 2020	5,064	0.24	
€5,000,000 Vivendi 4.125% 2017	4,644	0.22	
\$4,340,000 Vivendi 6.625% 2018	3,294	0.15	
€2,400,000 Vivendi 7.75% 2014	2,111	0.10	
€7,681,000 Western Power Distribution East Midlands 5.25% 2023	8,647	0.40	
€2,000,000 WPP Finance 6.375% 2020	2,402	0.11	
€3,036,000 Yorkshire Water Services Bradford Finance Var. Rate 2025	3,371	0.16	
'BB' credit rated bonds		5.54	6.07
€500,000 Anglian Water Osprey Financing 7% 2018	529	0.03	
€8,444,011 AyT Hipotecario Mixto FRN 2041	5,451	0.26	
\$5,000,000 Bank of America Var. Rate Perp.	3,676	0.17	
€600,000 Bank of Scotland Var. Rate Perp.	590	0.03	
\$5,000,000 Citigroup Var. Rate Perp.	3,258	0.15	
€6,000,000 Commerzbank 4.125% 2016	4,660	0.22	
€5,308,000 Crown European Holdings 7.125% 2018	4,872	0.23	
€5,600,000 Daily Mail & General Trust 5.75% 2018	5,988	0.28	
€2,000,000 Daily Mail & General Trust 6.375% 2027	2,017	0.09	
€2,000,000 Daily Mail & General Trust 10% 2021	2,559	0.12	
\$1,400,000 Dresdner Funding Trust 8.151% 2031	925	0.04	
\$1,000,000 Dufry Finance 5.5% 2020	666	0.03	
€5,000,000 Fiat Industrial Finance Europe 6.25% 2018	4,658	0.22	

M&G European Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'BB' credit rated bonds (continued)			
\$1,200,000 Fresenius Medical Care US Finance 6.875% 2017	859	0.04	
£1,575,000 GKN 5.375% 2022	1,584	0.07	
£3,500,000 GKN 6.75% 2019	3,873	0.18	
€1,500,000 Greif Luxembourg Finance 7.375% 2021	1,433	0.07	
€1,800,000 Intergen 8.5% 2017	1,575	0.07	
\$1,360,000 Intergen 9% 2017	923	0.04	
£600,000 Intergen 9.5% 2017	612	0.03	
€3,000,000 Kabel Deutschland Vertrieb & Service 6.5% 2018	2,734	0.13	
€8,000,000 Koninklijke KPN 6.125% 2049	6,760	0.32	
£3,500,000 Ladbrokes Group Finance 7.625% 2017	3,882	0.18	
€954,000 Lafarge 8.875% 2014	869	0.04	
€5,000,000 LBG Capital No.2 6.385% 2020	4,245	0.20	
£2,500,000 LBG Capital No.2 8.5% 2032	2,550	0.12	
CHF5,000,000 Matterhorn Mobile 6.75% 2019	3,529	0.17	
€1,500,000 OI European 4.875% 2014	1,267	0.06	
€5,007,000 OI European Group 6.75% 2020	4,746	0.22	
€2,500,000 Rexam Var. Rate 2067	2,199	0.10	
\$3,529,000 Royal Bank Of Scotland 6.1% 2023	2,196	0.10	
€4,000,000 Royal Bank of Scotland Var. Rate Perp.	2,518	0.12	
\$4,050,000 Sappi Papier Holding 8.375% 2019	2,832	0.13	
€6,000,000 Smurfit Kappa Acquisitions 7.75% 2019	5,516	0.26	
CHF5,275,000 Sunrise Communications International 5.625% 2017	3,689	0.17	
€1,826,000 Unitymedia Hessen 7.5% 2019	1,662	0.08	
€4,000,000 UPCB Finance 7.625% 2020	3,621	0.17	
€5,250,000 UPCB Finance II 6.375% 2020	4,594	0.22	
£500,000 UPM-Kymmene 6.625% 2017	535	0.03	
£6,764,000 William Hill 7.125% 2016	7,442	0.35	
'B' credit rated bonds		1.04	0.86
CHF820,000 Aguila 3 7.875% 2018	587	0.03	
€6,065,000 Ardagh Packaging Finance 7.375% 2017	5,467	0.26	
€2,000,000 Ardagh Packaging Finance USA 7.375% 2017	1,798	0.08	
€1,364,000 Bank of Ireland 10% 2020	1,247	0.06	
€2,500,000 Bank of Ireland 10% 2022	2,295	0.11	
£788,000 Elli Finance UK 8.75% 2019	843	0.04	
£2,000,000 Gala Group Finance 8.875% 2018	2,107	0.10	
£1,000,000 Iron Mountain 7.25% 2014	998	0.05	
€972,000 Refresco Group 7.375% 2018	851	0.04	
€1,000,000 Telenet Finance III Luxembourg 6.625% 2021	876	0.04	
€4,000,000 Telenet Finance Luxembourg 6.375% 2020	3,514	0.16	
€1,818,000 Unitymedia Hessen 5.625% 2023	1,501	0.07	
'CCC' credit rated bonds		0.03	0.03
€1,500,000 Leopard FRN 2023	726	0.03	
Bonds with no credit rating		6.97	5.60
\$10,000,000 American Tower Trust 3.07% 2048	6,273	0.29	
€2,100,000 AP Moller - Maersk 4.375% 2017	1,951	0.09	
€3,700,000 AP Moller - Maersk 4.875% 2014	3,323	0.16	
€20,000,000 Banco Bilbao Vizcaya Argentaria 3.5% 2017	17,657	0.83	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
Bonds with no credit rating (continued)			
€1,832,000 Bank of Ireland 10% 2016	1,595	0.07	
€5,298,000 Bank of Ireland Mortgage Bank 3.125% 2015	4,647	0.22	
€4,900,000 Bureau Veritas 3.75% 2017	4,375	0.20	
€7,500,000 Christian Dior 4% 2016	6,834	0.32	
\$4,000,000 Credit Suisse Group Guernsey 7.875% 2041	2,757	0.13	
€900,000 Davide Campari-Milano 4.5% 2019	806	0.04	
€16,400,000 Davide Campari-Milano 5.375% 2016	15,192	0.71	
€1,230,000 EWE 5.25% 2021	1,242	0.06	
€10,000,000 German Residential Funding 1.328% 2024	8,536	0.40	
€3,673,000 Indesit 4.5% 2018	3,059	0.14	
€2,000,000 Intesa Sanpaolo 5% 2022	1,966	0.09	
£10,000,000 John Lewis 8.375% 2019	12,644	0.59	
€3,100,000 Lagardère 4.125% 2017	2,794	0.13	
€2,700,000 Lehman Brothers Holdings 4.25% 2016 ^(b)	0	0.00	
£3,000,000 Lloyds TSB Bank FRN 2016	2,849	0.13	
€2,000,000 Prosecure Funding 4.668% 2016	1,707	0.08	
€10,000,000 Société Générale 4% 2023	8,075	0.38	
€1,450,000 Suez Environnement 5.5% 2024	1,545	0.07	
€7,500,000 Suez Environnement Var. Rate Perp.	6,585	0.31	
€10,535,000 Symrise 4.125% 2017	9,680	0.45	
€20,000,000 Taurus 0% 2024	17,244	0.81	
€3,400,000 Total Infrastructures Gaz France 4.339% 2021	3,279	0.15	
€2,600,000 Unione Di Banche Italiane 5.25% 2022	2,535	0.12	
Credit default swaps		(0.10)	(0.26)
(20,000,000) Aegon Dec 2017	(552)	(0.03)	
(5,000,000) Aegon Jun 2018	(178)	(0.01)	
(5,000,000) Alstom Jun 2017	(101)	0.00	
(5,000,000) Alstom Dec 2017	(146)	(0.01)	
(10,000,000) Atlantia Mar 2017	(285)	(0.01)	
(5,000,000) Bank of America Jun 2018	(136)	(0.01)	
10,000,000 Barclays Bank 2016	17	0.00	
(10,000,000) BNP Paribas Dec 2017	(112)	(0.01)	
(5,000,000) BP Jun 2023	(10)	0.00	
(10,000,000) Cooperatieve Centrale Raiffeis Jun 2018	13	0.00	
(10,000,000) Daimler Dec 2022	(254)	(0.01)	
(10,000,000) Électricité de France Dec 2017	86	0.00	
(5,000,000) Erste Group Bank Dec 2017	(66)	0.00	
(10,000,000) Hannover Rueckversicherung Jun 2018	(56)	0.00	
(10,000,000) Heathrow Funding Sep 2017	26	0.00	
(5,000,000) Heathrow Funding Jun 2018	(23)	0.00	
(10,000,000) Heathrow Funding Dec 2022	(498)	(0.02)	
(10,000,000) iTraxx Europe Dec 2017	273	0.01	
(5,000,000) Koninklijke KPN Sep 2017	(74)	0.00	
(10,000,000) Legal & General Finance Mar 2018	(95)	0.00	
(5,000,000) Legal & General Finance Jun 2018	(59)	0.00	
(5,000,000) LHR Airports Jun 2018	(23)	0.00	
(5,000,000) Rexam 2016	(47)	0.00	
(10,000,000) Royal Bank of Scotland Dec 2017	528	0.02	
(5,000,000) Royal Bank of Scotland Mar 2018	255	0.01	
5,000,000 Solvay Dec 2017	2	0.00	
(5,000,000) Swedbank Jun 2018	201	0.01	
(5,000,000) Swedbank Jun 2018	(202)	(0.01)	
(10,000,000) Swiss Re America Jun 2018	18	0.00	
(10,000,000) Telefónica Dec 2017	(379)	(0.02)	
(10,000,000) Time Warner Cable 2016	(43)	0.00	
(5,000,000) UBS Dec 2017	7	0.00	
(15,000,000) United States of America Sep 2016	(44)	0.00	
(5,000,000) Veolia Environnement Dec 2017	(55)	0.00	

M&G European Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
Credit default swaps (continued)			
(5,000,000) Volkswagen Dec 2017	41	0.00	
(10,000,000) Volkswagen Jun 2018	(266)	(0.01)	
(5,000,000) Xstrata Dec 2017	(78)	0.00	
Forward currency contracts			
		0.14	0.16
€546,165,560 Bought for £466,151,976 (expires 10.07.13)	2,443	0.11	
€8,319 Bought for CHF10,203 (expires 01.07.13)	0	0.00	
€8,336 Bought for CHF10,216 (expires 02.07.13)	0	0.00	
€19,145 Bought for CHF23,574 (expires 03.07.13)	0	0.00	
€10,294,334 Bought for CHF12,819,535 (expires 10.07.13)	(79)	0.00	
€176,651,608 Bought for \$229,617,590 (expires 10.07.13)	807	0.04	
€8,336 Bought for CHF10,216 (expires 24.07.13)	0	0.00	
CHF345,273 Bought for €280,407 (expires 10.07.13)	(1)	0.00	
CHF118,201,617 Bought for €95,978,084 (expires 24.07.13)	(179)	(0.01)	
£12,214,928 Bought for €14,359,839 (expires 10.07.13)	(105)	0.00	
\$17,982,361 Bought for €13,688,920 (expires 10.07.13)	62	0.00	
Interest rate futures contracts			
		0.43	0.00
(1,946) 10 Year US Treasury Note Sep 2013	4,132	0.19	
300 5 Year US Treasury Note Sep 2013	(166)	(0.01)	
(108) German Euro Bobl Sep 2013	80	0.00	
(31) German Euro Buxl Sep 2013	53	0.00	
(1,001) UK Long Gilt Bond Sep 2013	4,793	0.22	
(280) UK Medium Gilt Sep 2013	476	0.02	
(50) Ultra Long US Treasury Bond Sep 2013	264	0.01	
'AAA' rated money market funds ^[c]			
		0.94	2.38
23,308,000 Northern Trust Global Fund - Euro	19,996	0.94	
Portfolio of investments (notes 1b & 1d on pages 62 & 63)	2,111,464	98.86	96.59
Net other assets	24,335	1.14	3.41
Net assets attributable to shareholders	2,135,799	100.00	100.00

^[a] Unquoted / unlisted.

^[b] Defaulted bond.

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

Counterparty exposure

Counterparty	Financial derivative exposure			
	Credit default swaps £'000	Forward currency contracts £'000	Futures £'000	Total as at 30.06.13 £'000
Barclays	(131)	0	0	(131)
BNP Paribas	41	0	0	41
Credit Suisse	(766)	0	0	(766)
Deutsche Bank	(645)	0	0	(645)
Goldman Sachs	(329)	0	0	(329)
J.P.Morgan	(485)	0	0	(485)
RBS	0	0	9,632	9,632
State Street Bank	0	2,948	0	2,948
Total	(2,315)	2,948	9,632	10,265

PORTFOLIO TRANSACTIONS

for the year ended 30 June 2013

	£'000
Largest purchases	
UK Long Gilt Bond Jun 2013 ^[a]	146,140
UK Long Gilt Bond Mar 2013 ^[a]	132,402
UK Long Gilt Bond Dec 2012 ^[a]	124,316
10 Year US Treasury Note Mar 2013 ^[a]	110,376
10 Year US Treasury Note Jun 2013 ^[a]	109,833
Germany (Federal Republic of) 3.75% 2017 (€)	109,115
UK Long Gilt Bond Sep 2012 ^[a]	106,829
Germany (Federal Republic of) 0.25% 2014 (€)	85,535
10 Year US Treasury Note Sep 2012 ^[a]	76,199
10 Year US Treasury Note Dec 2012 ^[a]	74,984
Germany (Federal Republic of) 1.75% IL 2020 (€)	44,876
Germany (Federal Republic of) 4.25% IL 2014 (€)	44,189
Germany (Federal Republic of) 4.25% 2018 (€)	40,791
German Euro Buxl Sep 2012 ^[a]	33,814
German Euro Buxl Dec 2012 ^[a]	33,744
UK Medium Gilt Mar 2013 ^[a]	32,004
UK Medium Gilt Sep 2012 ^[a]	31,996
UK Medium Gilt Jun 2013 ^[a]	31,982
UK Medium Gilt Dec 2012 ^[a]	31,886
German Euro Bobl Dec 2012 ^[a]	28,635
Northern Trust Global Fund - Euro ^[b]	181,613
Other purchases	1,231,501
Total purchases	2,842,760
Largest sales	
	£'000
10 Year US Treasury Note Sep 2013 ^[a]	167,386
UK Long Gilt Bond Sep 2013 ^[a]	145,197
UK Long Gilt Bond Jun 2013 ^[a]	143,014
UK Long Gilt Bond Mar 2013 ^[a]	135,111
UK Long Gilt Bond Dec 2012 ^[a]	125,540
10 Year US Treasury Note Jun 2013 ^[a]	109,407
10 Year US Treasury Note Mar 2013 ^[a]	104,798
Germany (Federal Republic of) 0.25% 2014 (€)	85,173
10 Year US Treasury Note Dec 2012 ^[a]	75,576
Germany (Federal Republic of) 3.5% 2016 (€)	49,196
UK Long Gilt Bond Sep 2012 ^[a]	34,456
German Euro Buxl Sep 2012 ^[a]	34,153
German Euro Buxl Dec 2012 ^[a]	33,574
UK Medium Gilt Dec 2012 ^[a]	32,080
UK Medium Gilt Mar 2013 ^[a]	31,956
UK Medium Gilt Jun 2013 ^[a]	31,738
UK Medium Gilt Sep 2013 ^[a]	31,679
Germany (Federal Republic of) 1.75% IL 2020 (€)	28,976
German Euro Bobl Dec 2012 ^[a]	27,894
Virgin Media Secured Finance 7% 2018 (€)	22,442
Northern Trust Global Fund - Euro ^[b]	194,595
Other sales	566,598
Total sales	2,210,539

^[a] Purchases and sales of Futures have been included at the value of their exposure.

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

M&G European Corporate Bond Fund

FINANCIAL STATEMENTS

For the year ended 30 June 2013.

STATEMENT OF TOTAL RETURN

	Note	2013		2012	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		186,907		(98,517)
Revenue	4	64,956		45,668	
Expenses	5	(17,043)		(10,071)	
Finance costs: Interest	12	(6)		(4)	
Net revenue before taxation		47,907		35,593	
Taxation	6	0		0	
Net revenue after taxation			47,907		35,593
Total return before distributions			234,814		(62,924)
Finance costs: Distributions	12		(47,905)		(35,593)
Change in net assets attributable to shareholders from investment activities			186,909		(98,517)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

		2013		2012	
		£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders			1,271,637		975,077
Amounts received on issue of shares	1,071,928			608,820	
Amounts paid on cancellation of shares	(442,913)			(249,012)	
			629,015		359,808
Stamp Duty Reserve Tax			0		(1)
Change in net assets attributable to shareholders from investment activities (see above)			186,909		(98,517)
Retained distributions on Accumulation shares			48,238		35,270
Closing net assets attributable to shareholders			2,135,799		1,271,637

BALANCE SHEET

	as at 30 June 2013		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		2,115,776		1,232,431
Debtors				
Amounts receivable on issues	221		9,372	
Currency deals outstanding	773		2,546	
Debt security interest receivable	39,601		22,914	
Distributions receivable	0		1	
Premium from credit default swaps receivable	76		32	
Prepaid expenses	0		2	
Sales awaiting settlement	25,964		2,176	
		66,635		37,043
Cash and bank balances				
Amounts held at futures clearing houses and brokers	856		4,793	
Cash held as bank balances	5		11,015	
Cash held on deposit	0		3,901	
		861		19,709
Total other assets		67,496		56,752
Total assets		2,183,272		1,289,183
Liabilities				
Investment liabilities		(4,312)		(4,107)
Creditors				
Amounts payable on cancellations	(34,140)		(4,705)	
Currency deals outstanding	(774)		(2,552)	
Derivative expense payable	(638)		(185)	
Expenses payable	(1,176)		(662)	
Income tax payable	(221)		(545)	
Net distributions payable on Income shares	(121)		(144)	
Purchases awaiting settlement	(5,723)		(4,646)	
		(42,793)		(13,439)
Bank overdrafts	(368)		0	
		(368)		0
Total other liabilities		(43,161)		(13,439)
Total liabilities		(47,473)		(17,546)
Net assets attributable to shareholders		2,135,799		1,271,637

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 28 June 2013, being the last business day of the financial year. The fair value of non-derivative securities is bid price, excluding any accrued interest; the fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles; and the fair value of exchange traded futures and options is the cost of closing out the contract at the balance sheet date. Over the counter credit

M&G European Corporate Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

b) Basis of valuation of investments (continued)

default swaps are valued by Markit Valuations Limited, an independent credit derivative price provider. Unquoted investments are shown at the Authorised Corporate Director's (ACD's) valuation.

c) Investment gains and losses

Gains and losses, including exchange differences, on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date, including unrealised exchange differences, are treated as capital.

d) Exchange rates

Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into Sterling at the rate of exchange ruling as at 12 noon on 28 June 2013, being the last business day of the financial year.

e) Derivative financial instruments

The treatment of the returns on forward currency contracts and derivative contracts depend upon the nature of the transaction. Both motive and circumstances are used to determine whether the returns should be treated as capital or revenue. Where positions are undertaken to protect or enhance capital, and the circumstances support this, the returns are recognised in net capital gains or losses; similarly where the motives and circumstances are to generate or protect revenue, and the circumstances support this, the returns are included within net revenue before taxation. Where positions generate total returns it will generally be appropriate to apportion such returns between capital and revenue to properly reflect the nature of the transaction.

f) Interest and distribution income

Interest on debt securities is recognised on an accruals basis, taking into account the effective yield on the investment and is treated as revenue. The effective yield basis amortises any discount or premium on the purchase of an investment over its remaining life based on estimated future cashflows. Any adjustments resulting from changes in cashflow estimates are treated as capital.

Distributions from Collective Investment Schemes are recognised net of attributable tax credits when the security is quoted ex-distribution and are treated as revenue.

Bank interest is recognised on an accruals basis and treated as revenue.

g) Expenses

All expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

h) Apportionment of income and expenses to multiple share classes

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised. The share class hedging fees are only allocated to the Swiss franc 'A-H' and Swiss franc 'C-H' share classes.

i) Taxation

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

j) Deferred taxation

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

k) Distribution policy

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes Sourcebook.

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

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk and interest rate risk in relation to the investment portfolio. The Prospectus permits the sub-fund to use derivative instruments to hedge against medium and long-term risk.

Short-term foreign currency exposures, other than Euros, are generally covered by short-dated currency contracts.

The sub-fund holds overseas investments and exchange rate fluctuations can affect both capital and income values. During the year it has been the policy to hedge some of the investment portfolio against currency movements through the use of forward currency contracts. The ACD will also use forward currency contracts to reduce the exposure of shareholders of the Swiss franc Class 'A-H' and Swiss franc Class 'C-H' shares to movements in the sub-fund's base currency. The total benefits and costs of these forward currency contracts are assigned solely to the Swiss franc Class 'A-H' and Swiss franc Class 'C-H' shares.

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NOTES TO THE FINANCIAL STATEMENTS

2 Risk management policies (continued)

The ACD considers the credit rating, yield and maturity of each security, in order to ensure that the yield fully reflects any perceived risk. The capital value of investments within the sub-fund will fall in the event of the default or perceived increased credit risk of an issuer.

The capital value of investments within the sub-fund may also be affected by interest rate fluctuations such that when interest rates rise, the capital value of investments is likely to fall and vice versa. The effect will be more apparent on funds which invest in long-dated securities, such as this sub-fund.

The sub-fund may undertake transactions in derivatives both on exchange and over the counter (OTC). These may include credit default swaps, options, contracts for differences and interest rate futures for the purposes of meeting the investment objective and protecting the risk to capital, duration and credit management, as well as for hedging. Although the fund manager will select the counterparties with which it enters into derivative transactions with due skill and care, there will be residual risk that the counterparty may default on its obligations or become insolvent. The use of these instruments may expose the sub-fund to volatile investment returns and increase the volatility of the net asset value of the sub-fund. All derivative positions are disclosed separately in the portfolio statement.

Credit default swaps are bought and sold in response to detailed credit research to take advantage of anticipated movements in credit spreads on individual stocks and baskets of securities. When the sub-fund buys a credit default swap the default risk associated with the underlying security transfers to the counterparty. Conversely when the sub-fund sells a credit default swap the sub-fund assumes the credit risk of the underlying security. The selling of credit default swaps could expose the sub-fund to credit default risk. The sub-fund will contain a sufficient spread of investment grades of holdings to mitigate potential exposure to credit default risk.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise a sufficient number of securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 127, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.12: same).

3 Net capital gains / (losses)

	2013 £'000	2012 £'000
Non-derivative securities	141,873	(55,049)
Derivative contracts	20,188	(16,324)
Forward currency contracts	26,779	(25,361)
Currency losses	(1,910)	(1,776)
Transaction charges	(23)	(7)
Net capital gains / (losses)	186,907	(98,517)

4 Revenue

	2013 £'000	2012 £'000
Bank interest	12	9
Derivative revenue	(4,237)	(1,930)
Interest distributions	2	40
Interest on debt securities	66,419	46,754
Premium from credit default swaps	2,760	795
Total revenue	64,956	45,668

5 Expenses

	2013 £'000	2012 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	14,066	8,321
Administration fee	2,764	1,606
Hedging fees	21	0
	16,851	9,927
Payable to the Depository or associate		
Depository's fee (including VAT)	79	56
Distribution fees	1	1
	80	57
Other expenses		
Audit fee (including VAT)	11	11
Regulatory fees	10	10
Safe custody charge	83	59
Tax consultancy fees (including VAT) ^[a]	8	7
	112	87
Total expenses	17,043	10,071

[a] Fees paid to overseas firms affiliated with PricewaterhouseCoopers LLP.

6 Taxation

	2013 £'000	2012 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Current tax charge (note 6b)	0	0
Deferred tax (note 6c)	0	0
Total taxation	0	0
b) Factors affecting taxation charge for the year		
Net revenue before taxation	47,907	35,593
Corporation tax at 20%	9,581	7,119
Effects of:		
Prior year expenses utilised	(38)	0
Interest distributions	(9,543)	(7,157)
Current year expenses not utilised	0	38
Current tax charge (note 6a)	0	0
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset at the year end (30.06.12: £38,000).

Interest distributions have been made in respect of all distributions during the current and preceding years. Income tax at 20% will be accounted for on shareholders' behalf to HM Revenue & Customs where applicable.

7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.12: same).

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8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in net assets attributable to shareholders and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's (ACD's) periodic charge and administration fee are disclosed in note 5. Amounts due at the year end to the ACD of £1,107,000 (30.06.12: £600,000) in respect of the ACD's periodic charge, administration fees and share class hedging fees are included within expenses payable as disclosed in the balance sheet.

At the balance sheet date, material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 20.91% (30.06.12: 49.81%) of the sub-fund's shares.

9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.12: same).

Currency exposure

The currency profile of the sub-fund's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other assets		Total	
	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000
Euro	2,092,429	1,184,387	13,676	18,071	2,106,105	1,202,458
Swiss franc	498	(57)	258	0	756	(57)
US dollar	26,700	53,478	2,422	10,674	29,122	64,152
	2,119,627	1,237,808	16,356	28,745	2,135,983	1,266,553
Sterling	(8,163)	(9,484)	7,979	14,568	(184)	5,084
Total	2,111,464	1,228,324	24,335	43,313	2,135,799	1,271,637

Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000
Euro	161,906	204,166	1,322,960	666,631	1,484,866	870,797
Sterling	52,077	36,494	390,486	208,262	442,563	244,756
Swiss franc	0	3,292	8,496	2,618	8,496	5,910
US dollar	13,911	14,364	151,856	113,540	165,767	127,904
Total	221,894	258,316	1,873,798	991,051	2,101,692	1,249,367

	Weighted average gross interest rate of fixed interest-bearing assets		Weighted average period for which interest rates are fixed ^[a]	
	as at 30.06.13 %	as at 30.06.12 %	as at 30.06.13 years	as at 30.06.12 years
Euro	2.66	3.38	7.52	7.08
Sterling	4.22	4.54	8.12	9.06
Swiss franc	5.74	6.65	4.66	5.72
US dollar	4.72	4.35	12.74	8.71

[a] Assuming the earliest maturity date for those assets with variable maturity dates.

Floating rate interest-bearing assets at the balance sheet date consist of bank balances, on which interest is calculated at a variable rate by reference to Sterling bank deposit rates or the international equivalent; floating rate notes, on which interest is calculated at a variable rate by reference to the London Interbank Offered Rate (LIBOR) or the Euro Interbank Offered Rate (EURIBOR); and variable rate bonds (30.06.12: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.12: same).

Risk analysis

Our core method of estimating each sub-fund's overall risk position is to use value at risk based (VaR) techniques that enable us to measure each sub-fund's sensitivity to core market risk factors such as credit and interest rates. VaR is a technique used to estimate the probability of portfolio losses based on the statistical analysis of historical price trends and volatilities.

The MAGIM risk model for VaR production was originally created in 2001 utilising the Algorithmics RiskWatch software, a market leading risk solution. From the variance / covariance matrices, a parametric Monte Carlo scenario set of 5,000 simulations is derived and applied to the M&G European Corporate Bond Fund.

The key assumption within the variance / covariance matrix is the exponential weighted moving average approach that utilises a decay factor of 0.94 thereby weighting more recent data history with a higher significance.

The VaR analysis for the M&G European Corporate Bond Fund is produced on a daily basis. Market risk factors that are analysed include LIBOR / swap rates, government yield curves, equity prices, foreign exchange rates, market volatility and credit spreads.

With a statistical level of confidence of 99%, the VaR model suggests that the potential loss incurred could be £24,213,771 over the next 30 days from the balance sheet date, 30 June 2013.

Please note, the market risk information is a relative estimate of risk rather than a precise and accurate number. The model is based on historical data and cannot take account of the fact that future market price movements, correlations between markets and levels of market liquidity in conditions of market stress may bear no relation to historical patterns.

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10 Portfolio transaction costs

	2013 £'000	2012 £'000
a) Purchases ^[a]		
Purchases excluding transaction costs	2,842,745	2,091,461
Commissions	15	0
Total purchases including transaction costs	2,842,760	2,091,461
b) Sales ^[a]		
Sales excluding transaction costs	2,210,556	1,838,326
Commissions	(17)	0
Total sales net of transaction costs	2,210,539	1,838,326

^[a] Purchases and sales of Futures have been included at the value of their exposure.

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares, Sterling Class 'I' (Net Income and Net Accumulation) shares, Sterling Class 'R' (Net Income and Net Accumulation) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

This sub-fund also contains Euro Class 'A' (Gross Accumulation) shares and Euro Class 'C' (Gross Accumulation) shares.

This sub-fund also contains Swiss franc Class 'A-H' (Gross Accumulation) shares and Swiss franc Class 'C-H' (Gross Accumulation) shares.

The charging structure for each share class, as at 30 June 2013, is set out in the following table (30.06.12: same):

CHARGES AND EXPENSES

	Initial charge %	Withdrawal fee %	ACD's annual remuneration %	Share Class Hedging fee %
Sterling				
Class 'A'	3.00	n/a	1.00	n/a
Class 'I' ^[a]	1.00	n/a	0.50	n/a
Class 'R' ^[a]	1.00	n/a	0.75	n/a
Class 'X'	nil	4.50 ^[b]	1.25	n/a
Euro				
Class 'A'	3.25	n/a	1.00	n/a
Class 'C'	1.25	n/a	0.50	n/a
Swiss franc				
Class 'A-H' ^[c]	3.25	n/a	1.00	0.025 ^[d]
Class 'C-H' ^[c]	1.25	n/a	0.50	0.025 ^[d]

^[a] With effect from 3 August 2012, the launch date of the Sterling Class 'I' and Sterling Class 'R' share classes.

^[b] The withdrawal fee diminishes over a period of five years. Please refer to the Key Investor Information Document (KIID) in conjunction with the Important Information for Investors document.

^[c] With effect from 28 September 2012, the launch date of the Swiss franc Class 'A-H' and Swiss franc Class 'C-H' share classes.

^[d] With effect from 5 March 2013, the Share Class Hedging Fee was reduced from 0.06% to 0.025%.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.13		30.06.12	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	28,339	90,082	23,393	177,692
Class 'I'	367	106	n/a	n/a
Class 'R'	21	1	n/a	n/a
Class 'X'	1,366	33,576	1,176	32,040
Euro				
Class 'A'	n/a	918,403	n/a	428,657
Class 'C'	n/a	982,113	n/a	608,679
Swiss franc				
Class 'A-H'	n/a	81,404	n/a	n/a
Class 'C-H'	n/a	21	n/a	n/a

The net asset value per share and the number of shares are given in the net assets table on page 56. The distribution per share is given in the distribution table on pages 67 and 68. Each share class has the same rights on winding-up.

12 Finance costs

	2013 £'000	2012 £'000
Income shares (Sterling)		
Class 'A' - First interim	146	145
- Second interim	132	136
- Third interim	132	182
- Final	114	138
Class 'I' - First interim ^[a]	0	n/a
- Second interim ^[a]	0	n/a
- Third interim ^[a]	0	n/a
- Final	2	n/a
Class 'R' - First interim ^[b]	0	n/a
- Second interim ^[b]	0	n/a
- Third interim ^[b]	0	n/a
- Final ^[b]	0	n/a
Class 'X' - First interim	6	8
- Second interim	6	7
- Third interim	7	7
- Final	5	6
Accumulation shares (Sterling)		
Class 'A' - First interim	472	1,589
- Second interim	415	1,437
- Third interim	460	1,368
- Final	359	1,039
Class 'I' - First interim ^[c]	0	n/a
- Second interim ^[c]	0	n/a
- Third interim ^[c]	0	n/a
- Final	1	n/a
Class 'R' - First interim ^[d]	0	n/a
- Second interim ^[d]	0	n/a
- Third interim ^[d]	0	n/a
- Final ^[d]	0	n/a

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NOTES TO THE FINANCIAL STATEMENTS

12 Finance costs (continued)

	2013 £'000	2012 £'000
Accumulation shares (Sterling) (continued)		
Class 'X' - First interim	148	259
- Second interim	153	257
- Third interim	171	181
- Final	119	171
Accumulation shares (Euro)		
Class 'A' - First interim	3,587	1,480
- Second interim	4,536	2,485
- Third interim	5,693	3,021
- Final	4,683	3,142
Class 'C' - First interim	5,396	4,085
- Second interim	6,367	4,442
- Third interim	8,081	5,090
- Final	6,293	5,224
Accumulation shares (Swiss franc)		
Class 'A-H' - First interim	0	n/a
- Second interim	387	n/a
- Third interim	506	n/a
- Final	411	n/a
Class 'C-H' - First interim	0	n/a
- Second interim ^[e]	0	n/a
- Third interim ^[e]	0	n/a
- Final ^[e]	0	n/a
	48,788	35,899
Income tax deducted at source	769	1,793
Finance costs: Interest distributions	49,557	37,692
Income deducted on cancellation of shares	1,714	843
Income received on issue of shares	(3,366)	(2,942)
Finance costs: Distributions	47,905	35,593
Finance costs: Interest	6	4
Total finance costs	47,911	35,597
Net revenue per statement of total return	47,907	35,593
Undistributed income brought forward	1	1
Undistributed income carried forward	(3)	(1)
Finance costs: Distributions	47,905	35,593

[a] The interim distributions for Sterling Class 'I' (Income) shares were £357.

[b] The total distribution for Sterling Class 'R' (Income) shares was £115.

[c] The interim distributions for Sterling Class 'I' (Accumulation) shares were £182.

[d] The total distribution for Sterling Class 'R' (Accumulation) shares was £21.

[e] The total distribution for Swiss Franc Class 'C-H' (Accumulation) shares was CHF648.

DISTRIBUTION TABLE

Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equalisation	Distribution paid/payable	
	£	£	£	£	2013	2012
Sterling						
Class 'A' - First interim						
Group 1:	0.4040	0.0808	0.3232	-	0.3232	0.4400
Group 2:	0.2179	0.0436	0.1743	0.1489	0.3232	0.4400
- Second interim						
Group 1:	0.4150	0.0830	0.3320	-	0.3320	0.4220
Group 2:	0.2221	0.0444	0.1777	0.1543	0.3320	0.4220
- Third interim						
Group 1:	0.4660	0.0932	0.3728	-	0.3728	0.4040
Group 2:	0.2219	0.0444	0.1775	0.1953	0.3728	0.4040
- Final						
Group 1:	0.3600	0.0720	0.2880	-	0.2880	0.3720
Group 2:	0.2009	0.0402	0.1607	0.1273	0.2880	0.3720
Class 'I' - First interim						
Group 1:	5.5490	1.1098	4.4392	-	4.4392	n/a
Group 2:	5.5490	1.1098	4.4392	-	4.4392	n/a
- Second interim						
Group 1:	8.1000	1.6200	6.4800	-	6.4800	n/a
Group 2:	8.1000	1.6200	6.4800	-	6.4800	n/a
- Third interim						
Group 1:	8.5265	1.7053	6.8212	-	6.8212	n/a
Group 2:	0.9740	0.1948	0.7792	6.0420	6.8212	n/a
- Final						
Group 1:	7.0750	1.4150	5.6600	-	5.6600	n/a
Group 2:	3.7298	0.7460	2.9838	2.6762	5.6600	n/a
Class 'R' - First interim						
Group 1:	0.4965	0.0993	0.3972	-	0.3972	n/a
Group 2:	0.4965	0.0993	0.3972	-	0.3972	n/a
- Second interim						
Group 1:	0.7550	0.1510	0.6040	-	0.6040	n/a
Group 2:	0.7550	0.1510	0.6040	-	0.6040	n/a
- Third interim						
Group 1:	0.8110	0.1622	0.6488	-	0.6488	n/a
Group 2:	0.8110	0.1622	0.6488	-	0.6488	n/a
- Final						
Group 1:	0.6500	0.1300	0.5200	-	0.5200	n/a
Group 2:	0.2779	0.0556	0.2223	0.2977	0.5200	n/a
Class 'X' - First interim						
Group 1:	0.3640	0.0728	0.2912	-	0.2912	0.4060
Group 2:	0.1511	0.0302	0.1209	0.1703	0.2912	0.4060
- Second interim						
Group 1:	0.3725	0.0745	0.2980	-	0.2980	0.3880
Group 2:	0.1635	0.0327	0.1308	0.1672	0.2980	0.3880
- Third interim						
Group 1:	0.4220	0.0844	0.3376	-	0.3376	0.3712
Group 2:	0.1781	0.0356	0.1425	0.1951	0.3376	0.3712
- Final						
Group 1:	0.3150	0.0630	0.2520	-	0.2520	0.3380
Group 2:	0.1623	0.0325	0.1298	0.1222	0.2520	0.3380

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DISTRIBUTION TABLE (continued)						
Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
					2013	2012
Sterling						
Class 'A' - First interim						
Group 1:	0.5225	0.1045	0.4180	-	0.4180	0.5568
Group 2:	0.3240	0.0648	0.2592	0.1588	0.4180	0.5568
- Second interim						
Group 1:	0.5495	0.1099	0.4396	-	0.4396	0.5368
Group 2:	0.2819	0.0564	0.2255	0.2141	0.4396	0.5368
- Third interim						
Group 1:	0.6065	0.1213	0.4852	-	0.4852	0.5180
Group 2:	0.2634	0.0527	0.2107	0.2745	0.4852	0.5180
- Final						
Group 1:	0.4700	0.0940	0.3760	-	0.3760	0.4808
Group 2:	0.3170	0.0634	0.2536	0.1224	0.3760	0.4808
Class 'I' - First interim						
Group 1:	5.5490	1.1098	4.4392	-	4.4392	n/a
Group 2:	5.5490	1.1098	4.4392	-	4.4392	n/a
- Second interim						
Group 1:	8.0875	1.6175	6.4700	-	6.4700	n/a
Group 2:	8.0875	1.6175	6.4700	-	6.4700	n/a
- Third interim						
Group 1:	8.6014	1.7203	6.8811	-	6.8811	n/a
Group 2:	1.4929	0.2986	1.1943	5.6868	6.8811	n/a
- Final						
Group 1:	7.2300	1.4460	5.7840	-	5.7840	n/a
Group 2:	2.4995	0.4999	1.9996	3.7844	5.7840	n/a
Class 'R' - First interim						
Group 1:	0.4965	0.0993	0.3972	-	0.3972	n/a
Group 2:	0.4965	0.0993	0.3972	-	0.3972	n/a
- Second interim						
Group 1:	0.7560	0.1512	0.6048	-	0.6048	n/a
Group 2:	0.7560	0.1512	0.6048	-	0.6048	n/a
- Third interim						
Group 1:	0.8100	0.1620	0.6480	-	0.6480	n/a
Group 2:	0.8100	0.1620	0.6480	-	0.6480	n/a
- Final						
Group 1:	0.6625	0.1325	0.5300	-	0.5300	n/a
Group 2:	0.6625	0.1325	0.5300	-	0.5300	n/a
Class 'X' - First interim						
Group 1:	0.4645	0.0929	0.3716	-	0.3716	0.5076
Group 2:	0.4144	0.0829	0.3315	0.0401	0.3716	0.5076
- Second interim						
Group 1:	0.4800	0.0960	0.3840	-	0.3840	0.4892
Group 2:	0.2433	0.0487	0.1946	0.1894	0.3840	0.4892
- Third interim						
Group 1:	0.5460	0.1092	0.4368	-	0.4368	0.4700
Group 2:	0.2275	0.0455	0.1820	0.2548	0.4368	0.4700
- Final						
Group 1:	0.4100	0.0820	0.3280	-	0.3280	0.4340
Group 2:	0.2304	0.0461	0.1843	0.1437	0.3280	0.4340

DISTRIBUTION TABLE (continued)

Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
					2013	2012
Euro						
Class 'A' - First interim						
Group 1:	9.1397	-	9.1397	-	9.1397	11.1387
Group 2:	4.0327	-	4.0327	5.1070	9.1397	11.1387
- Second interim						
Group 1:	9.2242	-	9.2242	-	9.2242	11.1327
Group 2:	4.5543	-	4.5543	4.6699	9.2242	11.1327
- Third interim						
Group 1:	10.0800	-	10.0800	-	10.0800	10.7924
Group 2:	4.6112	-	4.6112	5.4688	10.0800	10.7924
- Final						
Group 1:	7.8513	-	7.8513	-	7.8513	10.4267
Group 2:	4.9670	-	4.9670	2.8843	7.8513	10.4267
Class 'C' - First interim						
Group 1:	11.8707	-	11.8707	-	11.8707	13.8371
Group 2:	5.3907	-	5.3907	6.4800	11.8707	13.8371
- Second interim						
Group 1:	12.0422	-	12.0422	-	12.0422	13.8469
Group 2:	6.1336	-	6.1336	5.9086	12.0422	13.8469
- Third interim						
Group 1:	12.9115	-	12.9115	-	12.9115	13.5074
Group 2:	6.2288	-	6.2288	6.6827	12.9115	13.5074
- Final						
Group 1:	10.7105	-	10.7105	-	10.7105	13.1879
Group 2:	5.8104	-	5.8104	4.9001	10.7105	13.1879
Swiss franc						
Class 'A-H' - First interim						
Group 1:	-	-	-	-	-	n/a
Group 2:	-	-	-	-	-	n/a
- Second interim						
Group 1:	5.5006	-	5.5006	-	5.5006	n/a
Group 2:	3.3489	-	3.3489	2.1517	5.5006	n/a
- Third interim						
Group 1:	6.5879	-	6.5879	-	6.5879	n/a
Group 2:	3.8593	-	3.8593	2.7286	6.5879	n/a
- Final						
Group 1:	5.1800	-	5.1800	-	5.1800	n/a
Group 2:	2.5632	-	2.5632	2.6168	5.1800	n/a
Class 'C-H' - First interim						
Group 1:	-	-	-	-	-	n/a
Group 2:	-	-	-	-	-	n/a
- Second interim						
Group 1:	7.2360	-	7.2360	-	7.2360	n/a
Group 2:	7.2360	-	7.2360	-	7.2360	n/a
- Third interim						
Group 1:	7.8390	-	7.8390	-	7.8390	n/a
Group 2:	7.8390	-	7.8390	-	7.8390	n/a
- Final						
Group 1:	6.5478	-	6.5478	-	6.5478	n/a
Group 2:	6.5478	-	6.5478	-	6.5478	n/a
First interim period						
01.07.12 - 30.09.12						
Second interim period						
01.10.12 - 31.12.12						
Third interim period						
01.01.13 - 31.03.13						
Final period						
01.04.13 - 30.06.13						

Group 1: Shares purchased prior to a distribution period.
Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2). It is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes.

M&G European High Yield Bond Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective of the M&G European High Yield Bond Fund

The Fund aims to maximise total return (the combination of income and growth of capital) while generating a high level of income.

Investment policy of the M&G European High Yield Bond Fund

The Fund mainly invests 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. The Fund may also invest in other assets including collective investment schemes, government and public securities and other transferable securities, cash and near cash, deposits, warrants, money market instruments 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.

Investment approach

The M&G European High Yield Bond Fund focuses on ongoing proprietary research rather than relying on external credit ratings. Emphasis is placed upon investigating the ability of a company or government to meet its interest payments, especially during unfavourable economic conditions.

Credit risk is constantly monitored and typically spread across a variety of countries and industrial sectors. The fund's exposure to higher yielding debt instruments may be gained through the use of derivatives. Exposure to European currencies (mainly the euro) is an integral part of the management approach, and fluctuations in the exchange rates of these currencies against sterling are likely to play a significant role in determining total returns for UK-based investors.

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.

* Please note that this 'Risk and reward profile' section is based on Sterling Class 'X' shares, the nominated share class.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 1 July 2013, for the year ended 30 June 2013

Our key sector convictions remained broadly unchanged during the review period; we continue to favour sectors that are able to produce stable earnings throughout the economic cycle, so-called 'defensive', or 'non-cyclical', areas, such as packaging, telecommunications and cable companies.

The fund continues to be mainly invested in companies based in economically stronger European countries such as the UK and Germany. However, we will invest in the periphery of the eurozone on a selective basis, especially in companies with geographically diversified revenues. On this basis, we purchased bonds^[a] issued by Indesit, an Italian manufacturer of white goods with a strong presence across Europe.

We slightly reduced the portfolio's overall level of risk in May as we believed that valuations were beginning to look quite high. As a result, we sold some of the names which we considered to be more sensitive to changes in investor sentiment, such as Canadian-based mining and metals company First Quantum Minerals.

However, we believe the significant market sell-off in late May and June was not warranted by any real change in fundamentals and we think that the corporate environment remains favourable. In our opinion, high yield bonds were once again offering attractive value and we took the opportunity to add back small amounts of risk to the portfolio. We participated in a number of new deals including issuances from global power generator Intergen, Icelandic food manufacturer Bakkavor, and the AA, a provider of car insurance and breakdown cover in the UK.

Within the retail sector, we sold the bond issued by UK department store House of Fraser following a period of strong performance, and added to names where we saw more attractive valuations and better long-term prospects for growth. On this basis, we invested further in issues from mobile phone retailer Phones4u, which has successfully increased market share in a high-growth, yet competitive field.

James Tomlins

Fund manager

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

^[a] Bonds are loans that are extended by investors to governments and companies (corporate bonds) for a specified amount of time. Bond investors pay the issuer – the government or company – an initial lump sum and receive regular interest payments in exchange. At the end of the bond's life the issuer pays back the investors' initial investment. High yield bonds are issued by companies with a low credit rating and therefore pay a higher rate of interest than their better quality counterparts to compensate investors for the greater possibility that the issuer might be unable to meet its obligations, or in other words, default.

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

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
First interim	01.10.13	30.11.13
Second interim	02.01.14	28.02.14
Third interim	01.04.14	31.05.14
Final	01.07.14	31.08.14

	Final distribution		Ongoing Charges Figure ^[b]	
	Inc 31.08.13 ^[a]	Acc 01.07.13 ^[a]	30.06.13	30.06.12
Sterling	p	p	%	%
Class 'A'	0.5268	1.1496	1.46	1.47
Class 'I'	15.4176	16.6620	0.95 ^[c]	n/a
Class 'R'	1.4584	1.5420	1.20 ^[c]	n/a
Class 'X'	0.5260	1.1540	1.46	1.46
Euro	¢	¢	%	%
Class 'A'	n/a	34.9106	1.46	1.46
Class 'C'	n/a	35.8177	0.96	0.96

^[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.

^[c] The Ongoing Charges Figure shown here is an estimate of the charges, as the share class has not been in existence for a full financial year.

Income accrued from interest-bearing securities is distributed on an effective yield basis.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.13		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	42.82	94.11	37.30	78.06	+14.80	+20.56
Class 'I'	1,137.02	1,194.76	n/a	n/a	n/a	n/a
Class 'R'	113.70	119.20	n/a	n/a	n/a	n/a
Class 'X'	42.75	94.05	37.24	78.02	+14.80	+20.55
Euro	€	€	€	€	%	%
Class 'A'	n/a	23.5675	n/a	20.5546	n/a	+14.66
Class 'C'	n/a	22.2071	n/a	19.2715	n/a	+15.23

PERFORMANCE SINCE LAUNCH

	six months 02.01.13 %	one year 02.07.12 %	five years 01.07.08 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+4.5	+20.1	+9.0	+9.7 ^[c]
Class 'I'	+4.7	n/a	n/a	+19.3 ^[d]
Class 'R'	+4.7	n/a	n/a	+19.1 ^[d]
Class 'X'	+4.5	+20.1	+8.9	+4.6 ^[e]
Euro ^[f]				
Class 'A'	-0.3	+14.3	+8.8	+8.4 ^[g]
Class 'C'	-0.0	+14.9	+9.3	+7.8 ^[g]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid with net income reinvested.

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

^[d] 3 August 2012, the launch date of the share class. Not annualised.

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

^[f] Bid to bid with gross income reinvested.

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

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From To	29.06.12 28.06.13 %	30.06.11 29.06.12 %	30.06.10 30.06.11 %	30.06.09 30.06.10 %	30.06.08 30.06.09 %
Sterling					
Class 'X'	+20.6	-10.2	+22.0	+18.1	-1.8

Source: Morningstar, Inc., bid to bid with net income reinvested.

M&G European High Yield Bond Fund

FUND STATISTICS

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008 ^[a]	38.79	26.84	64.08	45.54
	2009	43.51	29.98	78.61	51.89
	2010	44.36	37.92	83.49	70.69
	2011	44.70	36.45	87.35	73.06
	2012	42.63	36.42	90.40	74.17
	2013 ^[b]	45.63	41.93	98.40	89.96
Class 'I'	2012 ^[c]	1,133.57	998.03	1,144.42	998.03
	2013 ^[b]	1,212.69	1,113.34	1,247.97	1,138.96
Class 'R'	2012 ^[c]	113.31	99.79	114.34	99.79
	2013 ^[b]	121.21	111.33	124.69	113.78
Class 'X'	2008 ^[a]	38.83	26.79	64.22	45.50
	2009	43.45	29.94	78.57	51.87
	2010	44.30	37.87	83.45	70.65
	2011	44.62	36.38	87.30	73.02
	2012	42.56	36.36	90.35	74.13
	2013 ^[b]	45.55	41.86	98.35	89.90
Euro (gross)		€	€	€	€
Class 'A'	2008 ^[a]	n/a	n/a	15.9781	11.5278
	2009	n/a	n/a	17.5862	11.6878
	2010	n/a	n/a	19.5733	17.5169
	2011	n/a	n/a	20.3957	17.7836
	2012	n/a	n/a	23.5764	18.8156
	2013 ^[b]	n/a	n/a	24.7049	23.3994
Class 'C'	2008 ^[a]	n/a	n/a	14.6751	10.6151
	2009	n/a	n/a	16.2838	10.7789
	2010	n/a	n/a	18.2014	16.2304
	2011	n/a	n/a	19.0164	16.6124
	2012	n/a	n/a	22.1601	17.5980
	2013 ^[b]	n/a	n/a	23.2622	22.0469

[a] On 1 September 2008 the fund's objective was changed.

[b] To 1 July 2013.

[c] From 3 August 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 price of shares and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

Interest income per share	Calendar year	Distributed			Reinvested	
		Interims	Final	Interim	Total	
Sterling (net)		p	p	p	p	p
Class 'A'	2008	0.9136	0.4592	0.4624	1.8352	3.0133
	2009	1.1682	0.4232	0.5940	2.1854	3.8061
	2010	1.1640	0.5480	0.5760	2.2880	4.1952
	2011	0.9960	0.5140	0.5320	2.0420	3.9772
	2012	1.1260	0.5220	0.5252	2.1732	4.4332
	2013 ^[a]	1.0024	0.5268	-	1.5292	3.2868
Class 'I'	2012	n/a	n/a	9.7392	9.7392	9.7392
	2013 ^[a]	29.6272	15.4176	-	45.0448	46.6544
Class 'R'	2012	n/a	n/a	0.9272	0.9272	0.9272
	2013 ^[a]	2.8512	1.4584	-	4.3096	4.5204
Class 'X'	2008	0.9144	0.4544	0.4624	1.8312	3.0096
	2009	1.1656	0.4224	0.5940	2.1820	3.8019
	2010	1.1620	0.5480	0.5600	2.2700	4.1920
	2011	0.9980	0.5100	0.5360	2.0440	3.9620
	2012	1.1200	0.5220	0.5212	2.1632	4.4312
	2013 ^[a]	1.0012	0.5260	-	1.5272	3.2920
Euro (gross)		¢	¢	¢	¢	¢
Class 'A'	2008	n/a	n/a	n/a	n/a	94.7750
	2009	n/a	n/a	n/a	n/a	108.9829
	2010	n/a	n/a	n/a	n/a	125.2580
	2011	n/a	n/a	n/a	n/a	115.9767
	2012	n/a	n/a	n/a	n/a	142.9323
	2013 ^[a]	n/a	n/a	n/a	n/a	104.0273
Class 'C'	2008	n/a	n/a	n/a	n/a	65.3830
	2009	n/a	n/a	n/a	n/a	106.9757
	2010	n/a	n/a	n/a	n/a	124.6535
	2011	n/a	n/a	n/a	n/a	117.5832
	2012	n/a	n/a	n/a	n/a	143.3062
	2013 ^[a]	n/a	n/a	n/a	n/a	106.1779

[a] Up to final: ex-distribution date 1 July 2013; payment date 31 August 2013.

M&G European High Yield Bond Fund

FUND STATISTICS

NET ASSETS					
	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling					
Class 'A'	Jun 2011	43.66	86.33	9,380,056	3,547,000
	Jun 2012	37.30	78.06	13,142,056	3,449,000
	Jun 2013	42.82	94.11	9,295,056	3,455,000
Class 'I'	Jun 2013	1,137.02	1,194.76	145,800	15,000
Class 'R'	Jun 2013	113.70	119.20	41,000	1,000
Class 'X'	Jun 2011	43.59	86.27	32,548,879	6,734,928
	Jun 2012	37.24	78.02	32,791,879	3,142,928
	Jun 2013	42.75	94.05	33,717,879	3,700,928
Euro					
Class 'A'	Jun 2011	n/a	19.8400	n/a	3,115,844
	Jun 2012	n/a	20.5546	n/a	1,383,244
	Jun 2013	n/a	23.5675	n/a	2,523,544
Class 'C'	Jun 2011	n/a	18.6431	n/a	892,900
	Jun 2012	n/a	19.2715	n/a	209,700
	Jun 2013	n/a	22.2071	n/a	808,150
Total net asset value of sub-fund					
	Year ended	£		€ [a]	
	Jun 2011	98,523,000		108,943,000	
	Jun 2012	48,438,000		60,078,000	
	Jun 2013	93,429,000		108,904,000	

[a] Based on the midday exchange rate on the last business day of each financial year.

PORTFOLIO

PORTFOLIO STATEMENT

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'AAA' credit rated bonds			
€1,500,000 Germany (Federal Republic of) 0.75% IL 2018	1,431	1.53	
€4,000,000 Germany (Federal Republic of) 2% 2016	3,589	3.85	
'AA' credit rated bonds			
€1,010,000 GE Capital Trust IV Var. Rate 2066	851	0.91	0.72
'BBB' credit rated bonds			
€2,100,000 American International Group Var. Rate 2067	1,676	1.79	3.66
£450,000 American International Group Var. Rate 2067	419	0.45	
€500,000 Bank of America FRN 2018	396	0.43	
£800,000 Friends Life Group 8.25% 2022	834	0.89	
'BB' credit rated bonds			
£743,000 AA Bond 9.5% 2043	769	0.82	38.21
€200,000 Alice Financing 8% 2019	178	0.19	
£1,437,000 Arrow Global Finance 7.875% 2020	1,407	1.51	
\$550,000 Banco Bilbao Vizcaya Argentaria Var. Rate Perp.	323	0.35	
€750,000 Bombardier 6.125% 2021	667	0.71	
€500,000 Bormioli Rocco 10% 2018	441	0.47	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'BB' credit rated bonds (continued)			
€710,000 Buzzi Unicem 6.25% 2018	643	0.69	
£1,080,000 Cabot Financial Luxembourg 10.375% 2019	1,189	1.27	
\$1,500,000 Citigroup Var. Rate Perp.	972	1.04	
\$800,000 Cogeco Cable 4.875% 2020	509	0.54	
€600,000 Commerzbank 7.75% 2021	542	0.58	
€1,235,000 Fiat Finance & Trade 7.75% 2016	1,139	1.22	
€570,000 Finmeccanica 8% 2019	621	0.67	
€628,000 Gestamp Funding 5.875% 2020	515	0.55	
€1,600,000 Koninklijke KPN FRN Perp.	1,352	1.45	
£950,000 LBG Capital No.1 7.5884% 2020	953	1.02	
£1,030,000 Lowell Group Financing 10.75% 2019	1,129	1.21	
€420,000 Rexam Var. Rate 2067	369	0.39	
€1,600,000 Royal Bank of Scotland 5.5% Perp.	933	1.00	
€174,000 Sappi Papier Holding 6.625% 2018	151	0.16	
\$600,000 Sappi Papier Holding 7.75% 2017	416	0.45	
\$1,100,000 Sappi Papier Holding 8.375% 2019	769	0.82	
\$565,000 Smurfit Kappa Acquisitions 4.875% 2018	359	0.38	
€470,000 Smurfit Kappa Acquisitions 5.125% 2018	414	0.44	
€295,000 Smurfit Kappa Acquisitions 7.75% 2019	271	0.29	
\$200,000 Sprint Nextel 8.375% 2017	146	0.16	
CHF2,610,000 Sunrise Communication International 5.625% 2017	1,825	1.95	
CHF500,000 Sunrise Communications International 7% 2017	366	0.39	
\$1,078,000 Taylor Morrison 7.75% 2020	763	0.82	
€1,000,000 UPCB Finance 7.625% 2020	905	0.97	
€700,000 UPCB Finance II 6.375% 2020	613	0.66	
€797,000 Wind Acquisition Finance 7.375% 2018	687	0.74	
'B' credit rated bonds			
\$270,000 Agrokor 8.875% 2020	185	0.20	43.54
€570,000 Agrokor 9.875% 2019	523	0.56	42.49
CHF930,000 Aguila 7.875% 2018	665	0.71	
\$815,000 Altice Financing 9.875% 2020	572	0.61	
€1,121,000 Ardagh Packaging Finance 7.375% 2017	1,011	1.08	
£1,375,000 Bakkavor Finance 8.25% 2018	1,369	1.47	
£482,000 Bakkavor Finance 8.75% 2020	484	0.52	
€970,000 Bank of Ireland 10% 2022	891	0.95	
£400,000 Boparan Finances 9.875% 2018	433	0.46	
€940,000 Catalent Pharma Solutions 9.75% 2017	831	0.89	
\$320,000 Cemex Finance 9.375% 2022	229	0.25	
€573,000 Cemex Finance 9.625% 2017	511	0.55	
€357,000 Cerba 7% 2020	301	0.32	
€1,110,000 Ciech Group Finance 9.5% 2019	1,011	1.08	
\$995,000 Cincinnati Bell 8.375% 2020	675	0.72	
\$240,000 Edcon Proprietary 9.5% 2018	147	0.16	
€1,550,000 Edcon Proprietary 9.5% 2018	1,230	1.32	
£1,098,000 Elli Finance UK 8.75% 2019	1,175	1.26	
£1,490,000 Exova 10.5% 2018	1,594	1.71	
€690,000 Foodcorp 8.75% 2018	632	0.68	
£250,000 Gala Group Finance 8.875% 2018	263	0.28	
€775,000 Guala Closures FRN 2019	665	0.71	
€520,000 Inaer Aviation Finance 9.5% 2017	440	0.47	
€1,380,997 Ineos Group Holdings 7.875% 2016	1,185	1.27	
£667,000 Infinis 7% 2019	666	0.71	
£1,500,000 Intergen 7.5% 2021	1,480	1.58	
€893,000 Intergen 8.5% 2017	781	0.84	
\$559,000 Intergen 9% 2017	380	0.41	
£871,000 Intergen 9.5% 2017	889	0.95	
€1,070,000 Kerling 10.625% 2017	960	1.03	
CHF3,060,000 Matterhorn Mobile 6.75% 2019	2,160	2.31	
€372,000 Medi-Partenaires 7% 2020	305	0.33	
€181,818 Mobile Challenger 8.75% 2019	151	0.16	
\$1,236,000 Nara Cable Funding 8.875% 2018	834	0.89	

M&G European High Yield Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
'B' credit rated bonds (continued)			
€1,793,000 New World Resources 7.875% 2018	927	0.99	
€230,000 Numericable Finance 8.75% 2019	210	0.22	
€250,000 Numericable Finance FRN 2018	218	0.23	
€675,000 Ontex 7.5% 2018	597	0.64	
£2,010,000 Phones4u Finance 9.5% 2018	2,050	2.19	
€320,000 Polish Television Holding Step-Up 11.25% 2017	284	0.30	
€882,000 Refresco Group 7.375% 2018	772	0.83	
\$1,000,000 Reynolds Group Issuer 5.75% 2020	653	0.70	
€250,000 Schmolz + Bickenbach Luxembourg 9.875% 2019	215	0.23	
€840,000 Sisal Holdings 7.25% 2017	710	0.76	
€520,000 Stork Technical Services Holdings 11% 2017	429	0.46	
€785,000 Styrolution Group 7.625% 2016	694	0.74	
€540,000 Techem Energy Metering Service 7.875% 2020	490	0.53	
€1,360,000 Telenet Finance 6.25% 2022	1,171	1.25	
€637,000 Thomas Cook Finance 7.75% 2020	521	0.56	
€346,000 Trionista 6.875% 2021	293	0.31	
€520,000 Unitymedia Hessen 7.5% 2019	473	0.51	
\$770,000 Unitymedia Hessen 7.5% 2019	533	0.57	
€371,000 Unitymedia Hessen 9.5% 2021	352	0.38	
€750,000 Unitymedia Hessen 9.625% 2019	708	0.76	
CHF1,250,000 UPC Holdings 6.75% 2023	842	0.90	
€200,000 Verisure Holding 8.75% 2018	184	0.20	
€557,000 Verisure Holding FRN 2018	485	0.52	
\$1,170,000 Windstream 7.5% 2023	770	0.82	
€540,000 Zobebe Holdings 7.875% 2018	468	0.50	
'CCC' credit rated bonds		6.98	6.81
€124,648 ARD Finance 11.125% 2018	113	0.12	
€1,200,000 Ardagh Glass Finance 8.75% 2020	1,059	1.13	
€300,000 Ardagh Glass Group 7.125% 2017	259	0.28	
€500,000 Beverage Packaging Holdings 8% 2016	426	0.46	
€850,000 Beverage Packaging Holdings 9.5% 2017	739	0.79	
€400,000 CMA 8.875% 2019	304	0.33	
\$1,175,000 Codere Finance Luxembourg 9.25% 2019	440	0.47	
€750,000 GCL Holdings 9.375% 2018	684	0.73	
€600,000 Heckler & Koch 9.5% 2018	461	0.49	
€532,722 Norcell 1B 12.4% 2019	452	0.48	
€1,175,000 Norcell Sweden Holding 2 10.75% 2019	1,060	1.14	
€624,837 R&R Ice Cream 9.25% 2018	522	0.56	
'D' credit rated bonds		0.59	0.00
€920,000 Codere Finance Luxembourg 8.25% 2015	470	0.50	
€250,000 Magyar Telecom Bv 9.5% 2016	84	0.09	
Bonds with no credit rating		9.88	1.91
€2,000,000 Abengoa 4.5% Cnv. 2017 (Abengoa) ^[a]	1,547	1.66	
£445,000 Anglian Water 7% 2018	471	0.50	
£300,000 Arjiva Broadcast 9.5% 2020	310	0.33	
€1,870,000 Bank of Ireland 10% 2016	1,628	1.74	
\$1,400,000 Banco Bilbao Vizcaya Argentaria 9% 2018	873	0.93	
€1,044,894 Boats Investments Netherlands 11% 2017	409	0.44	
€390,000 Faurecia 9.375% 2016	385	0.41	
£400,000 Heathrow Finance 7.125% 2017	424	0.45	
€641,964 Hellas Telecom III 8.5% 2013 ^[b]	2	0.00	
€735,000 Inedsit 4.5% 2018	612	0.66	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
Bonds with no credit rating (continued)			
€600,000 Lehman Brothers Holdings Var. Rate 2016 ^[b]	0	0.00	
£1,000,000 Pennon Group 6.75% Perp.	1,009	1.08	
€1,445,993 Truvo 8.5% 2014 ^[b]	43	0.05	
€453,000 Viridian Group Fund II 11.125% 2017	405	0.43	
\$1,649,000 Viridian Group Fund II 11.125% 2017	1,122	1.20	
		0.16	0.01
Credit default swaps			
1,000,000 Fiat Industrial SPA Mar 2018	88	0.09	
2,500,000 Virgin Media Finance June 2018	54	0.06	
1,000,000 Markit iTraxx Europe June 2018	8	0.01	
		0.12	0.19
Forward currency contracts			
£385,682 Bought for €452,360 (expires 10.07.13)	2	0.00	
\$(354,377) Sold for €415,573 (expires 10.07.13)	(2)	0.00	
CHF1,224,496 Bought for €1,002,469 (expires 10.07.13)	9	0.01	
CHF(353,314) Sold for €287,608 (expires 10.07.13)	(1)	0.00	
CHF7,663,558 Bought for €6,160,416 (expires 18.09.13)	(43)	(0.05)	
\$22,183,687 Bought for €17,010,700 (expires 18.09.13)	35	0.04	
\$(2,087,783) Sold for €1,585,443 (expires 18.09.13)	10	0.01	
£20,140,217 Bought for €23,573,208 (expires 18.09.13)	100	0.11	
		1.18	1.77
'AAA' rated money market funds ^[c]			
1,288,000 Northern Trust Global Fund - Euro	1,105	1.18	
Portfolio of investments (notes 1b & 1d on page 75)	89,887	96.21	99.46
Net other assets	3,542	3.79	0.54
Net assets attributable to shareholders	93,429	100.00	100.00

^[a] The underlying stock for this convertible bond is shown in brackets.

^[b] Defaulted bonds.

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

Counterparty exposure

Counterparty	Financial derivative exposure		
	Credit default swaps £'000	Forward currency contracts £'000	Total as at 30.06.13 £'000
Credit Suisse	21	0	21
Deutsche Bank	8	0	80
Goldman Sachs	22	0	220
HSBC Bank	88	0	880
J.P.Morgan	11	0	110
State Street Bank	0	110	110
Total	150	110	260

M&G European High Yield Bond Fund

PORTFOLIO

PORTFOLIO TRANSACTIONS

for the year ended 30 June 2013

Largest purchases	£'000
Germany (Federal Republic of) 0.75% IL 2018 (€)	6,078
Germany (Federal Republic of) 2% 2016 (€)	4,727
Germany (Federal Republic of) 1.75% 2022 (€)	2,708
Germany (Federal Republic of) 0.5% 2022 (€)	2,345
Phones4u Finance 9.5% 2018 (£)	2,059
Sunrise Communication 5.625% 2017 (CHF)	1,816
Matterhorn Mobile 6.75% 2019 (CHF)	1,737
American International Group Var. Rate 2067 (€)	1,686
Bank of Ireland 10% 2016 (€)	1,613
Citigroup Var. Rate Perp. (\$)	1,593
Abengoa 4.5% Cnv. 2017 (Abengoa) (€)	1,523
Bank of Ireland 10% 2022 (€)	1,511
Intergen 7.5% 2021 (£)	1,478
Arrow Global Finance 7.875% 2020 (£)	1,431
Koninklijke KPN FRN Perp. (€)	1,348
GE Capital Trust IV Var. Rate 2066 (€)	1,287
Edcon Proprietary 9.5% 2018 (€)	1,184
Cabot Financial Luxembourg 10.375% 2019 (£)	1,117
Telenet Finance 6.25% 2022 (€)	1,093
Royal Bank of Scotland 5.5% Perp. (€)	1,055
Northern Trust Global Fund - Euro ^[a]	16,386
Other purchases	46,023
Total purchases	101,798
Largest sales	£'000
Germany (Federal Republic of) 0.75% IL 2018 (€)	5,069
Germany (Federal Republic of) 1.75% 2022 (€)	2,754
Germany (Federal Republic of) 0.5% 2022 (€)	2,515
Virgin Media Finance 8.875% 2019 (£)	1,768
Smurfit Kappa Acquisitions 7.25% 2017 (€)	1,301
First Quantum Minerals 7.25% 2019 (\$)	1,132
Germany (Federal Republic of) 2% 2016 (€)	1,108
Kabel Deutschland Vertrieb & Service 6.5% 2018 (€)	1,090
Edcon Proprietary FRN 2014 (€)	908
Cemex Finance 9.625% 2017 (€)	892
GE Capital Trust IV Var. Rate 2066 (€)	866
Germany (Federal Republic of) 2.25% IL 2013 (€)	815
Bank of Ireland 10% 2022 (€)	803
Abengoa 4.5% Cnv. 2017 (Abengoa) (€)	754
Orion Engineered Carbons 10% 2018 (€)	746
House Of Fraser 8.875% 2018 (£)	732
Sprint Nextel 8.375% 2017 (\$)	701
Plains Exploration & Production 6.75% 2022 (\$)	689
Peugeot Sa 7.375% 2018 (€)	663
Citigroup Var. Rate Perp. (\$)	644
Northern Trust Global Fund - Euro ^[a]	16,215
Other sales	24,333
Total sales	66,498

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

FINANCIAL STATEMENTS

For the year ended 30 June 2013.

STATEMENT OF TOTAL RETURN

	Note	2013		2012	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		7,642		(13,181)
Revenue	4	5,532		5,316	
Expenses	5	(1,016)		(886)	
Net revenue before taxation		4,516		4,430	
Taxation	6	(1)		(5)	
Net revenue after taxation			4,515		4,425
Total return before distributions			12,157		(8,756)
Finance costs: Distributions	12		(4,515)		(4,425)
Change in net assets attributable to shareholders from investment activities			7,642		(13,181)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2013		2012	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		48,438		98,523
Amounts received on issue of shares	57,208		13,634	
Amounts paid on cancellation of shares	(23,309)		(53,306)	
		33,899		(39,672)
Change in net assets attributable to shareholders from investment activities (see above)		7,642		(13,181)
Retained distributions on Accumulation shares		3,450		2,768
Closing net assets attributable to shareholders		93,429		48,438

M&G European High Yield Bond Fund

FINANCIAL STATEMENTS

BALANCE SHEET

	as at 30 June 2013		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		89,933		48,196
Debtors				
Amounts receivable on issues	888		11	
Currency deals outstanding	1,304		148	
Debt security interest receivable	1,902		943	
Premium from credit default swaps receivable	5		1	
Sales awaiting settlement	3,920		487	
		8,019		1,590
Cash and bank balances				
Cash held as bank balances	0		112	
		0		112
Total other assets		8,019		1,702
Total assets		97,952		49,898
Liabilities				
Investment liabilities		(46)		(22)
Creditors				
Amounts payable on cancellations	(1,947)		(157)	
Currency deals outstanding	(1,313)		(149)	
Expenses payable	(93)		(55)	
Income tax payable	(132)		(123)	
Net distributions payable on income shares	(249)		(240)	
Purchases awaiting settlement	(743)		(714)	
Total other liabilities		(4,477)		(1,438)
Total liabilities		(4,523)		(1,460)
Net assets attributable to shareholders		93,429		48,438

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 28 June 2013, being the last business day of the financial year. The fair value of non-derivative securities is bid price, excluding any accrued interest; the fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles; and the fair value of exchange traded futures is the cost of closing out the contract at the balance sheet date. Over the counter credit default swaps are valued by Markit Valuations Limited, an independent credit derivative price provider. Unquoted investments are shown at the Authorised Corporate Director's (ACD's) valuation.

c) Investment gains and losses

Gains and losses, including exchange differences, on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date, including unrealised exchange differences, are treated as capital.

d) Exchange rates

Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into Sterling at the rate of exchange ruling as at 12 noon on 28 June 2013, being the last business day of the financial year.

e) Derivative financial instruments

The treatment of the returns on forward currency contracts and derivative contracts depend upon the nature of the transaction. Both motive and circumstances are used to determine whether the returns should be treated as capital or revenue. Where positions are undertaken to protect or enhance capital, and the circumstances support this, the returns are recognised in net capital gains or losses; similarly where the motives and circumstances are to generate or protect revenue, and the circumstances support this, the returns are included within net revenue before taxation. Where positions generate total returns it will generally be appropriate to apportion such returns between capital and revenue to properly reflect the nature of the transaction.

f) Interest and distribution income

Interest on debt securities is recognised on an accruals basis, taking into account the effective yield on the investment and is treated as revenue. The effective yield basis amortises any discount or premium on the purchase of an investment over its remaining life based on estimated future cashflows. Any adjustments resulting from changes in cashflow estimates are treated as capital.

Distributions from collective investment schemes are recognised net of attributable tax credits when the security is quoted ex-distribution and are treated as revenue.

Bank interest and deposit interest are recognised on an accruals basis and treated as revenue.

g) Expenses

All expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

h) Apportionment of income and expenses to multiple share classes

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

i) Taxation

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

M&G European High Yield Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

j) Deferred taxation

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

k) Distribution policy

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

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

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk, interest rate risk and currency risk in relation to the investment portfolio. The Prospectus permits the sub-fund to use derivative instruments to hedge against medium and long-term risk.

A substantial proportion of the sub-fund's investments will be rated BB or lower (below investment grade). The capital value of investments will fall in the event of the default or perceived increased credit risk of an issuer. There is greater risk of this occurring in respect of 'sub-investment grade' corporate bonds.

Short-term foreign currency exposures, other than Euros, are generally covered by short-dated currency contracts. Income arising in foreign currencies is generally converted into Sterling shortly after receipt and is not hedged in advance of receipt.

The sub-fund holds overseas investments and exchange rate fluctuations can affect both capital and income values. During the year it has been the policy to hedge some of the investment portfolio against currency movements through the use of forward currency contracts.

The ACD considers the credit rating, yield and maturity of each security, in order to ensure that the yield fully reflects any perceived risk.

The capital value of investments within the sub-fund may also be affected by interest rate fluctuations such that when interest rates rise, the capital value of investments is likely to fall and vice versa. The effect will be more apparent on funds which invest in long-dated securities, such as this sub-fund.

The sub-fund may undertake transactions in derivatives both on exchange and over the counter (OTC). These may include credit default swaps, options, contracts for differences and interest rate futures for the purposes of meeting the investment objective and protecting the risk to capital, duration and credit management, as well as for hedging. Although the fund manager will select the counterparties with which it enters into derivative transactions with due skill and care, there will be residual risk that the counterparty may default on its obligations or become insolvent. The use of these instruments may expose the sub-fund to volatile investment returns and increase the volatility of the net asset value of the sub-fund. All derivative positions are disclosed separately in the portfolio statement.

Credit default swaps are bought and sold in response to detailed credit research to take advantage of anticipated movements in credit spreads on individual stocks and baskets of securities. When the sub-fund buys a credit default swap the default risk associated with the underlying security transfers to the counterparty. Conversely when the sub-fund sells a credit default swap the sub-fund assumes the credit risk of the underlying security. The selling of credit default swaps could expose the sub-fund to credit default risk. The sub-fund will contain a sufficient spread of investment grades of holdings to mitigate potential exposure to credit default risk.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise a sufficient number of securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 127, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.12: same).

3 Net capital gains / (losses)

	2013 £'000	2012 £'000
Non-derivative securities	6,200	(10,961)
Derivative contracts	54	(226)
Forward currency contracts	1,330	(1,753)
Currency gains / (losses)	62	(237)
Transaction charges	(4)	(4)
Net capital gains / (losses)	7,642	(13,181)

4 Revenue

	2013 £'000	2012 £'000
Bank interest	0	3
Interest distributions	0	3
Interest on debt securities	5,463	5,228
Premium from credit default swaps	69	82
Total revenue	5,532	5,316

M&G European High Yield Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

5 Expenses

	2013 £'000	2012 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	864	752
Administration fee	110	95
	974	847
Payable to the Depositary or associate		
Depositary's fee (including VAT)	7	6
Distribution fees	1	0
	8	6
Other expenses		
Audit fee (including VAT)	11	11
Regulatory fees	10	11
Safe custody charge	4	4
Tax consultancy fees (including VAT) ^[a]	9	7
	34	33
Total expenses	1,016	886

[a] Fees paid to overseas firms affiliated with PricewaterhouseCoopers LLP.

6 Taxation

	2013 £'000	2012 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Overseas tax	0	5
Prior year adjustment	1	0
Current tax charge (note 6b)	1	5
Deferred tax (note 6c)	0	0
Total taxation	1	5
b) Factors affecting taxation charge for the year		
Net revenue before taxation	4,516	4,430
Corporation tax at 20%	903	886
Effects of:		
Prior year expenses utilised	(3)	0
Interest distributions	(900)	(885)
Overseas tax	0	5
Overseas tax expensed	0	(1)
Prior year adjustment	1	0
Current tax charge (note 6a)	1	5
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset at the year end (30.06.12: £3,000).

Interest distributions have been made in respect of all distributions during the current and preceding years. Income tax at 20% will be accounted for on shareholders' behalf to HM Revenue & Customs where applicable.

7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.12: same).

8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in net assets attributable to shareholders and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's (ACD's) periodic charge and administration fee are disclosed in note 5. Amounts due at the year end to the ACD of £69,000 (30.06.12: £35,000) in respect of the ACD's periodic charge and administration fees are included within expenses payable disclosed in the balance sheet.

At the balance sheet date, material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 0.06% (30.06.12: 0.06%) of the sub-fund's shares.

9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.12: same).

Currency exposure

The currency profile of the sub-fund's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other assets / (liabilities)		Total	
	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000
Euro	91,731	48,587	1,781	408	93,512	48,995
Swiss franc	(80)	(24)	148	55	68	31
US dollar	(1,530)	(86)	1,738	124	208	38
	90,121	48,477	3,667	587	93,788	49,064
Sterling	(234)	(303)	(125)	(323)	(359)	(626)
Total	89,887	48,174	3,542	264	93,429	48,438

Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000
Euro	5,651	4,870	46,510	27,424	52,161	32,294
Sterling	0	0	19,938	8,327	19,938	8,327
Swiss franc	0	0	5,858	1,795	5,858	1,795
US dollar	0	31	11,670	5,749	11,670	5,780
Total	5,651	4,901	83,976	43,295	89,627	48,196

M&G European High Yield Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

9 Financial instruments (continued)

Interest rate profile (continued)

	Weighted average gross interest rate of fixed interest-bearing assets		Weighted average period for which interest rates are fixed ^[a]	
	as at 30.06.13	as at 30.06.12	as at 30.06.13	as at 30.06.12
	%	%	years	years
Euro	11.71	9.22	1.85	5.84
Sterling	7.90	10.81	4.11	6.49
Swiss franc	6.26	6.32	3.60	5.87
US dollar	7.39	10.26	4.99	6.62

^[a] Assuming the earliest maturity date for those assets with variable maturity dates.

Floating rate interest-bearing assets at the balance sheet date consist of bank balances, on which interest is calculated at a variable rate by reference to Sterling bank deposit rates or the international equivalent; floating rate notes, on which interest is calculated at a variable rate by reference to the London Interbank Offered Rate (LIBOR) or the Euro Interbank Offered Rate (EURIBOR); and variable rate bonds (30.06.12: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.12: same).

Risk analysis

Our core method of estimating each sub-fund's overall risk position is to use value at risk based (VaR) techniques that enable us to measure each sub-fund's sensitivity to core market risk factors such as credit and interest rates. VaR is a technique used to estimate the probability of portfolio losses based on the statistical analysis of historical price trends and volatilities.

The MAGIM risk model for VaR production was originally created in 2001 utilising the Algorithmics RiskWatch software, a market leading risk solution. From the variance / covariance matrices, a parametric Monte Carlo scenario set of 5,000 simulations is derived and applied to the M&G European High Yield Bond Fund.

The key assumption within the variance / covariance matrix is the exponential weighted moving average approach that utilises a decay factor of 0.94 thereby weighting more recent data history with a higher significance.

The VaR analysis for the M&G European High Yield Bond Fund is produced on a daily basis. Market risk factors that are analysed include LIBOR / swap rates, government yield curves, equity prices, foreign exchange rates, market volatility and credit spreads.

With a statistical level of confidence of 99%, the VaR model suggests that the potential loss incurred could be £1,755,310 over the next 30 days from the balance sheet date, 30 June 2013.

Please note, the market risk information is a relative estimate of risk rather than a precise and accurate number. The model is based on historical data and cannot take account of the fact that future market price movements, correlations between markets and levels of market liquidity in conditions of market stress may bear no relation to historical patterns.

10 Portfolio transaction costs

	2013 £'000	2012 £'000
a) Purchases		
Purchases excluding transaction costs	101,798	81,284
b) Sales		
Sales excluding transaction costs	66,498	119,157

There were no significant transaction costs during the year (30.06.12: same).

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares, Sterling Class 'I' (Net Income and Net Accumulation) shares, Sterling Class 'R' (Net Income and Net Accumulation) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

This sub-fund also contains Euro Class 'A' (Gross Accumulation) shares and Euro Class 'C' (Gross Accumulation) shares.

The charging structure for each share class, as at 30 June 2013, is set out in the following table (30.06.12: same):

CHARGES AND EXPENSES

	Initial charge %	Withdrawal fee %	ACD's annual remuneration %
Sterling			
Class 'A'	3.00	n/a	1.25
Class 'I' ^[a]	1.00	n/a	0.75
Class 'R' ^[a]	1.00	n/a	1.00
Class 'X'	nil	4.50 ^[b]	1.25
Euro			
Class 'A'	3.25	n/a	1.25
Class 'C'	1.25	n/a	0.75

^[a] With effect from 3 August 2012, the launch date of the Sterling Class 'I' and Sterling Class 'R' share classes.

^[b] The withdrawal fee diminishes over a period of five years. Please refer to the Key Investor Information Document (KIID) in conjunction with the Important Information for Investors document.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

M&G European High Yield Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

11 Shareholder funds (continued)

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.13		30.06.12	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	3,980	3,251	4,902	2,692
Class 'I'	1,658	179	n/a	n/a
Class 'R'	47	1	n/a	n/a
Class 'X'	14,414	3,481	12,210	2,452
Euro				
Class 'A'	n/a	51,022	n/a	22,924
Class 'C'	n/a	15,396	n/a	3,258

The net asset value per share and the number of shares are given in the net assets table on page 72. The distribution per share is given in the distribution table on pages 80 and 81. Each share class has the same rights on winding-up.

12 Finance costs

	2013 £'000	2012 £'000
Income shares (Sterling)		
Class 'A' - First interim	66	59
- Second interim	69	66
- Third interim	61	68
- Final	49	69
Class 'I' - First interim ^[a]	0	n/a
- Second interim ^[a]	0	n/a
- Third interim	17	n/a
- Final	22	n/a
Class 'R' - First interim ^[b]	0	n/a
- Second interim ^[b]	0	n/a
- Third interim	1	n/a
- Final	1	n/a
Class 'X' - First interim	173	174
- Second interim	167	193
- Third interim	172	174
- Final	177	171
Accumulation shares (Sterling)		
Class 'A' - First interim	36	66
- Second interim	33	90
- Third interim	35	37
- Final	40	37
Class 'I' - First interim ^[c]	0	n/a
- Second interim ^[c]	0	n/a
- Third interim	1	n/a
- Final	2	n/a
Class 'R' - First interim ^[d]	0	n/a
- Second interim ^[d]	0	n/a
- Third interim ^[d]	0	n/a
- Final ^[d]	0	n/a
Class 'X' - First interim	37	46
- Second interim	35	45
- Third interim	44	37
- Final	43	34
Accumulation shares (Euro)		
Class 'A' - First interim	470	598
- Second interim	497	388
- Third interim	643	428
- Final	756	393
Class 'C' - First interim	75	223
- Second interim	160	227
- Third interim	295	59
- Final	248	60
	4,425	3,742
Income tax deducted at source	318	337
Finance costs: Interest distributions	4,743	4,079
Income deducted on cancellation of shares	183	439
Income received on issue of shares	(411)	(93)
Total finance costs	4,515	4,425

^[a] The interim distributions for Sterling Class 'I' Income shares were £25.

^[b] The interim distributions for Sterling Class 'R' Income shares were £25.

^[c] The interim distributions for Sterling Class 'I' Accumulation shares were £35.

^[d] The total distribution for Sterling Class 'R' Accumulation shares was £54.

M&G European High Yield Bond Fund

FINANCIAL STATEMENTS

DISTRIBUTION TABLE						
Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equalisation	Distribution paid/payable	
					2012/13	2011/12
Sterling						
Class 'A' - First interim						
Group 1:	0.6565	0.1313	0.5252	-	0.5252	0.5320
Group 2:	0.2519	0.0504	0.2015	0.3237	0.5252	0.5320
- Second interim						
Group 1:	0.6175	0.1235	0.4940	-	0.4940	0.5920
Group 2:	0.2159	0.0432	0.1727	0.3213	0.4940	0.5920
- Third interim						
Group 1:	0.6355	0.1271	0.5084	-	0.5084	0.5340
Group 2:	0.3181	0.0636	0.2545	0.2539	0.5084	0.5340
- Final						
Group 1:	0.6585	0.1317	0.5268	-	0.5268	0.5220
Group 2:	0.3199	0.0640	0.2559	0.2709	0.5268	0.5220
Class 'I' - First interim						
Group 1:	12.1740	2.4348	9.7392	-	9.7392	n/a
Group 2:	12.1740	2.4348	9.7392	-	9.7392	n/a
- Second interim						
Group 1:	18.4750	3.6950	14.7800	-	14.7800	n/a
Group 2:	18.4750	3.6950	14.7800	-	14.7800	n/a
- Third interim						
Group 1:	18.5590	3.7118	14.8472	-	14.8472	n/a
Group 2:	10.3400	2.0680	8.2720	6.5752	14.8472	n/a
- Final						
Group 1:	19.2720	3.8544	15.4176	-	15.4176	n/a
Group 2:	12.8104	2.5621	10.2483	5.1693	15.4176	n/a
Class 'R' - First interim						
Group 1:	1.1590	0.2318	0.9272	-	0.9272	n/a
Group 2:	1.1590	0.2318	0.9272	-	0.9272	n/a
- Second interim						
Group 1:	1.7925	0.3585	1.4340	-	1.4340	n/a
Group 2:	1.7925	0.3585	1.4340	-	1.4340	n/a
- Third interim						
Group 1:	1.7715	0.3543	1.4172	-	1.4172	n/a
Group 2:	1.1658	0.2332	0.9326	0.4846	1.4172	n/a
- Final						
Group 1:	1.8230	0.3646	1.4584	-	1.4584	n/a
Group 2:	0.6203	0.1241	0.4962	0.9622	1.4584	n/a
Class 'X' - First interim						
Group 1:	0.6515	0.1303	0.5212	-	0.5212	0.5360
Group 2:	0.2503	0.0501	0.2002	0.3210	0.5212	0.5360
- Second interim						
Group 1:	0.6175	0.1235	0.4940	-	0.4940	0.5880
Group 2:	0.2126	0.0425	0.1701	0.3239	0.4940	0.5880
- Third interim						
Group 1:	0.6340	0.1268	0.5072	-	0.5072	0.5320
Group 2:	0.2480	0.0496	0.1984	0.3088	0.5072	0.5320
- Final						
Group 1:	0.6575	0.1315	0.5260	-	0.5260	0.5220
Group 2:	0.3426	0.0685	0.2741	0.2519	0.5260	0.5220

DISTRIBUTION TABLE (continued)

Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
					2012/13	2011/12
Sterling						
Class 'A' - First interim						
Group 1:	1.3670	0.2734	1.0936	-	1.0936	1.0596
Group 2:	0.5403	0.1081	0.4322	0.6614	1.0936	1.0596
- Second interim						
Group 1:	1.3120	0.2624	1.0496	-	1.0496	1.1776
Group 2:	0.4723	0.0945	0.3778	0.6718	1.0496	1.1776
- Third interim						
Group 1:	1.3595	0.2719	1.0876	-	1.0876	1.0832
Group 2:	0.6635	0.1327	0.5308	0.5568	1.0876	1.0832
- Final						
Group 1:	1.4370	0.2874	1.1496	-	1.1496	1.0788
Group 2:	0.8659	0.1732	0.6927	0.4569	1.1496	1.0788
Class 'I' - First interim						
Group 1:	12.1740	2.4348	9.7392	-	9.7392	n/a
Group 2:	12.1740	2.4348	9.7392	-	9.7392	n/a
- Second interim						
Group 1:	18.6375	3.7275	14.9100	-	14.9100	n/a
Group 2:	18.6375	3.7275	14.9100	-	14.9100	n/a
- Third interim						
Group 1:	18.8530	3.7706	15.0824	-	15.0824	n/a
Group 2:	11.8244	2.3649	9.4595	5.6229	15.0824	n/a
- Final						
Group 1:	20.8275	4.1655	16.6620	-	16.6620	n/a
Group 2:	13.9629	2.7926	11.1703	5.4917	16.6620	n/a
Class 'R' - First interim						
Group 1:	1.1590	0.2318	0.9272	-	0.9272	n/a
Group 2:	1.1590	0.2318	0.9272	-	0.9272	n/a
- Second interim						
Group 1:	1.8085	0.3617	1.4468	-	1.4468	n/a
Group 2:	1.8085	0.3617	1.4468	-	1.4468	n/a
- Third interim						
Group 1:	1.9145	0.3829	1.5316	-	1.5316	n/a
Group 2:	1.9145	0.3829	1.5316	-	1.5316	n/a
- Final						
Group 1:	1.9275	0.3855	1.5420	-	1.5420	n/a
Group 2:	1.9275	0.3855	1.5420	-	1.5420	n/a
Class 'X' - First interim						
Group 1:	1.3660	0.2732	1.0928	-	1.0928	1.0600
Group 2:	0.2486	0.0497	0.1989	0.8939	1.0928	1.0600
- Second interim						
Group 1:	1.3120	0.2624	1.0496	-	1.0496	1.1768
Group 2:	0.6888	0.1378	0.5510	0.4986	1.0496	1.1768
- Third interim						
Group 1:	1.3605	0.2721	1.0884	-	1.0884	1.0840
Group 2:	0.6555	0.1311	0.5244	0.5640	1.0884	1.0840
- Final						
Group 1:	1.4425	0.2885	1.1540	-	1.1540	1.0776
Group 2:	0.7600	0.1520	0.6080	0.5460	1.1540	1.0776

M&G European High Yield Bond Fund

FINANCIAL STATEMENTS

DISTRIBUTION TABLE (continued)

Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
	€	€	€	€	2012/13	2011/12
Euro						
Class 'A' - First interim						
Group 1:	36.4117	-	36.4117	-	36.4117	31.2059
Group 2:	11.1874	-	11.1874	25.2243	36.4117	31.2059
- Second interim						
Group 1:	34.2224	-	34.2224	-	34.2224	36.9585
Group 2:	13.6186	-	13.6186	20.6038	34.2224	36.9585
- Third interim						
Group 1:	34.8943	-	34.8943	-	34.8943	34.3537
Group 2:	25.2670	-	25.2670	9.6273	34.8943	34.3537
- Final						
Group 1:	34.9106	-	34.9106	-	34.9106	35.2084
Group 2:	17.8222	-	17.8222	17.0884	34.9106	35.2084
Class 'C' - First interim						
Group 1:	36.6867	-	36.6867	-	36.6867	31.4170
Group 2:	3.9854	-	3.9854	32.7013	36.6867	31.4170
- Second interim						
Group 1:	34.8761	-	34.8761	-	34.8761	36.7960
Group 2:	10.7164	-	10.7164	24.1597	34.8761	36.7960
- Third interim						
Group 1:	35.4841	-	35.4841	-	35.4841	34.4337
Group 2:	20.0248	-	20.0248	15.4593	35.4841	34.4337
- Final						
Group 1:	35.8177	-	35.8177	-	35.8177	35.3898
Group 2:	15.3813	-	15.3813	20.4364	35.8177	35.3898

First interim period	01.07.12 - 30.09.12
Second interim period	01.10.12 - 31.12.12
Third interim period	01.01.13 - 31.03.13
Final period	01.04.13 - 30.06.13

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2). It is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes.

M&G European High Yield Bond Fund

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M&G Fund of Investment Trust Shares

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G Fund of Investment Trust Shares

The portfolio is normally limited to shares of investment trust companies. These shares provide a wide spread of investment in the UK and overseas stockmarkets 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 a wide range of international markets and investment classes. The fund manager uses his judgement to decide upon areas and investment vehicles from which long-term growth 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 and reward profile*



1	2	3	4	5	6	7
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- 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.
- * 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 1 July 2013, for the year ended 30 June 2013

Throughout the year we decreased our weighting in emerging markets, for example, by exiting India Capital Growth Fund and reducing our position in Advance Frontier Markets Fund, thereby managing to avoid the worst losses. As an asset class, company shares in emerging markets have underperformed their developed market counterparts as investors turned away from investments perceived to be riskier. A number of commodity-based economies in the region have also struggled as global growth slowed. In addition, sentiment has been affected by country-specific issues. In India, for example, heavy bureaucracy and large government subsidies have hindered business activity. Nevertheless, we retained some emerging market investments in order to participate in their eventual recovery. We also reduced the fund's exposure to mining at the start of the review period; for example, by exiting BlackRock Commodities Income Investment Trust, and we were able to benefit from its good performance up to that point.

We continued to put money into North America to offset our riskier assets, as we believe these investments will continue to do well during volatile market conditions. For example, we added to JPMorgan American Investment Trust, which invests in some of the largest US companies, and initiated a position in Middlefield Canadian Income Trust, which has a track record of earning high dividends^[a] from a diverse range of Canadian companies.

Also, we bought into the recently incorporated Weiss Korea Opportunity Fund. Its manager aims to invest primarily in preference shares issued by South Korean companies, which tend to trade at a significant discount to their common shares. In addition, we established a position in Polar Capital Technology Trust to give us exposure to technology companies.

We sold a number of infrastructure investments, including GCP Infrastructure Investments which we had held for less than a year, and Bilfinger Berger Global Infrastructure Fund, realising good profits to recycle into other stocks. They have traded at a considerable premium, being in strong demand for their very attractive dividends and as there are very limited shares in issue.

Richard O'Connor Fund manager

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

^[a] Dividends represent a share of the profits of the company and are paid out to a company's shareholders at set times of the year.

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 Fund of Investment Trust Shares

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.01.14	28.02.14
Final	01.07.14	31.08.14

	Final distribution		Ongoing Charges Figure ^[b]	
	Inc 31.08.13 ^[a]	Acc 01.07.13 ^[a]	30.06.13	30.06.12
Sterling	p	p	%	%
Class 'A'	5.9522	13.3217	1.20	1.20
Class 'X'	2.2624	4.8189	1.70	1.71

^[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 30.06.13		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
	Sterling	p	p	p	p	%
Class 'A'	1,468.14	3,301.25	1,240.16	2,767.74	+18.38	+19.28
Class 'X'	1,475.78	3,149.70	1,246.82	2,653.95	+18.36	+18.68

PERFORMANCE SINCE LAUNCH

	six months 02.01.13 %	one year 02.07.12 %	five years 01.07.08 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+9.5	+19.9	+3.2	+8.0 ^[c]
Class 'X'	+9.5	+19.9	+3.2	+8.4 ^[d]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid excluding reinvested income.

^[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.

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From	29.06.12	30.06.11	30.06.10	30.06.09	30.06.08
To	28.06.13	29.06.12	30.06.11	30.06.10	30.06.09
	%	%	%	%	%
Sterling					
Class 'A'	+21.7	-9.0	+21.5	+19.9	-24.7

Source: Morningstar, Inc., bid to bid with net income reinvested.

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008	1,443.28	743.13	3,096.62	1,599.01
	2009	1,140.26	747.14	2,488.60	1,618.27
	2010	1,377.93	1,080.73	3,041.35	2,371.79
	2011	1,420.23	1,159.56	3,143.87	2,574.39
	2012	1,357.66	1,208.27	3,029.84	2,689.22
	2013 ^[a]	1,577.38	1,366.72	3,532.56	3,060.80
Class 'X'	2008	1,447.97	745.82	3,031.54	1,561.60
	2009	1,144.96	750.75	2,418.79	1,577.49
	2010	1,382.08	1,086.04	2,938.22	2,301.70
	2011	1,425.22	1,163.22	3,032.15	2,475.91
	2012	1,361.48	1,212.12	2,898.03	2,580.00
	2013 ^[a]	1,582.45	1,373.75	3,372.19	2,927.44

^[a] To 1 July 2013.

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 price of shares and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

Dividend income per share

	Calendar year	Interim	Distributed	Total	Reinvested
			Final	p	p
Sterling (net)			p	p	p
Class 'A'	2008	3.6700	3.7200	7.3900	15.8357
	2009	5.6190	7.1650	12.7840	27.6096
	2010	6.3560	6.4660	12.8220	28.0623
	2011	4.0800	4.0940	8.1740	18.0680
	2012	2.9780	3.4100	6.3880	14.2093
	2013 ^[a]	4.8370	5.9522	10.7892	24.1175
Class 'X'	2008	nil	0.0940	0.0940	0.1968
	2009	3.0240	5.1010	8.1250	17.0500
	2010	3.6910	3.5280	7.2190	15.2746
	2011	1.0300	0.6620	1.6920	3.5981
	2012	nil	0.0440	0.0440	nil
	2013 ^[a]	1.5590	2.2624	3.8214	7.7368

^[a] Up to final: ex-distribution date 1 July 2013; payment date 31 August 2013.

M&G Fund of Investment Trust Shares

FUND STATISTICS

NET ASSETS					
	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling		p	p		
Class 'A'	Jun 2011	1,369.83	3,041.70	873,617	620,210
	Jun 2012	1,240.16	2,767.74	845,117	600,540
	Jun 2013	1,468.14	3,301.25	801,917	553,670
Class 'X'	Jun 2011	1,377.01	2,931.41	34,253	10,869
	Jun 2012	1,246.82	2,653.95	33,353	12,794
	Jun 2013	1,475.78	3,149.70	33,353	14,324
Total net asset value of sub-fund					
	Year ended	£		€ [a]	
	Jun 2011	31,622,000		34,971,000	
	Jun 2012	27,858,000		34,552,000	
	Jun 2013	30,995,000		36,129,000	

[a] Based on the midday exchange rate on the last business day of each financial year.

PORTFOLIO

PORTFOLIO STATEMENT

as at 30 June 2013			
Holding [a]	Value £'000	30.06.13 %	30.06.12 %
Global growth		18.55	18.62
197,476 Alliance Trust	845	2.73	
31,000 Caledonia Investments	560	1.81	
447,855 Miton Worldwide Growth Investment Trust	618	1.99	
242,170 Monks Investment Trust	843	2.72	
1,250 Personal Assets Trust	422	1.36	
51,347 RIT Capital Partners	603	1.95	
155,000 Scottish Mortgage Investment Trust	1,279	4.13	
280,501 World Trust Fund	578	1.86	
Global growth & income		4.75	4.97
350,000 Midas Income & Growth Trust	434	1.40	
480,286 Ruffer Investment Company Red. Pref. shares	1,037	3.35	
UK growth		7.21	8.10
201,737 Artemis Alpha Trust	547	1.76	
18,818 Artemis Alpha Trust (Subscription shares)	9	0.03	
250,000 Better Capital PCC	260	0.84	
56,000 Hansa Trust 'A' shares	426	1.37	
40,000 Keystone Investment Trust	621	2.00	
30,000 Mercantile Investment Trust	375	1.21	
UK growth & income		4.59	4.47
113,400 Finsbury Growth & Income Trust	516	1.66	
483,870 Troy Income & Growth Trust	291	0.94	
280,000 Value & Income Trust	616	1.99	
UK smaller companies		0.99	0.89
74,764 Montanaro UK Smaller Companies Investment Trust	306	0.99	
Europe		5.57	4.82
60,000 Fidelity European Values	841	2.71	
300,000 JPMorgan European Investment Trust (income shares)	292	0.94	
100,000 The European Investment Trust	596	1.92	
European smaller companies		2.48	2.05
92,661 JPMorgan European Smaller Companies Investment Trust	770	2.48	
North America		4.42	1.43
80,211 JPMorgan American Investment Trust	879	2.84	
460,000 Middlefield Canadian Income Trust Red. Pref. Shares	489	1.58	
North American smaller companies		2.49	2.04
55,000 North Atlantic Smaller Companies Investment Trust	771	2.49	
Global emerging markets		4.18	4.53
148,388 Advance Developing Markets Trust	628	2.03	
121,000 Templeton Emerging Markets Investment Trust	667	2.15	
Latin America		0.83	0.60
273,500 Aberdeen Latin American Income Fund	256	0.83	
Asia Pacific - excluding Japan		8.48	11.63
415,000 Aberdeen Asian Income Fund	889	2.87	
118,290 Asian Total Return Investment Company (formerly Henderson Asian Growth Trust)	227	0.73	
431,241 Edinburgh Dragon Trust	1,143	3.69	
382,500 Weiss Korea Opportunity Fund	369	1.19	
Japan		2.61	1.73
250,000 Baillie Gifford Japan Trust	808	2.61	

M&G Fund of Investment Trust Shares

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding ^[a]	Value £'000	30.06.13 %	30.06.12 %
Japanese smaller companies			
235,853 Baillie Gifford Shin Nippon	676	2.18	4.87
319,008 JPMorgan Japanese Smaller Companies Investment Trust	610	1.97	
100,000 JPMorgan Japanese Smaller Companies Investment Trust (Subscription shares)	16	0.05	
400,000 Prospect Japan Fund	243	0.78	
Private equity			
358,000 F&C Private Equity Trust	725	2.34	4.29
60,000 Pantheon International Participations	626	2.02	
Property securities			
422,262 TR Property Investment Trust	812	2.62	2.29
Specialist			
227,061 Biotech Growth Trust	854	2.75	11.38
161,296 BlackRock World Mining Trust	694	2.24	12.47
338,873 CATCo Reinsurance Opportunities Fund	214	0.69	
519,643 Golden Prospect Precious Metals	182	0.59	
259,821 Golden Prospect Precious Metals (Subscription shares)	3	0.01	
750,229 Impax Asian Environmental Markets	746	2.41	
141,859 Impax Asian Environmental Markets (Subscription shares)	7	0.02	
350,000 JPMorgan Global Convertibles Income Fund	355	1.15	
116,000 Polar Capital Technology Trust	472	1.52	
Split capital			
465,000 Ecofin Water & Power Opportunities	564	1.82	1.92
AIM quoted			
1,190,678 Advance Frontier Markets Fund	613	1.98	3.64
300,000 Utilico Emerging Markets	516	1.66	5.81
Warrants			
Unquoted / unlisted			
75,000 Bioscience Investment Trust	0	0.00	0.00
26,744 Thompson Clive Investment Trust	0	0.00	
Futures			
21 E-Mini S&P 500 Sep 2013	(15)	(0.05)	(0.05)
'AAA' rated money market funds ^[b]			
1,193,000 Northern Trust Global Fund - Sterling	1,193	3.85	3.85
Portfolio of investments (notes 1b & 1d on page 87)	30,917	99.75	100.28
Net other assets / (liabilities)	78	0.25	(0.28)
Net assets attributable to shareholders	30,995	100.00	100.00

^[a] All holdings are in ordinary shares unless otherwise stated.

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

PORTFOLIO STATEMENT (continued)

Counterparty exposure

Counterparty	Financial derivative exposure	
	Futures £'000	Total as at 30.06.13 £'000
RBS	(15)	(15)
Total	(15)	(15)

PORTFOLIO TRANSACTIONS

for the year ended 30 June 2013

Purchases ^[a]	£'000
Polar Capital Technology Trust	480
Middlefield Canadian Income Trust Red. Pref. Shares	474
Weiss Korea Opportunity Fund	382
JPMorgan Global Convertibles Income Fund	350
JPMorgan American Investment Trust	325
GCP Infrastructure Investments	304
Templeton Emerging Markets Investment Trust	248
Asian Total Return Investment Company (formerly Henderson Asian Growth Trust)	173
Personal Assets Trust	163
World Trust Fund	154
RIT Capital Partners	137
Aberdeen Latin American Income Fund	104
Miton Worldwide Growth Investment Trust	60
CATCo Reinsurance 'C'	46
Northern Trust Global Fund - Sterling ^[b]	4,040
Total purchases	7,440
Largest sales ^[a]	£'000
Asian Total Return Investment Company (formerly Henderson Asian Growth Trust)	1,050
Aberdeen Asian Income Fund	440
Advance Frontier Markets Fund	372
Biotech Growth Trust	368
Bilfinger Berger Global Infrastructure Fund	341
GCP Infrastructure Investments	319
Hansa Trust 'A' shares	300
Advance Developing Markets Trust	286
World Trust Fund	281
Monks Investment Trust	240
F&C Private Equity Trust	229
Edinburgh Dragon Trust	210
Scottish Mortgage Investment Trust	196
Utilico Emerging Markets	173
JPMorgan Japanese Smaller Companies Investment Trust	153
Value & Income Trust	124
TR Property Investment Trust (Sigma shares)	123
India Capital Growth Fund	114
Baillie Gifford Shin Nippon	92
Ruffer Investment Company Red. Pref. shares	91
Northern Trust Global Fund - Sterling ^[b]	3,552
Other sales	234
Total sales	9,288

^[a] All holdings are in ordinary shares unless otherwise stated.

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

M&G Fund of Investment Trust Shares

FINANCIAL STATEMENTS

For the year ended 30 June 2013.

STATEMENT OF TOTAL RETURN

	Note	2013		2012	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		4,994		(2,997)
Revenue	4	593		498	
Expenses	5	(364)		(350)	
Net revenue before taxation		229		148	
Taxation	6	0		0	
Net revenue after taxation			229		148
Total return before distributions			5,223		(2,849)
Finance costs: Distributions	12		(229)		(141)
Change in net assets attributable to shareholders from investment activities			4,994		(2,990)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2013		2012	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		27,858		31,622
Amounts received on issue of shares	150		622	
Amounts paid on cancellation of shares	(2,142)		(1,481)	
		(1,992)		(859)
Stamp Duty Reserve Tax (SDRT)		(3)		(3)
Change in net assets attributable to shareholders from investment activities (see above)		4,994		(2,990)
Retained distributions on Accumulation shares		137		86
Unclaimed distributions		1		2
Closing net assets attributable to shareholders		30,995		27,858

BALANCE SHEET

	as at 30 June 2013		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		30,932		27,936
Debtors				
Amounts receivable on issues	10		0	
Dividends receivable	71		71	
		81		71
Cash and bank balances				
Amounts held at futures clearing houses and brokers	75		24	
Cash held as bank balances	1		0	
		76		24
Total other assets		157		95
Total assets		31,089		28,031
Liabilities				
Investment liabilities		(15)		0
Creditors				
Amounts payable on cancellations	0		(116)	
Expenses payable	(30)		(28)	
Net distributions payable on Income shares	(48)		(29)	
SDRT payable	(1)		0	
		(79)		(173)
Total other liabilities		(79)		(173)
Total liabilities		(94)		(173)
Net assets attributable to shareholders		30,995		27,858

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 28 June 2013, being the last business day of the financial year. The fair value of non-derivative securities is bid price, excluding any accrued interest and the fair value of exchange traded futures is the cost of closing out the contract at the balance sheet date. Where the sub-fund holds unquoted investments, the Authorised Corporate Director (ACD) will use their discretion to determine the most appropriate valuation.

c) Investment gains and losses

Gains and losses, including exchange differences, on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date, including unrealised exchange differences, are treated as capital.

d) Exchange rates

Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into Sterling at the rate of exchange ruling as at 12 noon on 28 June 2013, being the last business day of the financial year.

M&G Fund of Investment Trust Shares

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

e) Derivative financial instruments

The treatment of the returns on forward currency contracts and derivative contracts depend upon the nature of the transaction. Both motive and circumstances are used to determine whether the returns should be treated as capital or revenue. Where positions are undertaken to protect or enhance capital, and the circumstances support this, the returns are recognised in net capital gains or losses; similarly where the motives and circumstances are to generate or protect revenue, and the circumstances support this, the returns are included within net revenue before taxation. Where positions generate total returns it will generally be appropriate to apportion such returns between capital and revenue to properly reflect the nature of the transaction.

f) Dividend and interest income

Dividends from quoted equity and non-equity shares are recognised net of attributable tax credits when the security is quoted ex-dividend.

Overseas dividends received after the deduction of withholding tax are shown gross of taxation, with the taxation consequences shown within the taxation charge.

Dividends are recognised as either revenue or capital depending upon the nature and circumstances of the dividend receivable.

Distributions from collective investment schemes are recognised net of attributable tax credits when the security is quoted ex-distribution and are treated as revenue.

Bank interest is recognised on an accruals basis and treated as revenue.

g) Stock dividends

The ordinary element of stocks received in lieu of cash dividends is recognised as revenue of the sub-fund. Any enhancement above the cash dividend is treated as capital.

h) Expenses

All expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

i) Apportionment of income and expenses to multiple share classes

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

j) Taxation

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

k) Deferred taxation

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

l) Distribution policy

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue. Stock dividends do not form part of the distributable income.

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. Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

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

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk and currency risk in relation to the investment portfolio. The Prospectus permits the sub-fund to use derivative instruments to hedge against medium and long-term risk.

The market price of shares in investment trust companies may not fully reflect the value of the underlying investments they have, or the gains that those investments have made. Capital shares in split capital trusts have geared interest in the underlying portfolio and accordingly these securities have a greater volatility than is typical.

The sub-fund holds overseas investments and exchange rate fluctuations can affect both capital and income values. During the year, it has been the policy to hedge some of the investment portfolio against currency movements through the use of forward currency contracts.

Short-term foreign currency exposures are generally covered by short-dated currency contracts. Income arising in foreign currencies is generally converted into Sterling shortly after receipt and is not hedged in advance of receipt.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 127, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.12: same).

M&G Fund of Investment Trust Shares

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

3 Net capital gains / (losses)

	2013 £'000	2012 £'000
Non-derivative securities	4,848	(3,001)
Derivative contracts	142	8
Currency gains / (losses)	7	(1)
Transaction charges	(3)	(3)
Net capital gains / (losses)	4,994	(2,997)

4 Revenue

	2013 £'000	2012 £'000
Bank interest	0	1
Interest distributions	3	3
Overseas dividends	125	92
Stock dividends	0	7
UK dividends	465	395
Total revenue	593	498

5 Expenses

	2013 £'000	2012 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	307	294
Administration fee	45	44
	352	338
Payable to the Depositary or associate		
Depositary's fee (including VAT)	3	3
Other expenses		
Audit fee (including VAT)	9	9
Total expenses	364	350

6 Taxation

	2013 £'000	2012 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Current tax charge (note 6b)	0	0
Deferred tax (note 6c)	0	0
Total taxation	0	0
b) Factors affecting taxation charge for the year		
Net revenue before taxation	229	148
Corporation tax at 20%	46	30
Effects of:		
UK dividends not taxable	(93)	(79)
Stock dividends not taxable	0	(1)
Overseas dividends not taxable	(25)	(19)
Current year expenses not utilised	72	69
Current tax charge (note 6a)	0	0
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset of £949,000 (30.06.12: £877,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.12: £263,000 outstanding commitments in respect of warrants).

8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in net assets attributable to shareholders and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's (ACD's) periodic charge and administration fee are disclosed in note 5. Amounts due at the year end to the ACD of £20,000 (30.06.12: £17,000) in respect of the ACD's periodic charge and administration fees are included within expenses payable as disclosed in the balance sheet.

At the balance sheet date, material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 1.85% (30.06.12: 1.74%) of the sub-fund's shares.

9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.12: same).

Currency exposure

The currency profile of the sub-fund's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other assets / (liabilities)		Total	
	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000
Sterling	30,475	27,539	12	(102)	30,487	27,437
US dollar	442	397	66	24	508	421
Total	30,917	27,936	78	(78)	30,995	27,858

Interest rate profile

The majority of the sub-fund's assets comprise equity shares which neither pay interest nor have a maturity date (30.06.12: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.12: same).

M&G Fund of Investment Trust Shares

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

10 Portfolio transaction costs

	2013 £'000	2012 £'000
a) Purchases		
Purchases excluding transaction costs	7,432	6,551
Commissions	1	4
Taxes	7	10
Total transaction costs	8	14
Total purchases including transaction costs	7,440	6,565
b) Sales		
Sales excluding transaction costs	9,294	7,257
Commissions	(6)	(6)
Total sales net of transaction costs	9,288	7,251

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

The charging structure for each share class, as at 30 June 2013, is set out in the following table (30.06.12: same):

CHARGES AND EXPENSES

	Initial charge %	Withdrawal fee %	ACD's annual remuneration %
Sterling			
Class 'A'	4.00	n/a	1.00
Class 'X'	nil	4.50 ^[a]	1.50

^[a] The withdrawal fee diminishes over a period of five years. Please refer to the Key Investor Information Document (KIID) in conjunction with the Important Information for Investors document.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.13		30.06.12	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	11,774	18,278	10,481	16,622
Class 'X'	492	451	416	339

The net asset value per share and the number of shares are given in the net assets table on page 85. The distribution per share is given in the distribution table on page 91. Each share class has the same rights on winding-up.

12 Finance costs

	2013 £'000	2012 £'000
Income shares (Sterling)		
Class 'A' - Interim	40	26
- Final	47	29
Class 'X' - Interim	1	0
- Final ^[a]	1	0
Accumulation shares (Sterling)		
Class 'A' - Interim	62	40
- Final	74	46
Class 'X' - Interim ^[b]	0	0
- Final	1	0
Finance costs: Dividend distributions	226	141
Income deducted on cancellation of shares	3	1
Income received on issue of shares	0	(1)
Finance costs: Distributions	229	141
Net revenue per statement of total return	229	148
Stock dividends not distributed	0	(7)
Finance costs: Distributions	229	141

^[a] The comparative final distribution for Sterling Class 'X' (Income) shares in 2012 was £15.

^[b] The interim distribution for Sterling Class 'X' (Accumulation) shares was £344 (2012: £nil).

M&G Fund of Investment Trust Shares

FINANCIAL STATEMENTS

DISTRIBUTION TABLE

Dividend distributions on Income shares	Net income	Equalisation	Distribution paid/payable	
			2013	2012
Sterling				
Class 'A' - Interim				
Group 1:	4.8370	-	4.8370	2.9780
Group 2:	2.1959	2.6411	4.8370	2.9780
- Final				
Group 1:	5.9522	-	5.9522	3.4100
Group 2:	3.2993	2.6529	5.9522	3.4100
Class 'X' - Interim				
Group 1:	1.5590	-	1.5590	-
Group 2:	0.4388	1.1202	1.5590	-
- Final				
Group 1:	2.2624	-	2.2624	0.0440
Group 2:	1.1836	1.0788	2.2624	0.0440

Dividend distributions on Accumulation shares	Net income	Equalisation	Amount reinvested	
			2013	2012
Sterling				
Class 'A' - Interim				
Group 1:	10.7958	-	10.7958	6.6177
Group 2:	4.7963	5.9995	10.7958	6.6177
- Final				
Group 1:	13.3217	-	13.3217	7.5916
Group 2:	6.3406	6.9811	13.3217	7.5916
Class 'X' - Interim				
Group 1:	2.9179	-	2.9179	-
Group 2:	1.1305	1.7874	2.9179	-
- Final				
Group 1:	4.8189	-	4.8189	-
Group 2:	2.1603	2.6586	4.8189	-

Interim period 01.07.12 - 31.12.12

Final period 01.01.13 - 30.06.13

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2). It is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes.

M&G Fund of Investment Trust Shares

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M&G International Sovereign Bond Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective of the M&G International Sovereign Bond Fund

The Fund aims to maximise total return (the combination of income and growth of capital) through investment in a portfolio of investment grade debt instruments.

Investment policy of the M&G International Sovereign Bond Fund

The portfolio will primarily consist of investment grade sovereign debt securities denominated in the currencies of the major industrialised nations, with the exception of the UK. The Fund's exposure to sovereign debt may be gained through the use of derivatives. While the investment manager has power to hedge the currency risk for UK investors, the Fund will normally be managed so as to give exposure to non-sterling currencies. The Fund may also invest in other assets including 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.

Investment approach

The M&G International Sovereign Bond Fund aims to maximise total return through investing primarily in investment grade sovereign debt securities denominated in the currencies of the major industrialised nations, with the exception of the UK. The fund seeks to outperform the Citigroup Non GBP World Government Bond Index net of fees over a one-to-three year horizon, taking active country, yield curve and currency positions to generate alpha.

Risk and reward profile*



1	2	3	4	5	6	7
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- 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.

* 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 1 July 2013, for the year ended 30 June 2013

The fund invests in non-UK government bonds^[a], primarily issued by higher rated governments of developed countries. During the review period, we reduced the fund's overall exposure to US government bonds (also known as US Treasuries) based on our expectation that a reduction of accommodative monetary policy was likely in the US earlier than in other developed markets, as well as earlier than markets were anticipating, as the American economy strengthened. Our preference was to hold German government debt, where we considered valuations to be more attractive on the grounds that the eurozone was likely to experience subdued economic growth for some time. We also increased our allocation to Swedish government bonds, feeling that they offered an attractive real yield backed up by the country's AAA credit rating and relatively strong economy.

Elsewhere, we bought Italian government bonds as we expected sentiment towards these assets would gain from policymakers' actions to improve banks' access to funding. This gave the fund exposure to Europe's periphery and benefited the portfolio as the position was sold profitably in January ahead of the Italian general elections which unsettled markets.

Assessing the outlook towards the end of the period, we felt that the size of the bond market sell-off in late May and June had selectively presented opportunities to add some duration^[b] to the portfolio. Consequently, we added back to the fund's overall US Treasury exposure, while in Europe we added a large position in German inflation-linked bonds^[c] after they had recorded particularly large price declines.

The fund's overweight allocation to the US dollar was increased during the first half of the review period. In latter months, the size of this exposure was reduced, although the fund remained overweight to the US dollar at the end of the period. Elsewhere, its exposure to the Japanese yen was increased in the second half of the period.

Mike Riddell

Fund manager

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

^[a] Bonds are loans that are extended by investors to governments (government bonds) and companies (corporate bonds) for a specified amount of time. Bond investors pay the issuer – the government or company – an initial lump sum and receive regular interest payments in exchange. At the end of the bond's life the issuer pays back the investors' initial investment.

^[b] Duration measures a portfolio's sensitivity to changes in interest rates.

^[c] Inflation-linked bonds have both the value of the loan and the interest payments adjusted according to inflation until the final payment date.

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 International Sovereign Bond Fund

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.01.14	28.02.14
Final	01.07.14	31.08.14

	Final distribution		Ongoing Charges Figure ^[b]	
	Inc 31.08.13 ^[a]	Acc 01.07.13 ^[a]	30.06.13	30.06.12
Sterling	p	p	%	%
Class 'A'	0.1900	0.2480	1.18	1.20
Class 'I'	3.1812	4.5020	0.69 ^[c]	n/a
Class 'R'	0.3392	0.3752	0.94 ^[c]	n/a

^[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.

^[c] The Ongoing Charges Figure shown here is an estimate of the charges, as the share class has not been in existence for a full financial year.

Income accrued from interest-bearing securities is distributed on an effective yield basis.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.13		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
	p	p	p	p	%	%
Sterling						
Class 'A'	82.87	106.87	84.20	108.06	-1.58	-1.10
Class 'I'	957.66	965.25	n/a	n/a	n/a	n/a
Class 'R'	95.79	96.51	n/a	n/a	n/a	n/a

PERFORMANCE SINCE LAUNCH

	six months 02.01.13	one year 02.07.12	five years 01.07.08	since launch
	%	%	% p.a. ^[a]	% p.a. ^[a]
Sterling ^[b]				
Class 'A'	+0.5	-1.2	+10.8	+5.7 ^[c]
Class 'I'	+0.7	n/a	n/a	-3.7 ^[d]
Class 'R'	+0.7	n/a	n/a	-3.7 ^[d]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid with net income reinvested.

^[c] 4 October 1999, the end of the initial offer period of the predecessor unit trust.

^[d] 3 August 2012, the launch date of the share class. Not annualised.

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From	29.06.12	30.06.11	30.06.10	30.06.09	30.06.08
To	28.06.13	29.06.12	30.06.11	30.06.10	30.06.09
	%	%	%	%	%
Sterling					
Class 'A'	-1.0	+9.4	+4.9	+15.2	+28.0

Source: Morningstar, Inc., bid to bid with net income reinvested.

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008 ^[a]	79.75	51.05	97.16	61.57
	2009	81.39	65.14	99.94	79.99
	2010	78.87	69.77	98.61	86.58
	2011	84.76	71.83	107.72	90.59
	2012	87.41	80.21	112.14	102.48
	2013 ^[b]	88.45	81.75	113.80	105.18
Class 'I'	2012 ^[c]	1,003.79	959.34	1,003.72	959.49
	2013 ^[b]	1,021.81	945.49	1,026.14	949.47
Class 'R'	2012 ^[c]	100.37	95.97	100.37	95.97
	2013 ^[b]	102.25	94.56	102.64	94.93

^[a] On 1 September 2008 the fund's objective was changed.

^[b] To 1 July 2013.

^[c] From 3 August 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 price of shares and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

Interest income per share

	Calendar year	Interim	Distributed	Total	Reinvested
			Final	p	p
Sterling (net)		p	p	p	p
Class 'A'	2008	0.4860	0.5360	1.0220	1.2268
	2009	0.6276	0.2904	0.9180	1.1212
	2010	0.4400	0.5540	0.9940	1.2304
	2011	0.6600	0.6040	1.2640	1.5872
	2012	0.4420	0.3840	0.8260	1.0748
	2013 ^[a]	0.2040	0.1900	0.3940	0.5076
Class 'I'	2013 ^[a]	3.3360	3.1812	6.5172	7.8916
Class 'R'	2013 ^[a]	0.3540	0.3392	0.6932	0.7292

^[a] Up to final: ex-distribution date 1 July 2013; payment date 31 August 2013.

NET ASSETS

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling		p	p		
Class 'A'	Jun 2011	77.63	98.66	19,094,440	22,573,705
	Jun 2012	84.20	108.06	24,510,440	53,920,750
	Jun 2013	82.87	106.87	18,084,440	41,336,705
Class 'I'	Jun 2013	957.66	965.25	67,000	415,500
Class 'R'	Jun 2013	95.79	96.51	281,000	71,000

Total net asset value of sub-fund

Year ended	£	€ ^[a]
Jun 2011	37,095,000	41,018,000
Jun 2012	78,906,000	97,867,000
Jun 2013	64,154,000	74,780,000

^[a] Based on the midday exchange rate on the last business day of each financial year.

M&G International Sovereign Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT

as at 30 June 2013

Holding		Value £'000	30.06.13 %	30.06.12 %
'AAA' credit rated bonds				
C\$3,500,000	Canada (Govt. of) 2.75% 2022	2,266	3.53	
C\$7,500,000.00	Canada (Govt. of) 3.25% 2021	5,043	7.86	
C\$500,000	Canada (Govt. of) 5% 2037	426	0.66	
DKK40,000,000	Denmark (Kingdom of) 3% 2021	5,143	8.02	
€5,000,000	Germany (Federal Republic of) 0.1% IL 2023	4,403	6.86	
€3,000,000	Germany (Federal Republic of) 4.75% 2034	3,567	5.56	
€2,500,000	Germany (Federal Republic of) 5.5% 2031	3,123	4.87	
€750,000	Germany (Federal Republic of) 5.625% 2028	923	1.44	
€2,000,000	Germany (Federal Republic of) 6.5% 2027	2,642	4.12	
NOK5,000,000	KfW 5.25% 2017	601	0.93	
NOK80,000,000	Norway (Kingdom of) 2% 2023	8,270	12.89	
SEK25,000,000	Sweden (Kingdom of) 1.5% 2023	2,289	3.57	
SEK43,800,000	Sweden (Kingdom of) 3.5% 2022	4,773	7.44	
SEK15,000,000	Sweden (Kingdom of) 3.5% 2039	1,618	2.52	
SEK30,000,000	Sweden (Kingdom of) 5% 2020	3,547	5.53	
\$1,500,000	Temasek Financial I 2.375% 2023	877	1.37	
			16.06	22.87
'AA' credit rated bonds				
CLP700,000,000	Chile (Republic of) 5.5% 2020	925	1.44	
¥105,150,000	Japan (Govt. of) 1.5% 2019	740	1.15	
¥10,100,000	Japan (Govt. of) 2.3% 2027	76	0.12	
\$4,000,000	US Treasury 0.5% IL 2015	2,886	4.50	
\$650,000	US Treasury 1.75% 2022	408	0.64	
\$600,000	US Treasury 1.875% 2017	406	0.63	
\$170,000	US Treasury 2% IL 2016	140	0.22	
\$850,000	US Treasury 2% 2021	550	0.86	
\$2,000,000	US Treasury 2.125% IL 2019	1,608	2.50	
\$1,750,000	US Treasury 3.75% 2041	1,210	1.89	
\$1,500,000	US Treasury 6.125% 2027	1,353	2.11	
			1.86	10.70
'A' credit rated bonds				
MXN20,000,000	Mexico (United Mexican States) 8.5% 2029	1,192	1.86	
			0.00	0.32
'BBB' credit rated bonds				
Bonds with no credit rating				
\$700,000	Central Bank - Tunisia 1.686% 2019	447	0.70	
			0.70	0.00
Forward currency contracts				
C\$1,500,000	Bought for \$1,470,905 (expires 22.08.13)	(27)	(0.04)	
COP3,339,234,000	Bought for \$1,800,000 (expires 22.08.13)	(47)	(0.07)	
€11,450,000	Bought for \$15,164,586 (expires 22.08.13)	(131)	(0.20)	
£11,200,000	Bought for \$17,425,312 (expires 22.08.13)	(244)	(0.38)	
¥3,658,230,000	Bought for \$36,000,000 (expires 22.08.13)	619	0.96	
KRW2,784,750,000	Bought for \$2,500,000 (expires 22.08.13)	(44)	(0.07)	
MXN49,500,000	Bought for \$3,836,596 (expires 22.08.13)	(35)	(0.05)	
MYR7,505,250	Bought for \$2,500,000 (expires 22.08.13)	(87)	(0.14)	
NOK8,000,000	Bought for \$1,379,905 (expires 22.08.13)	(37)	(0.06)	
PEN9,643,680	Bought for \$3,700,000 (expires 22.08.13)	(162)	(0.25)	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding		Value £'000	30.06.13 %	30.06.12 %
Forward currency contracts (continued)				
SEK11,000,000	Bought for \$1,683,012 (expires 22.08.13)	(32)	(0.05)	
THB74,495,000	Bought for \$2,500,000 (expires 22.08.13)	(69)	(0.11)	
\$35,661,533	Bought for €27,500,000 (expires 22.08.13)	(185)	(0.29)	
\$25,136,925	Bought for £16,200,000 (expires 22.08.13)	308	0.48	
\$10,095,538	Bought for C\$10,250,000 (expires 22.08.13)	216	0.33	
\$6,282,065	Bought for SEK42,000,000 (expires 22.08.13)	28	0.04	
\$6,257,700	Bought for NZD7,650,000 (expires 22.08.13)	207	0.32	
\$5,911,800	Bought for AUD6,000,000 (expires 22.08.13)	257	0.40	
\$5,261,868	Bought for ¥500,230,000 (expires 22.08.13)	138	0.22	
\$4,046,591	Bought for MXN49,500,000 (expires 22.08.13)	173	0.27	
\$4,000,000	Bought for CLP1,935,680,000 (expires 22.08.13)	126	0.20	
\$3,639,789	Bought for ZAR34,000,000 (expires 22.08.13)	174	0.27	
\$3,081,137	Bought for NOK18,000,000 (expires 22.08.13)	68	0.11	
\$2,455,796	Bought for BRL5,000,000 (expires 22.08.13)	134	0.21	
\$1,736,471	Bought for COP3,339,234,000 (expires 22.08.13)	5	0.01	
\$1,250,000	Bought for MYR3,796,250 (expires 22.08.13)	34	0.05	
\$1,250,000	Bought for KRW1,405,250,000 (expires 22.08.13)	15	0.02	
\$1,250,000	Bought for THB37,418,750 (expires 22.08.13)	31	0.05	
			0.08	0.00
'AAA' rated money market funds ^[a]				
53,000	Northern Trust Global Fund - Sterling	53	0.08	
Portfolio of investments (notes 1b & 1d on page 97)		62,938	98.10	98.97
Net other assets		1,216	1.90	1.03
Net assets attributable to shareholders		64,154	100.00	100.00

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

Counterparty exposure

Counterparty	Financial derivative exposure	
	Forward currency contracts £'000	Total as at 30.06.13 £'000
State Street Bank	1,433	1,433
Total	1,433	1,433

M&G International Sovereign Bond Fund

PORTFOLIO

PORTFOLIO TRANSACTIONS

for the year ended 30 June 2013

Largest purchases	£'000
10 Year US Treasury Note Mar 2013 ^[a]	29,499
10 Year US Treasury Note Dec 2012 ^[a]	29,161
10 Year US Treasury Note Jun 2013 ^[a]	15,183
10 Year US Treasury Note Sep 2013 ^[a]	10,502
Germany (Federal Republic of) 2.25% 2021 (€)	8,244
Germany (Federal Republic of) 5.5% 2031 (€)	8,068
Germany (Federal Republic of) 4.75% 2034 (€)	5,518
Sweden (Kingdom Of) 3.5% 2022 (SEK)	5,513
US Treasury 0.5% IL 2015 (\$)	4,883
Italy (Republic of) 5.5% 2022 (€)	4,855
Germany (Federal Republic of) 0.1% IL 2023 (€)	4,448
Germany (Federal Republic of) 6.5% 2027(€)	3,968
Sweden (Kingdom Of) 5% 2020 (SEK)	3,578
Germany (Federal Republic of) 2.5% 2044 (€)	3,358
Italy (Republic of) 4.75% 2017 (€)	3,230
Sweden (Kingdom Of) 1.5% 2023 (SEK)	2,338
US Treasury 1.75% 2022 (\$)	1,688
US Treasury 2.125% IL 2019 (\$)	1,669
Italy (Republic of) 2.1% 2016 (€)	1,612
United States of America Sep 2012 (\$)	1,605
Northern Trust Global Fund - Sterling ^[b]	17,439
Other purchases	2,881
Total purchases	169,240
Largest sales	£'000
10 Year US Treasury Note Mar 2013 ^[a]	29,053
10 Year US Treasury Note Dec 2012 ^[a]	29,016
10 Year US Treasury Note Jun 2013 ^[a]	15,123
Germany (Federal Republic of) 0.75% IL 2018 (€)	10,839
10 Year US Treasury Note Sep 2013 ^[a]	10,766
Germany (Federal Republic of) 2.25% 2021 (€)	8,807
US Treasury 1.75% 2022 (\$)	6,647
Italy (Republic of) 5.5% 2022 (€)	4,968
Germany (Federal Republic of) 5.5% 2031 (€)	4,856
Germany (Federal Republic of) 6.25% 2024 (€)	3,724
Germany (Federal Republic of) 1.5% IL 2016 (€)	3,709
US Treasury 2% 2022 (\$)	3,631
Italy (Republic of) 4.75% 2017 (€)	3,542
Germany (Federal Republic of) 2.5% 2044 (€)	3,389
US Treasury 1.75% 2022 (\$)	3,041
Italy (Republic of) 4.5% 2019 (€)	2,970
Germany (Federal Republic of) 4.75% 2034 (€)	2,436
Sweden (Kingdom Of) 3.5% IL 2022 (SEK)	2,392
US Treasury 0.5% IL 2015 (\$)	2,111
Germany (Federal Republic of) 1.75% IL 2020 (€)	1,865
Northern Trust Global Fund - Sterling ^[b]	17,386
Other sales	15,094
Total sales	185,365

^[a] Purchases and sales of Futures have been included at the value of their exposure.

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

FINANCIAL STATEMENTS

For the year ended 30 June 2013.

STATEMENT OF TOTAL RETURN

Note	2013		2012	
	£'000	£'000	£'000	£'000
Income				
Net capital (losses) / gains	3	(1,347)		4,023
Revenue	4	1,416	1,628	
Expenses	5	(934)	(802)	
Finance costs: Interest	12	(1)	(4)	
Net revenue before taxation		481	822	
Taxation	6	(2)	0	
Net revenue after taxation		479	822	
Total return before distributions		(868)	4,845	
Finance costs: Distributions	12	(479)	(822)	
Change in net assets attributable to shareholders from investment activities		(1,347)	4,023	

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2013		2012	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		78,906		37,095
Amounts received on issue of shares	29,993		53,565	
Amounts paid on cancellation of shares	(43,664)		(16,366)	
		(13,671)		37,199
Change in net assets attributable to shareholders from investment activities (see above)		(1,347)		4,023
Retained distributions on Accumulation shares		266		589
Closing net assets attributable to shareholders		64,154		78,906

M&G International Sovereign Bond Fund

FINANCIAL STATEMENTS

BALANCE SHEET

	as at 30 June 2013		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		64,038		78,122
Debtors				
Amounts receivable on issues	61		42	
Currency deals outstanding	697		0	
Debt security interest receivable	647		533	
Overseas tax recoverable	15		18	
		1,420		593
Cash and bank balances				
Amounts held at futures clearing houses and brokers	1		0	
Cash held as bank balances	1,365		1,269	
		1,366		1,269
Total other assets		2,786		1,862
Total assets		66,824		79,984
Liabilities				
Investment liabilities		(1,100)		(29)
Creditors				
Amounts payable on cancellations	(734)		0	
Currency deals outstanding	(699)		0	
Expenses payable	(54)		(66)	
Income tax payable	(46)		(88)	
Net distributions payable on Income shares	(37)		(94)	
Purchases awaiting settlement	0		(801)	
		(1,570)		(1,049)
Total liabilities		(2,670)		(1,078)
Net assets attributable to shareholders		64,154		78,906

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 28 June 2013, being the last business day of the financial year. The fair value of non-derivative securities is bid price, excluding any accrued interest; the fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles; and the fair value of exchange traded futures is the cost of closing out the contract at the balance sheet date. Over the counter credit default swaps are valued by Markit Valuations Limited, an independent credit derivative price provider.

c) Investment gains and losses

Gains and losses, including exchange differences, on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date, including unrealised exchange differences, are treated as capital.

d) Exchange rates

Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into Sterling at the rate of exchange ruling as at 12 noon on 28 June 2013, being the last business day of the financial year.

e) Derivative financial instruments

The treatment of the returns on forward currency contracts and derivative contracts depend upon the nature of the transaction. Both motive and circumstances are used to determine whether the returns should be treated as capital or revenue. Where positions are undertaken to protect or enhance capital, and the circumstances support this, the returns are recognised in net capital (losses) / gains; similarly where the motives and circumstances are to generate or protect revenue, and the circumstances support this, the returns are included within net revenue before taxation. Where positions generate total returns it will generally be appropriate to apportion such returns between capital and revenue to properly reflect the nature of the transaction.

f) Interest and distribution income

Interest on debt securities is recognised on an accruals basis, taking into account the effective yield on the investment and is treated as revenue. The effective yield basis amortises any discount or premium on the purchase of an investment over its remaining life based on estimated future cashflows. Any adjustments resulting from changes in cashflow estimates are treated as capital.

Distributions from collective investment schemes are recognised net of attributable tax credits when the security is quoted ex-distribution and are treated as revenue.

Bank interest is recognised on an accruals basis and treated as revenue.

g) Expenses

All expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

h) Apportionment of income and expenses to multiple share classes

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

i) Taxation

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

M&G International Sovereign Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

j) Deferred taxation

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

k) Distribution policy

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook

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

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk, interest rate risk and currency risk in relation to the investment portfolio. The Prospectus permits the sub-fund to use derivative instruments to hedge against medium and long-term risk.

Short-term foreign currency exposures are generally covered by short-dated currency contracts. Income arising in foreign currencies is generally converted into Sterling shortly after receipt and is not hedged in advance of receipt.

The sub-fund holds overseas investments and exchange rate fluctuations can affect both capital and income values. During the year it has been the policy to hedge some of the investment portfolio against currency movements through the use of forward currency contracts.

The ACD considers the credit rating, yield and maturity of each security, in order to ensure that the yield fully reflects any perceived risk. The capital value of investments within the sub-fund will fall in the event of the default or perceived increased credit risk of an issuer.

The capital value of investments within the sub-fund may also be affected by interest rate fluctuations such that when interest rates rise, the capital value of investments is likely to fall and vice versa. The effect will be more apparent on funds which invest in long-dated securities, such as this sub-fund.

The sub-fund may undertake transactions in derivatives both on exchange and over the counter (OTC). These may include credit default swaps, options, contracts for differences and interest rate futures for the purposes of meeting the investment objective and protecting the risk to capital, duration and credit management, as well as for hedging. Although the fund manager will select the counterparties with which it enters into derivative transactions with due skill and care, there will be residual risk that the counterparty may default on its obligations or become insolvent. The use of these instruments may expose the sub-fund to volatile investment returns and increase the volatility of the net asset value of the sub-fund. All derivative positions are disclosed separately in the portfolio statement.

Credit default swaps are bought and sold in response to detailed credit research to take advantage of anticipated movements in credit spreads on individual stocks and baskets of securities. When the sub-fund buys a credit default swap the default risk associated with the underlying security transfers to the counterparty. Conversely when the sub-fund sells a credit default swap the sub-fund assumes the credit risk of the underlying security. The selling of credit default swaps could expose the sub-fund to credit default risk. The sub-fund will contain a sufficient spread of investment grades of holdings to mitigate potential exposure to credit default risk.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise a sufficient number of securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 127, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.12: same).

3 Net capital (losses) / gains

	2013 £'000	2012 £'000
Non-derivative securities	1,506	2,554
Derivative contracts	295	6
Forward currency contracts	(2,732)	1,381
Currency (losses) / gains	(411)	83
Transaction charges	(5)	(1)
Net capital (losses) / gains	(1,347)	4,023

M&G International Sovereign Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

4 Revenue

	2013 £'000	2012 £'000
Bank interest	0	1
Derivative income	(288)	0
Interest distributions	1	1
Interest on debt securities	1,702	1,621
Premium from credit default swaps	1	5
Total revenue	1,416	1,628

5 Expenses

	2013 £'000	2012 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	793	673
Administration fee	121	101
	914	774
Payable to the Depository or associate		
Depository's fee (including VAT)	7	6
Other expenses		
Audit fee (including VAT)	10	10
Regulatory fees	2	3
Safe custody charge	0	9
Tax consultancy fees (including VAT) ^[a]	1	0
	13	22
Total expenses	934	802

[a] Fees paid to overseas firms affiliated with PricewaterhouseCoopers LLP.

6 Taxation

	2013 £'000	2012 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Overseas tax	2	0
Current tax charge (note 6b)	2	0
Deferred tax (note 6c)	0	0
Total taxation	2	0
b) Factors affecting taxation charge for the year		
Net revenue before taxation	481	822
Corporation tax at 20%	96	164
Effects of:		
Interest distributions	(96)	(164)
Overseas tax	2	0
Current tax charge (note 6a)	2	0
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund does not have an unrecognised deferred tax asset at the year end (30.06.12: same).

Interest distributions have been made in respect of all distributions during the current and preceding years. Income tax at 20% will be accounted for on shareholders' behalf to HM Revenue & Customs where applicable.

7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.12: same).

8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in net assets attributable to shareholders and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's (ACD's) periodic charge and administration fee are disclosed in note 5. Amounts due at the year end to the ACD of £41,000 (30.06.12: £47,000), in respect of the ACD's periodic charge and administration fees are included within expenses payable as disclosed in the balance sheet.

At the balance sheet date, there were no material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary. (30.06.12: holdings totalling 11.29% of the sub-fund's shares).

9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.12: same).

Currency exposure

The currency profile of the sub-fund's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other assets / (liabilities)		Total	
	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000
Canadian dollar	7,707	4,770	18	20	7,725	4,790
Chilean peso	925	937	20	19	945	956
Chinese yuan	0	3,934	0	0	0	3,934
Colombian peso	(47)	0	0	0	(47)	0
Danish krone	5,143	6,145	86	101	5,229	6,246
Euro	14,528	(679)	307	217	14,835	(462)
Japanese yen	1,435	23,279	4	5	1,439	23,284
Malaysian ringgit	(87)	0	0	0	(87)	0
Mexican peso	1,157	1,570	3	5	1,160	1,575
Norwegian krone	8,834	9,969	21	23	8,855	9,992
Peruvian nouveau sol	(161)	0	0	0	(161)	0
South Korean won	(45)	0	0	0	(45)	0
Swedish krona	12,195	4,689	131	58	12,326	4,747
Swiss franc	0	0	15	20	15	20
Thailand baht	(69)	0	0	0	(69)	0
US dollar	11,614	23,479	1,459	551	13,073	24,030
	63,129	78,093	2,064	1,019	65,193	79,112
Sterling	(191)	0	(848)	(206)	(1,039)	(206)
Total	62,938	78,093	1,216	813	64,154	78,906

M&G International Sovereign Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

9 Financial instruments (continued)

Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000
Canadian dollar	0	0	7,735	9,167	7,735	9,167
Chilean peso	0	0	925	937	925	937
Chinese yuan	0	(29)	0	0	0	(29)
Danish krone	0	0	5,143	6,145	5,143	6,145
Euro	4,403	0	10,255	22,898	14,658	22,898
Japanese yen	1	251	816	2,062	817	2,313
Mexican peso	0	0	1,192	2,784	1,192	2,784
Norwegian krone	0	0	8,871	9,969	8,871	9,969
Sterling	18	0	0	0	18	0
Swedish krona	0	0	12,227	4,689	12,227	4,689
US dollar	6,035	2,197	5,250	18,292	11,285	20,489
Total	10,457	2,419	52,414	76,943	62,871	79,362

	Weighted average gross interest rate of fixed interest-bearing assets		Weighted average period for which interest rates are fixed ^[a]	
	as at 30.06.13 %	as at 30.06.12 %	as at 30.06.13 years	as at 30.06.12 years
Canadian dollar	2.32	1.58	10.10	9.89
Chilean peso	5.21	4.55	8.10	8.10
Danish krone	1.51	1.44	9.38	9.38
Euro	2.26	1.05	18.57	8.06
Japanese yen	0.47	0.68	7.49	9.32
Mexican peso	6.55	5.50	16.93	10.05
Norwegian krone	2.55	2.11	10.49	10.42
Swedish krona	2.18	1.12	11.99	16.17
US dollar	2.87	1.92	15.20	14.96

^[a] Assuming the earliest maturity date for those assets with variable maturity dates.

Floating rate interest-bearing assets at the balance sheet date consist of bank balances, on which interest is calculated at a variable rate by reference to Sterling bank deposit rates or the international equivalent; floating rate notes, on which interest is calculated at a variable rate by reference to the London Interbank Offered Rate (LIBOR) or the Euro Interbank Offered Rate (EURIBOR); and variable rate bonds (30.06.12: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.12: same).

Risk analysis

Our core method of estimating each sub-fund's overall risk position is to use value at risk based (VaR) techniques that enable us to measure each sub-fund's sensitivity to core market risk factors such as credit and interest rates. VaR is a technique used to estimate the probability of portfolio losses based on the statistical analysis of historical price trends and volatilities.

The MAGIM risk model for VaR production was originally created in 2001 utilising the Algorithmics RiskWatch software, a market leading risk solution. From the variance / covariance matrices, a parametric Monte Carlo scenario set of 5,000 simulations is derived and applied to the M&G International Sovereign Bond Fund.

The key assumption within the variance / covariance matrix is the exponential weighted moving average approach that utilises a decay factor of 0.94 thereby weighting more recent data history with a higher significance.

The VaR analysis for the M&G International Sovereign Bond Fund is produced on a daily basis. Market risk factors that are analysed include LIBOR / swap rates, government yield curves, equity prices, foreign exchange rates, market volatility and credit spreads.

With a statistical level of confidence of 99%, the VaR model suggests that the potential loss incurred could be £3,125,600 over the next 30 days from the balance sheet date, 30 June 2013.

Please note, the market risk information is a relative estimate of risk rather than a precise and accurate number. The model is based on historical data and cannot take account of the fact that future market price movements, correlations between markets and levels of market liquidity in conditions of market stress may bear no relation to historical patterns.

10 Portfolio transaction costs

	2013 £'000	2012 £'000
a) Purchases		
Total purchases including transaction costs ^[a]	169,240	147,166
b) Sales		
Total sales net of transaction costs ^[a]	185,365	108,801

^[a] Purchases and sales of Futures have been included at the value of their exposure.

There were no significant transaction costs during the year (2012: same).

M&G International Sovereign Bond Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares, Sterling Class 'I' (Net Income and Net Accumulation) shares and Sterling Class 'R' (Net Income and Net Accumulation) shares.

The charging structure for each share class, as at 30 June 2013, is set out in the following table (30.06.12: same):

CHARGES AND EXPENSES

	Initial charge %	Withdrawal fee %	ACD's annual remuneration %
Sterling			
Class 'A'	nil	n/a	1.00
Class 'I' ^[a]	1.00	n/a	0.50
Class 'R' ^[a]	1.00	n/a	0.75

^[a] With effect from 3 August 2012, the launch date of the Sterling Class 'I' and Sterling Class 'R' share classes.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.13		30.06.12	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	14,987	44,177	20,637	58,269
Class 'I'	642	4,011	n/a	n/a
Class 'R'	269	68	n/a	n/a

The net asset value per share and the number of shares are given in the net assets table on page 94. The distribution per share is given in the distribution table on page 102. Each share class has the same rights on winding-up.

12 Finance costs

	2013 £'000	2012 £'000
Income shares (Sterling)		
Class 'A' - Interim	54	96
- Final	34	94
Class 'I' - Interim ^[a]	0	n/a
- Final	2	n/a
Class 'R' - Interim ^[b]	0	n/a
- Final	1	n/a
Accumulation shares (Sterling)		
Class 'A' - Interim	140	324
- Final	102	265
Class 'I' - Interim	5	n/a
- Final	19	n/a
Class 'R' - Interim ^[c]	0	n/a
- Final ^[c]	0	n/a
	357	779
Income tax deducted at source	96	164
Finance costs: Interest distributions	453	943
Income deducted on cancellation of shares	74	35
Income received on issue of shares	(48)	(156)
Finance costs: Distributions	479	822
Finance costs: Interest	1	4
Total finance costs	480	826
Net revenue per statement of total return	479	822
Undistributed income brought forward	1	1
Undistributed income carried forward	(1)	(1)
Finance costs: Distributions	479	822

^[a] The interim distribution for Sterling Class 'I' (Income) shares was £147.

^[b] The interim distribution for Sterling Class 'R' (Income) shares was £4.

^[c] The total distribution for Sterling Class 'R' (Accumulation) shares was £270.

M&G International Sovereign Bond Fund

FINANCIAL STATEMENTS

DISTRIBUTION TABLE

Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equal- isation	Distribution paid/payable	
					2013	2012
Sterling	p	p	p	p	p	p
Class 'A' - Interim						
Group 1:	0.2550	0.0510	0.2040	-	0.2040	0.4420
Group 2:	0.0674	0.0135	0.0539	0.1501	0.2040	0.4420
- Final						
Group 1:	0.2375	0.0475	0.1900	-	0.1900	0.3840
Group 2:	0.1198	0.0240	0.0958	0.0942	0.1900	0.3840
Class 'I' - Interim						
Group 1:	4.1700	0.8340	3.3360	-	3.3360	n/a
Group 2:	1.2465	0.2493	0.9972	2.3388	3.3360	n/a
- Final						
Group 1:	3.9765	0.7953	3.1812	-	3.1812	n/a
Group 2:	2.6008	0.5202	2.0806	1.1006	3.1812	n/a
Class 'R' - Interim						
Group 1:	0.4425	0.0885	0.3540	-	0.3540	n/a
Group 2:	0.4425	0.0885	0.3540	-	0.3540	n/a
- Final						
Group 1:	0.4240	0.0848	0.3392	-	0.3392	n/a
Group 2:	0.1465	0.0293	0.1172	0.2220	0.3392	n/a

Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equal- isation	Amount reinvested	
					2013	2012
Sterling	p	p	p	p	p	p
Class 'A' - Interim						
Group 1:	0.3245	0.0649	0.2596	-	0.2596	0.5840
Group 2:	0.0780	0.0156	0.0624	0.1972	0.2596	0.5840
- Final						
Group 1:	0.3100	0.0620	0.2480	-	0.2480	0.4908
Group 2:	0.1180	0.0236	0.0944	0.1536	0.2480	0.4908
Class 'I' - Interim						
Group 1:	4.2370	0.8474	3.3896	-	3.3896	n/a
Group 2:	3.3701	0.6740	2.6961	0.6935	3.3896	n/a
- Final						
Group 1:	5.6275	1.1255	4.5020	-	4.5020	n/a
Group 2:	2.4801	0.4960	1.9841	2.5179	4.5020	n/a
Class 'R' - Interim						
Group 1:	0.4425	0.0885	0.3540	-	0.3540	n/a
Group 2:	0.4425	0.0885	0.3540	-	0.3540	n/a
- Final						
Group 1:	0.4690	0.0938	0.3752	-	0.3752	n/a
Group 2:	0.1229	0.0246	0.0983	0.2769	0.3752	n/a

Interim period 01.07.12 - 31.12.12

Final period 01.01.13 - 30.06.13

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2). It is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes.

M&G Recovery Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G Recovery Fund

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 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.

* Please note that this 'Risk and reward profile' section is based on Sterling Class 'A' shares, the nominated share class.

INVESTMENT REVIEW

As at 1 July 2013, for the year ended 30 June 2013

Factors affecting performance

The recovery strategy has faced some headwinds over the past year, with the rally in the stockmarket being driven by companies seen as 'safe havens', whose profits are more predictable in the short term. By way of contrast, businesses with an uncertain outlook have been side-lined and those that have disappointed investors have seen their shares sold unceremoniously. Furthermore, many smaller companies and those whose shares are less actively traded have been ignored. Our approach depends on investing while companies are facing uncertainty. These firms are often in the early stages of

rebuilding their plans and, while the recovery strategy has proven highly rewarding over the long term, the occasional disappointment is to be expected and patience is required.

Despite several of the fund's holdings enjoying very positive share price movement, weakness in the share price of some specific stocks was the main detractor to returns. This unsuccessful stock selection was most noticeable among oil & gas and basic materials producers, where a number of the portfolio's larger positions experienced setbacks to their plans.

For instance, Tullow Oil, which in the past has regularly been a major contributor to performance, announced various disappointing drilling results. Since the company has such a strong exploration record, this caused the shares to fall back from their premium rating. We remain confident that the group can generate value for the fund by increasingly deploying cash from the sale of its more mature assets into developing areas such as Kenya and Ethiopia. In the same sector, the stake in African Petroleum lost ground as well.

Within basic materials, some of the companies we have backed experienced commissioning problems that caused delays in rolling out planned production increases. This included Kenmare Resources, which extracts mineral sands from the Moma Mine in Mozambique, African Minerals, an iron ore miner in Sierra Leone, and Coal of Africa, which operates mines in South Africa. We have engaged extensively with the management teams of these businesses and are confident that the issues are temporary and surmountable. Indeed, African Minerals achieved its target export run rate of an annualised 20 million tonnes of iron ore in June 2013. Our avoidance of the largest mining stocks, which we see as plays on economic rather than corporate improvement, offset this stock-specific weakness to some extent.

Away from basic materials, Imagination Technologies announced that delays in the signing of licensing agreements would reduce earnings in the short term. We have had a number of meetings with Imagination's management and remain convinced that the great strides they are making will be rewarded in due course.

We are very encouraged by the returns that have been generated by our holdings whose turnaround can be seen to be taking place. The star performer over the past year was Easyjet, where we have worked closely with new management to understand and support their efforts to turn around the business. This has focused on capital discipline, cash generation and improving the reliability of the Easyjet network for passengers. The group has now entered the FTSE 100 Index, bringing it to the attention of a broader investor base. Other successes include Pace, which is seeing the benefits of the strategic plans of a new management team, and Regus, a long-standing holding that is finally being re-rated following impressive operational progress.

One of the themes we have discussed before is 'latent value', where, in our opinion, other investors fail to give companies credit for the potential worth of their businesses. We experienced an instance of such value being realised when engineering technology conglomerate Invensys agreed to sell its rail division, which generated around a third of the group's profits, for a price almost as great as the market value of the whole business. We saw this as one of the best business deals for a long time, enabling the company to refinance its troublesome pension scheme, improve its balance sheet and pay a large special dividend to shareholders^[a]. Since the end of the review period, Invensys has received a takeover approach, encouraging further strength in the share price.

M&G Recovery Fund

INVESTMENT REVIEW

Factors affecting performance (continued)

Given the improvement in many companies' balance sheets in recent years, we expect merger and acquisition (M&A) activity to pick up from the present remarkably low levels. While we do not invest in a company to give away potential upside to someone else, the fund has benefited from a vibrant M&A environment in the past and would be expected to gain both directly and indirectly if takeovers were to become more widespread again in the future.

Changes to the portfolio

For the past five years or more, we have had serious concerns about UK banks. Many of these companies expanded aggressively before the global financial crisis and appeared to be run for the benefit of their management rather than shareholders. The repercussions have been savage and well documented. However, time has now passed and circumstances are changing for the better. The management and strategies of these businesses have been forced to adjust; improving their financial positions and reintroducing an emphasis on shareholder value. We have, therefore, cautiously started to rebuild our holdings in the sector and made purchases of shares in Lloyds Banking Group and Royal Bank of Scotland. The holding in HSBC was also increased. We continue to monitor events in the sector carefully.

Over the period, we introduced a number of other recovery candidates, including Entertainment One, a film and TV company, where we assisted the financing of the acquisition of a Canadian rival, and Enterprise Inns, a pub company that is restructuring by rationalising its portfolio and reducing its onerous debt levels. We also took stakes in Balfour Beatty, an international contractor that has suffered a series of profit warnings, and defence company QinetiQ.

Elsewhere, we added to existing stakes in Aviva, Kingspan and C&C and supported fund raising exercises by Carphone Warehouse, Mesoblast and Severfield-Rowen, amongst others.

In terms of disposals, we realised long-standing successful holdings in Vodafone, Croda International, Rolls-Royce and Johnson Matthey. These had all been excellent investments for the fund but their recovery process was complete. We also trimmed positions in Royal Dutch Shell, DCC, Compass and Unilever as their valuations improved, in order to reinvest in new opportunities.

When we invest in a company we hope to form a supportive partnership with the management. Our business is normally done in private, avoiding exposure in the press. In June 2013, however, following growing concerns regarding the corporate governance of one of our holdings, Gulf Keystone Petroleum, a £1.5 billion AIM-listed oil producer, where we own around 5% of the company, we took the unusual step of nominating four independent non-executive directors to the Board. This proved a contentious, but ultimately successful process, when shareholders approved the appointments by a large majority at the recent annual general meeting. We are hopeful that Gulf Keystone's corporate governance will now be improved considerably, thereby leading to better returns to all shareholders in due course.

Outlook

In managing the M&G Recovery Fund we are emphatically long-term investors and this has been the case since the fund's launch in 1969. The average holding period of the current portfolio is more than six years, though we will often remain invested for much longer. We believe this provides a sensible antidote to the desperate short-termism that is now rife among investors. In our view, stockmarkets are very good at assimilating data, but often hopeless at understanding strategic value.

It is important to note that, while we understand the recent performance of the fund, when compared to the broader stockmarket, has been somewhat disappointing, we do not believe it would be in our customers' interests to change our investment process. Although we have been hit hard by several short-term challenges, we are convinced that the longer term strategy of recovery investing remains valid and we hope that our investors will be comforted that we are not changing our approach to chase short-term gains.

We are working very hard to ensure that performance improves, engaging actively with the struggling businesses in the fund. In the vast majority of cases, we have been reassured that the problems are temporary and our investment is sound. Where appropriate, we have supported companies with additional financing to get them through a difficult period while, in others, we have taken the opportunity to increase our stake.

We are confident that the new recovery candidates we have identified, together with our existing holdings, will generate substantial rewards for patient investors over the coming years. Although the past year has been frustrating, we are convinced that the value we currently see in the portfolio is a genuine opportunity for long-term investors.

Tom Dobell

Fund manager

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

[a] 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.

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

FUND STATISTICS

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

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.01.14	28.02.14
Final	01.07.14	31.08.14

	Final distribution		Ongoing Charges Figure ^[b]	
	Inc 31.08.13 ^[a]	Acc 01.07.13 ^[a]	30.06.13	30.06.12
Sterling	p	p	%	%
Class 'A'	0.6973	1.5305	1.65	1.65
Class 'C'	1.6548	4.0870	0.15	0.16
Class 'I'	1.1510	2.5817	0.97	1.01
Class 'R'	0.9181	0.9277	1.16 ^[c]	n/a
Class 'X'	0.7050	1.5173	1.65	1.65
Euro	¢	¢	%	%
Class 'A'	n/a	12.2612	1.65	1.65
Class 'C'	n/a	22.6093	0.90	0.90

^[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.

^[c] The Ongoing Charges Figure shown here is an estimate of the charges, as the share class has not been in existence for a full financial year.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.13		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	124.98	276.43	112.63	246.89	+10.97	+11.96
Class 'C'	125.30	314.19	112.90	276.45	+10.98	+13.65
Class 'I'	124.92	282.76	112.56	250.86	+10.98	+12.72
Class 'R'	107.43	109.02	n/a	n/a	n/a	n/a
Class 'X'	125.80	273.53	113.37	244.30	+10.96	+11.96
Euro	€	€	€	€	%	%
Class 'A'	n/a	22.6536	n/a	21.5301	n/a	+5.22
Class 'C'	n/a	24.5673	n/a	23.1723	n/a	+6.02

PERFORMANCE SINCE LAUNCH

	six months 02.01.13 %	one year 02.07.12 %	five years 01.07.08 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+3.4	+10.5	+5.5	+12.3 ^[c]
Class 'C'	+3.3	+10.5	+5.5	+8.9 ^[d]
Class 'I'	+3.3	+10.5	n/a	+4.9 ^[e]
Class 'R'	+3.3	n/a	n/a	+8.2 ^[f]
Class 'X'	+3.3	+10.5	+5.5	+10.3 ^[g]
Euro ^[h]				
Class 'A'	-1.4	+4.8	+5.0	+8.1 ^[i]
Class 'C'	-1.0	+5.6	+5.8	+8.9 ^[i]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid excluding reinvested income.

^[c] 23 May 1969, the end of the initial offer period of the predecessor unit trust.

^[d] 1 July 2004, the launch date of the share class.

^[e] 15 January 2010, the launch date of the share class.

^[f] 3 August 2012, the launch date of the share class. Not annualised.

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

^[h] Bid to bid with net income reinvested.

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

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

	29.06.12	30.06.11	30.06.10	30.06.09	30.06.08
From	29.06.12	30.06.11	30.06.10	30.06.09	30.06.08
To	28.06.13	29.06.12	30.06.11	30.06.10	30.06.09
	%	%	%	%	%
Sterling					
Class 'A'	+10.4	-4.8	+26.9	+19.2	-15.2

Source: Morningstar, Inc., bid to bid with net income reinvested.

M&G Recovery Fund

FUND STATISTICS

PRICES					
	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008	107.47	64.65	222.36	135.13
	2009	104.61	65.00	222.95	137.00
	2010	120.36	94.33	259.17	203.12
	2011	125.29	100.47	271.43	217.66
	2012	125.81	111.03	273.50	241.33
	2013 ^[a]	135.57	120.37	298.17	264.74
Class 'C'	2008	108.30	65.08	234.05	143.19
	2009	105.57	65.24	240.44	145.96
	2010	121.48	94.50	283.75	220.73
	2011	125.66	101.13	299.49	241.03
	2012	126.53	111.85	304.89	269.53
	2013 ^[a]	136.73	120.70	338.37	298.72
Class 'I'	2010 ^[b]	120.65	94.25	260.78	203.72
	2011	125.25	100.59	274.03	220.09
	2012	125.91	111.25	277.36	245.02
	2013 ^[a]	135.87	120.32	304.78	269.89
Class 'R'	2012 ^[c]	105.94	98.72	105.94	98.72
	2013 ^[a]	116.81	103.52	117.54	104.16
Class 'X'	2008	108.18	65.07	220.01	133.71
	2009	105.29	65.42	220.60	135.56
	2010	121.15	94.95	256.44	200.98
	2011	126.11	101.13	268.58	215.37
	2012	126.63	111.75	270.63	238.79
	2013 ^[a]	136.46	121.16	295.04	261.96
Euro (net)		€	€	€	€
Class 'A'	2008	n/a	n/a	20.8520	11.1171
	2009	n/a	n/a	17.5926	10.6446
	2010	n/a	n/a	21.3619	16.9549
	2011	n/a	n/a	22.3331	17.7338
	2012	n/a	n/a	23.4642	20.6102
	2013 ^[a]	n/a	n/a	24.4681	22.1481
Class 'C'	2008	n/a	n/a	21.6914	11.6554
	2009	n/a	n/a	18.5839	11.1762
	2010	n/a	n/a	22.7316	17.9250
	2011	n/a	n/a	23.7748	18.9651
	2012	n/a	n/a	25.2971	22.1026
	2013 ^[a]	n/a	n/a	26.5136	23.9826

^[a] To 1 July 2013.

^[b] From 15 January 2010 (the launch date of the share class).

^[c] From 3 August 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 price of shares and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

Dividend income per share					
	Calendar year	Interim	Distributed	Total	Reinvested
			Final		
Sterling (net)		p	p	p	p
Class 'A'	2008	0.2950	0.9750	1.2700	2.6261
	2009	0.6340	0.8990	1.5330	3.2202
	2010	0.4230	0.5840	1.0070	2.1512
	2011	0.0680	0.6710	0.7390	1.5920
	2012	0.3690	0.9610	1.3300	2.8833
	2013 ^[a]	0.4190	0.6973	1.1163	2.4526
Class 'C'	2008	1.0880	1.7270	2.8150	6.0596
	2009	1.2620	1.4630	2.7250	6.0495
	2010	1.1460	1.3590	2.5050	5.7392
	2011	0.8930	1.5780	2.4710	5.7987
	2012	1.2090	1.8500	3.0590	7.3383
	2013 ^[a]	1.3190	1.6548	2.9738	7.3176
Class 'I'	2010	n/a	0.9430	0.9430	2.0180
	2011	0.4250	1.0610	1.4860	3.2199
	2012	0.7310	1.3390	2.0700	4.5318
	2013 ^[a]	0.8070	1.1510	1.9580	4.3817
Class 'R'	2013 ^[a]	0.6450	0.9181	1.5631	1.5714
Class 'X'	2008	0.3080	0.9950	1.3030	2.6481
	2009	0.6420	0.9040	1.5460	3.1924
	2010	0.4260	0.5850	1.0110	2.1233
	2011	0.0720	0.6750	0.7470	1.5820
	2012	0.3710	0.9620	1.3330	2.8500
	2013 ^[a]	0.4230	0.7050	1.1280	2.4272
Euro (net)		¢	¢	¢	¢
Class 'A'	2008	n/a	n/a	n/a	23.3520
	2009	n/a	n/a	n/a	25.0230
	2010	n/a	n/a	n/a	17.8630
	2011	n/a	n/a	n/a	12.2330
	2012	n/a	n/a	n/a	24.8020
	2013 ^[a]	n/a	n/a	n/a	20.1671
Class 'C'	2008	n/a	n/a	n/a	39.8380
	2009	n/a	n/a	n/a	36.6990
	2010	n/a	n/a	n/a	32.6860
	2011	n/a	n/a	n/a	28.9480
	2012	n/a	n/a	n/a	43.6873
	2013 ^[a]	n/a	n/a	n/a	40.2452

^[a] Up to final: ex-distribution date 1 July 2013; payment date 31 August 2013.

M&G Recovery Fund

FUND STATISTICS

NET ASSETS					
	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling					
Class 'A'	Jun 2011	119.97	259.89	1,273,643,677	1,245,994,043
	Jun 2012	112.63	246.89	1,242,005,677	1,262,807,043
	Jun 2013	124.98	276.43	885,784,177	1,098,157,243
Class 'C'	Jun 2011	120.27	286.65	327,708,955	68,694,669
	Jun 2012	112.90	276.45	168,073,911	418,749,201
	Jun 2013	125.30	314.19	123,474,411	375,857,201
Class 'I'	Jun 2011	119.90	262.33	154,789,000	11,414,500
	Jun 2012	112.56	250.86	272,921,000	36,743,500
	Jun 2013	124.92	282.76	282,235,500	80,327,000
Class 'R'	Jun 2013	107.43	109.02	1,532,000	1,854,600
Class 'X'	Jun 2011	120.75	257.17	130,256,176	205,292,365
	Jun 2012	113.37	244.30	129,783,176	206,084,365
	Jun 2013	125.80	273.53	122,679,176	178,450,865
Euro					
		€	€		
Class 'A'	Jun 2011	n/a	20.2070	n/a	8,404,137
	Jun 2012	n/a	21.5301	n/a	8,299,237
	Jun 2013	n/a	22.6536	n/a	3,276,037
Class 'C'	Jun 2011	n/a	21.5853	n/a	23,835,290
	Jun 2012	n/a	23.1723	n/a	19,380,590
	Jun 2013	n/a	24.5673	n/a	8,776,490
Total net asset value of sub-fund					
	Year ended	£		€ [a]	
	Jun 2011	6,876,905,000		7,604,674,000	
	Jun 2012	7,420,109,000		9,203,206,000	
	Jun 2013	6,952,746,000		8,104,390,000	

[a] Based on the midday exchange rate on the last business day of each financial year.

PORTFOLIO

PORTFOLIO STATEMENT

as at 30 June 2013			
Holding	Value £'000	30.06.13 %	30.06.12 %
Oil & gas producers		15.11	17.72
107,746,651 African Petroleum	8,167	0.12	
100,000,000 BP	452,750	6.51	
13,200,000 Royal Dutch Shell 'B'	287,694	4.14	
23,983,178 Tap Oil	6,689	0.10	
18,500,000 Tullow Oil	187,220	2.69	
15,262,450 Zhaikmunai GDR	107,915	1.55	
Oil equipment, services & distribution		0.98	1.57
16,125,192 Cape	38,821	0.56	
4,000,000 Hunting	29,420	0.42	
Alternative energy		0.24	0.10
6,080,987 Porvair	16,419	0.24	
Chemicals		0.00	2.73
Industrial metals & mining		1.75	2.00
12,750,000 First Quantum Minerals	121,775	1.75	
Mining		2.55	5.03
11,562,000 Great Eastern Energy GDR	28,327	0.41	
409,500,000 Kenmare Resources	101,679	1.46	
30,000,000 Petra Diamonds	33,780	0.49	
30,960,000 St Barbara	8,354	0.12	
55,536,586 White Energy Company	5,051	0.07	
Construction & materials		1.90	0.83
10,000,000 Balfour Beatty	24,060	0.35	
12,500,000 Kingspan Group	107,774	1.55	
Aerospace & defence		2.93	3.61
31,000,000 Cobham	82,305	1.18	
18,000,000 Meggitt	93,690	1.35	
15,306,785 QinetiQ Group	27,843	0.40	
General industrials		2.17	1.50
11,500,000 Smiths Group	150,535	2.17	
Electronic & electrical equipment		0.87	0.91
14,930,398 Morgan Advanced Materials (formerly Morgan Crucible)	38,729	0.56	
16,245,254 Silix Systems	21,474	0.31	
Industrial engineering		0.36	0.32
22,810,871 Renold	6,216	0.09	
39,580,140 Severfield-Rowen	18,603	0.27	
Industrial transportation		0.90	1.69
38,726,760 Stobart Group	33,789	0.49	
5,389,325 UK Mail Group	28,186	0.41	
Support services		7.90	6.52
6,000,000 Aggreko	98,880	1.42	
4,000,000 DCC	102,920	1.48	
10,000,000 De La Rue	94,650	1.36	
29,400,278 Homeserve	77,999	1.12	
24,626,894 Lavendon Group	41,927	0.60	
86,000,000 Regus	133,558	1.92	
Beverages		0.91	0.44
17,953,897 C&C Group	63,182	0.91	
Food producers		3.91	4.28
3,840,154 Glanbia	33,702	0.48	
6,408,630 REA Holdings	25,891	0.37	
8,000,000 Unilever	212,960	3.06	

M&G Recovery Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
Healthcare equipment & services			
3,814,928 Bioquell	4,959	0.07	
3,309,982 Synergy Health	37,006	0.53	
Pharmaceuticals & biotechnology			
34,000,000 BTG	123,998	1.78	
23,500,000 GlaxoSmithKline	384,695	5.53	
615,000 GW Pharmaceuticals ADR	3,513	0.05	
34,062,943 Mesoblast	109,468	1.57	
223,775,656 Oxford Biomedica	3,580	0.05	
Food & drug retailers			
56,632,500 Booker Group	68,639	0.99	
29,155,185 United Drug	90,323	1.30	
General retailers			
33,113,847 Carphone Warehouse	81,460	1.17	
20,025,156 Inchcape	100,326	1.44	
13,167,971 Mothercare	56,392	0.81	
Media			
14,000,000 British Sky Broadcasting Group	111,230	1.60	
33,333,333 Entertainment One	63,333	0.91	
Travel & leisure			
11,000,000 Compass Group	92,345	1.33	
16,000,000 easyJet	206,560	2.97	
35,980,383 Enterprise Inns	38,247	0.55	
37,480,931 National Express	84,032	1.21	
Mobile telecommunications			
Electricity			
14,747,835 KSK Power Ventur	56,042	0.81	
Gas, water & multi-utilities			
36,000,000 Centrica	129,996	1.87	
10,144,613 Pennon Group	64,875	0.93	
Banks			
60,000,000 HSBC Holdings	410,280	5.90	
250,000,000 Lloyds Banking Group	158,675	2.28	
22,500,000 Royal Bank of Scotland Group	61,875	0.89	
Non-life insurance			
8,181,970 Novae Group	39,028	0.56	
Life insurance			
33,000,000 Aviva	112,398	1.62	
22,000,000 Prudential	238,700	3.43	
Real estate investment & services			
Real estate investment trusts			
9,500,000 Land Securities Group	84,217	1.21	
Financial services			
95,869 Camellia	7,852	0.11	
Software & computer services			
35,065,127 Invensys	145,941	2.10	
Technology hardware & equipment			
23,000,000 Imagination Technologies Group	64,837	0.93	
40,000,000 Pace	97,640	1.40	

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
AIM quoted			
72,752,270 Advanced Computer Software	64,568	0.93	
36,011,085 African Minerals	68,601	0.99	
21,790,683 Avanti Communications	55,348	0.80	
154,553,963 Coal of Africa	17,001	0.24	
60,871,428 Corac Group	6,544	0.09	
7,845,158 Eco Animal Health	18,515	0.27	
20,107,125 Greenko Group	24,129	0.35	
45,000,000 Gulf Keystone Petroleum	63,787	0.92	
18,861,389 GW Pharmaceuticals	8,865	0.13	
16,000,000 iEnergizer	57,600	0.83	
12,423,000 Indus Gas	113,049	1.63	
57,538,948 Jubilee Platinum	3,308	0.05	
38,681,231 OPG Power Ventures	27,657	0.40	
38,048,599 Pursuit Dynamics	609	0.01	
4,421,122 Redhall Group	2,122	0.03	
101,732,791 Sierra Rutile	50,866	0.73	
82,116,122 SPARK Ventures	8,006	0.12	
28,915,850 Sylvania Platinum	2,819	0.04	
220,932,754 Toumaz	11,047	0.16	
44,113,908 Zambeef Products	18,969	0.27	
Unquoted / unlisted			
39,868,814 Alizyme ^[a]	0	0.00	
3,094,020 Izodia ^[b]	0	0.00	
'AAA' rated money market funds ^[c]			
38,301,000 Northern Trust Global Fund - Sterling	38,301	0.55	
Portfolio of investments (notes 1b & 1d on page 110)	6,947,107	99.92	99.94
Net other assets	5,639	0.08	0.06
Net assets attributable to shareholders	6,952,746	100.00	100.00

^[a] Suspended on 24 July 2009.

^[b] Suspended on 12 May 2009.

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

M&G Recovery Fund

PORTFOLIO

PORTFOLIO TRANSACTIONS

for the year ended 30 June 2013

Largest purchases	£'000
Lloyds Banking Group	136,166
Mesoblast	79,220
Royal Bank of Scotland Group	66,843
HSBC Holdings	53,623
Entertainment One	50,000
Enterprise Inns	38,801
iEnergizer	27,673
QinetiQ Group	26,757
Balfour Beatty	23,591
C&C Group	17,593
Aviva	17,364
Indus Gas	17,233
Severfield-Rowen	17,226
Carphone Warehouse	16,238
Zhaikmunai GDR	15,864
Homeserve	15,507
Cobham	12,846
African Minerals	11,620
Toumaz	11,000
BTG	10,856
Northern Trust Global Fund - Sterling ^[a]	849,467
Other purchases	63,968
Total purchases	1,579,456
Largest sales	£'000
National Grid	193,969
Vodafone Group	122,240
Croda International	111,329
Royal Dutch Shell 'B'	106,861
Johnson Matthey	103,569
Rolls-Royce Holdings	97,048
Compass Group	83,321
Unilever	79,652
GlaxoSmithKline	75,115
Groupe Eurotunnel	73,816
Glanbia	59,928
Hunting	58,432
Tullow Oil	55,671
easyJet	55,505
Meggitt	52,388
DCC	48,231
Land Securities Group	45,321
Inchcape	41,463
Centrica	35,434
AngloGold Ashanti	33,128
Northern Trust Global Fund - Sterling ^[a]	973,267
Other sales	286,307
Total sales	2,791,995

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

FINANCIAL STATEMENTS

For the year ended 30 June 2013.

STATEMENT OF TOTAL RETURN

	Note	2013 £'000	2012 £'000
Income			
Net capital gains / (losses)	3	779,296	(383,769)
Revenue	4	201,885	210,535
Expenses	5	(97,365)	(96,133)
Finance costs: Interest	12	(3)	0
Net revenue before taxation		104,517	114,402
Taxation	6	(637)	(381)
Net revenue after taxation		103,880	114,021
Total return before distributions		883,176	(269,748)
Finance costs: Distributions	12	(94,792)	(109,013)
Change in net assets attributable to shareholders from investment activities		788,384	(378,761)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2013 £'000	2012 £'000
Opening net assets attributable to shareholders	7,420,109	6,876,905
Amounts received on issue of shares	425,965	990,957
Value of in-specie investment from the M&G Specialist Equity Fund	0	735,001
Amounts paid on cancellation of shares	(1,746,468)	(882,479)
Stamp Duty Reserve Tax (SDRT)	(1,320,503)	843,479
Change in net assets attributable to shareholders from investment activities (see above)	(3,430)	(4,857)
Retained distributions on Accumulation shares	788,384	(378,761)
Unclaimed distributions	68,169	83,330
	17	13
Closing net assets attributable to shareholders	6,952,746	7,420,109

M&G Recovery Fund

FINANCIAL STATEMENTS

BALANCE SHEET

	as at 30 June 2013		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		6,947,107		7,415,537
Debtors				
Amounts receivable on issues	4,595		7,398	
Currency deals outstanding	113		86	
Distributions receivable	2		45	
Dividends receivable	20,425		36,779	
Overseas tax recoverable	21		17	
Prepaid expenses	0		1	
Sales awaiting settlement	14,962		688	
Tax recoverable	106		106	
		40,224		45,120
Cash and bank balances				
Cash held as bank balances	0		3,719	
		0		3,719
Total other assets		40,224		48,839
Total assets		6,987,331		7,464,376
Liabilities				
Creditors				
Amounts payable on cancellations	(16,674)		(14,144)	
Currency deals outstanding	(114)		(86)	
Expenses payable	(5,000)		(5,097)	
Net distributions payable on Income shares	(12,347)		(19,948)	
Purchases awaiting settlement	(171)		(4,650)	
SDRT payable	(279)		(342)	
Total liabilities		(34,585)		(44,267)
Net assets attributable to shareholders		6,952,746		7,420,109

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 28 June 2013, being the last business day of the financial year. The fair value of non-derivative securities is bid price. Where the sub-fund holds unquoted investments the Authorised Corporate Director (ACD) will use their discretion to determine the most appropriate valuation.

c) Investment gains and losses

Gains and losses, including exchange differences, on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date, including unrealised exchange differences, are treated as capital.

d) Exchange rates

Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into Sterling at the rate of exchange ruling as at 12 noon on 28 June 2013, being the last business day of the financial year.

e) Dividend and interest income

Dividends from quoted equity and non-equity shares are recognised net of attributable tax credits when the security is quoted ex-dividend.

Overseas dividends received after the deduction of withholding tax are shown gross of taxation, with the taxation consequences shown within the taxation charge.

Dividends are recognised as either revenue or capital depending upon the nature and circumstances of the dividend receivable.

Distributions from collective investment schemes are recognised net of attributable tax credits when the security is quoted ex-distribution and are treated as revenue.

Bank interest is recognised on an accruals basis and treated as revenue.

f) Stock dividends

The ordinary element of stocks received in lieu of cash dividends is recognised as revenue of the sub-fund. Any enhancement above the cash dividend is treated as capital.

g) Underwriting commission

This is treated as revenue and recognised when the issue takes place, except where the sub-fund is required to take up all or some of the shares underwritten, in which case the commission is deducted from the cost of these shares.

h) Expenses

All expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

i) Apportionment of income and expenses to multiple share classes

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

j) Taxation

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

M&G Recovery Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

k) Deferred taxation

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

l) Distribution policy

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue. Stock dividends do not form part of the distributable income.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

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

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk and currency risk in relation to the investment portfolio. Generally, the ACD will not seek to hedge this exposure since the ACD believes that, in the long term, such hedging would be detrimental to total return.

A proportion of the portfolio is quoted on the Alternative Investment Market (AIM) and the liquidity of these stocks cannot be guaranteed. The nature of AIM investments is such that prices can be volatile and realisations may not achieve current book value, especially when such sales represent a significant proportion of that company's market capital. Nevertheless, on the grounds that the investments are not intended for immediate realisation, we regard bid price as the most objective and appropriate method of valuation.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise a sufficient number of securities that can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 127, the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.12: same).

3 Net capital gains / (losses)

	2013 £'000	2012 £'000
Non-derivative securities	744,114	(397,039)
Currency losses	(481)	(204)
Special dividends taken to capital	35,671	13,641
Transaction charges	(8)	(167)
Net capital gains / (losses)	779,296	(383,769)

4 Revenue

	2013 £'000	2012 £'000
Bank interest	4	43
Interest distributions	189	571
Overseas dividends	15,027	10,757
Property income dividends	3,904	1,397
Stock dividends	9,260	5,098
UK dividends	173,386	192,558
Underwriting commission	115	111
Total revenue	201,885	210,535

5 Expenses

	2013 £'000	2012 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	85,752	84,902
Administration fee	11,245	10,884
	96,997	95,786
Payable to the Depositary or associate		
Depositary's fee (including VAT)	249	242
Other expenses		
Audit fee (including VAT)	10	9
Regulatory fees	12	12
Safe custody charge	87	79
Tax consultancy fees (including VAT) ^[a]	10	5
	119	105
Total expenses	97,365	96,133

^[a] Fees paid to overseas firms affiliated with PricewaterhouseCoopers LLP.

M&G Recovery Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

6 Taxation

	2013 £'000	2012 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Overseas tax	637	397
Overseas tax recoverable: exchange rate movements	0	(16)
Current tax charge (note 6b)	637	381
Deferred tax (note 6c)	0	0
Total taxation	637	381
b) Factors affecting taxation charge for the year		
Net revenue before taxation	104,517	114,402
Corporation tax at 20%	20,903	22,880
Effects of:		
UK dividends not taxable	(34,677)	(38,512)
Stock dividends not taxable	(1,852)	(1,019)
Overseas dividends not taxable	(3,001)	(2,123)
Current year expenses not utilised	18,627	18,774
Overseas tax	637	397
Overseas tax recoverable: exchange rate movements	0	(16)
Current tax charge (note 6a)	637	381
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset of £101,004,000 (30.06.12: £82,365,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

7 Contingent assets, liabilities and outstanding commitments

The sub-fund has not recognised a contingent asset of £62,837. In May 2012 there was a European Court of Justice (ECJ) ruling confirming the ability to recover excess withholding tax applied by French tax authorities suffered on dividends in prior accounting periods. Full recovery of this asset is not certain, however, an estimated accrual is included within the daily price of the sub-fund's shares. The contingent asset will be reflected in the financial statements when receipt of the reclaims becomes virtually certain.

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.12: same).

8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in net assets attributable to shareholders and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's (ACD's) periodic charge are disclosed in note 5. Amounts due at the year end to the ACD of £4,932,000 (30.06.12: £5,017,000) in respect of the ACD's periodic charge and administration fees are included within the expenses payable as disclosed in the balance sheet.

During the year, there were transactions in shares in related parties of M&G Securities Limited with a total value of £17,155,353 (2012: £24,445,000).

At the balance sheet date, the sub-fund held shares in related parties of M&G Securities Limited with a value of £238,700,000 (30.06.12: £171,667,000).

At the balance sheet date, material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 10.50% (30.06.12: 10.88%) of the sub-fund's shares.

9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.12: same).

Currency exposure

The currency profile of the sub-fund's financial instruments at the balance sheet date was:

	Portfolio of investments		Net other (liabilities) / assets		Total	
	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000	as at 30.06.13 £'000	as at 30.06.12 £'000
Australian dollar	159,203	197,971	(171)	(7)	159,032	197,964
Canadian dollar	121,775	148,571	0	0	121,775	148,571
Euro	204,657	307,264	6,438	6,112	211,095	313,376
South African rand	0	47,539	22	8	22	47,547
US dollar	111,428	67,891	3,939	0	115,367	67,891
Zambian kwacha	0	0	0	19	0	19
	597,063	769,236	10,228	6,132	607,291	775,368
Sterling	6,350,044	6,646,301	(4,589)	(1,560)	6,345,455	6,644,741
Total	6,947,107	7,415,537	5,639	4,572	6,952,746	7,420,109

Interest rate profile

The majority of the sub-fund's assets comprise equity shares which neither pay interest nor have a maturity date (30.06.12: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.12: same).

M&G Recovery Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

10 Portfolio transaction costs

	2013 £'000	2012 £'000
a) Purchases		
Purchases excluding transaction costs	1,576,485	2,348,751
Commissions	612	770
Taxes	2,359	2,876
Total transaction costs	2,971	3,646
Total purchases including transaction costs	1,579,456	2,352,397
b) Sales		
Sales excluding transaction costs	2,793,731	1,399,122
Commissions	(1,735)	(585)
Taxes	(1)	0
Total transaction costs	(1,736)	(585)
Total sales net of transaction costs	2,791,995	1,398,537

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares, Sterling Class 'C' (Net Income and Net Accumulation) shares, Sterling Class 'I' (Net Income and Net Accumulation) shares, Sterling Class 'R' (Net Income and Net Accumulation) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

This sub-fund also contains Euro Class 'A' (Net Accumulation) shares and Euro Class 'C' (Net Accumulation) shares.

The charging structure for each share class, as at 30 June 2013, is set out in the following table (30.06.12: same):

CHARGES AND EXPENSES

	Initial charge %	Withdrawal fee %	ACD's annual remuneration %
Sterling			
Class 'A'	4.00	n/a	1.50
Class 'C'	nil	n/a	nil
Class 'I'	1.00	n/a	0.75 [a]
Class 'R' [b]	1.00	n/a	1.00
Class 'X'	nil	4.50 [c]	1.50
Euro			
Class 'A'	5.25	n/a	1.50
Class 'C'	3.25	n/a	0.75

[a] With effect from 19 March 2013 the ACD's annual remuneration charge for Sterling Class 'I' shares was reduced from 0.85% to 0.75%.

[b] With effect from 3 August 2012, the launch date of the Sterling Class 'R' share class.

[c] The withdrawal fee diminishes over a period of five years. Please refer to the Key Investor Information Document (KIID) in conjunction with the Important Information for Investors document.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.13		30.06.12	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	1,107,073	3,035,606	1,398,850	3,117,761
Class 'C'	154,716	1,180,905	189,754	1,157,619
Class 'I'	352,558	227,131	307,208	92,174
Class 'R'	1,646	2,022	n/a	n/a
Class 'X'	154,331	488,115	147,136	503,461
Euro				
Class 'A'	n/a	63,668	n/a	144,063
Class 'C'	n/a	184,975	n/a	362,083

The net asset value per share and the number of shares are given in the net assets table on page 107. The distribution per share is given in the distribution table on pages 114 and 115. Each share class has the same rights on winding-up.

M&G Recovery Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

12 Finance costs

	2013 £'000	2012 £'000
Income shares (Sterling)		
Class 'A' - Interim	4,372	4,508
- Final	6,176	11,936
Class 'C' - Interim	2,192	2,143
- Final	2,043	3,109
Class 'I' - Interim	2,226	1,651
- Final	3,249	3,654
Class 'R' - Interim ^[a]	0	n/a
- Final	14	n/a
Class 'X' - Interim	544	479
- Final	865	1,249
Accumulation shares (Sterling)		
Class 'A' - Interim	11,294	10,048
- Final	16,807	26,245
Class 'C' - Interim	12,879	12,620
- Final	15,361	18,636
Class 'I' - Interim	705	229
- Final	2,074	1,074
Class 'R' - Interim	1	n/a
- Final	17	n/a
Class 'X' - Interim	1,744	1,633
- Final	2,708	4,236
Accumulation shares (Euro)		
Class 'A' - Interim	334	454
- Final	345	1,213
Class 'C' - Interim	2,198	2,505
- Final	1,702	4,437
Finance costs: Dividend distributions	89,850	112,059
Income deducted on cancellation of shares	6,034	2,154
Income received on issue of shares	(1,092)	(5,200)
Finance costs: Distributions	94,792	109,013
Finance costs: Interest	3	0
Total finance costs	94,795	109,013
Net revenue per statement of total return	103,880	114,021
Stock dividends not distributed	(9,260)	(5,098)
Undistributed income brought forward	174	264
Undistributed income carried forward	(2)	(174)
Finance costs: Distributions	94,792	109,013

[a] The interim distribution for Sterling Class 'R' (Income) shares was £258.

DISTRIBUTION TABLE

Dividend distributions on Income shares	Net income	Equalisation	Distribution paid/payable	
			2013	2012
Sterling	p	p	p	p
Class 'A' - Interim				
Group 1:	0.4190	-	0.4190	0.3690
Group 2:	0.1170	0.3020	0.4190	0.3690
- Final				
Group 1:	0.6973	-	0.6973	0.9610
Group 2:	0.4136	0.2837	0.6973	0.9610
Class 'C' - Interim				
Group 1:	1.3190	-	1.3190	1.2090
Group 2:	0.6382	0.6808	1.3190	1.2090
- Final				
Group 1:	1.6548	-	1.6548	1.8500
Group 2:	0.6744	0.9804	1.6548	1.8500
Class 'I' - Interim				
Group 1:	0.8070	-	0.8070	0.7310
Group 2:	0.3469	0.4601	0.8070	0.7310
- Final				
Group 1:	1.1510	-	1.1510	1.3390
Group 2:	0.6891	0.4619	1.1510	1.3390
Class 'R' - Interim				
Group 1:	0.6450	-	0.6450	n/a
Group 2:	0.0753	0.5697	0.6450	n/a
- Final				
Group 1:	0.9181	-	0.9181	n/a
Group 2:	0.5436	0.3745	0.9181	n/a
Class 'X' - Interim				
Group 1:	0.4230	-	0.4230	0.3710
Group 2:	0.1012	0.3218	0.4230	0.3710
- Final				
Group 1:	0.7050	-	0.7050	0.9620
Group 2:	0.4536	0.2514	0.7050	0.9620

M&G Recovery Fund

FINANCIAL STATEMENTS

DISTRIBUTION TABLE (continued)

Dividend distributions on Accumulation shares	Net income	Equalisation	Amount reinvested	
			2013	2012
Sterling	p	p	p	p
Class 'A' - Interim				
Group 1:	0.9221	-	0.9221	0.8050
Group 2:	0.2867	0.6354	0.9221	0.8050
- Final				
Group 1:	1.5305	-	1.5305	2.0783
Group 2:	0.8567	0.6738	1.5305	2.0783
Class 'C' - Interim				
Group 1:	3.2306	-	3.2306	2.8879
Group 2:	2.5079	0.7227	3.2306	2.8879
- Final				
Group 1:	4.0870	-	4.0870	4.4504
Group 2:	1.2100	2.8770	4.0870	4.5404
Class 'I' - Interim				
Group 1:	1.8000	-	1.8000	1.6089
Group 2:	0.5464	1.2536	1.8000	1.6089
- Final				
Group 1:	2.5817	-	2.5817	2.9229
Group 2:	1.3415	1.2402	2.5817	2.9229
Class 'R' - Interim				
Group 1:	0.6437	-	0.6437	n/a
Group 2:	0.0198	0.6239	0.6437	n/a
- Final				
Group 1:	0.9277	-	0.9277	n/a
Group 2:	0.5950	0.3327	0.9277	n/a
Class 'X' - Interim				
Group 1:	0.9099	-	0.9099	0.7944
Group 2:	0.1401	0.7698	0.9099	0.7944
- Final				
Group 1:	1.5173	-	1.5173	2.0556
Group 2:	1.0133	0.5040	1.5173	2.0556
Euro	€	€	€	€
Class 'A' - Interim				
Group 1:	7.9059	-	7.9059	6.6730
Group 2:	3.5031	4.4028	7.9059	6.6730
- Final				
Group 1:	12.2612	-	12.2612	18.1290
Group 2:	9.0669	3.1943	12.2612	18.1290
Class 'C' - Interim				
Group 1:	17.6359	-	17.6359	15.2883
Group 2:	9.3737	8.2622	17.6359	15.2883
- Final				
Group 1:	22.6093	-	22.6093	28.3990
Group 2:	10.5955	12.0138	22.6093	28.3990
Interim period	01.07.12 - 31.12.12			
Final period	01.01.13 - 30.06.13			

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2). It is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes.

M&G Recovery Fund

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M&G Smaller Companies Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G Smaller Companies Fund

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 manager of the M&G Smaller Companies Fund uses a bottom-up approach to identify companies for inclusion within the fund's diversified portfolio. The investment approach specifically focuses on three areas: company management, structural growth opportunities and valuations. Company management is perhaps the most crucial variable in deciding whether a small company is likely to be successful or not and, in this regard, company meetings are key. The manager favours trustworthy, diligent and understated management teams.

In terms of assessing the company's structural growth opportunities, the manager analyses the buoyancy of end markets, barriers to entry and earnings growth visibility. Finally, for assessing whether a company's long-term prospects are undervalued by the market, she uses financial analysis, valuation metrics, tailored screens and broker research – this enables her to focus on good investments, not just good companies.

Generally, shares will be held for the long term, that is, between three and five years, as the manager will look to take advantage of the market's inability to focus on the long term. However, shares will be sold when a company is significantly overvalued, is taken over, or if the original reasons for buying no longer apply.

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.

* 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 1 July 2013, for the year ended 30 June 2013

Over the 12 months under review, we identified some attractive investment opportunities that are likely to achieve sustainable growth and add value to the fund. In particular, we participated in a number of capital raising exercises, including those for Epistem, Tyman and Carphone Warehouse.

Epistem is a Manchester-based medical research and technology company that is about to introduce a potentially cutting-edge point-of-care diagnostic product. Initially, the Genedrive portable testing system will be focused on the \$1 billion global tuberculosis testing market.

Tyman is a components manufacturer for doors and windows and the company recently raised funds to purchase one of its major competitors in the US. The move increases Tyman's exposure to the US housing market together with scope to improve the enlarged business through cross-selling, growing market share and increasing exports.

Carphone Warehouse acquired joint venture partner Best Buy's 50% stake in its European business at an attractive valuation. We believe the deal is value-enhancing as it allows the company access to more markets both in and outside Europe.

A number of companies also left the portfolio over the review period, many as a result of takeovers. These included gaming company Sportingbet (taken over by GVC Holdings), natural gas operator Cove Energy (PTT Exploration & Production) and oil firm Nautical Petroleum (Cairn Energy). Other complete sales included asset manager Henderson Group, auto product retailer Halfords and missile systems manufacturer, Chemring Group. A change of chief executive at Halfords prompted a strategic review, which led to a cut in the payout to shareholders and an increase in investment in the business. We did not believe the stock would yield the returns we initially expected. At Chemring, hopes of a bid from peer Carlyle evaporated, the company had two profit warnings and a number of senior managers left.

Louise Nash Fund manager

Louise Nash 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.

M&G Smaller Companies Fund

FUND STATISTICS

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

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.01.14	28.02.14
Final	01.07.14	31.08.14

	Final distribution		Ongoing Charges Figure ^[b]	
	Inc 31.08.13 ^[a]	Acc 01.07.13 ^[a]	30.06.13	30.06.12
Sterling	p	p	%	%
Class 'A'	1.3949	3.2904	1.66	1.66
Class 'C'	3.1819	n/a	0.16	0.16
Class 'I'	12.2286	12.2658	0.92 ^[c]	n/a
Class 'R'	1.0962	1.0500	1.17 ^[c]	n/a
Class 'X'	1.4046	3.1987	1.66	1.66

^[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.

^[c] The Ongoing Charges Figure shown here is an estimate of the charges, as the share class has not been in existence for a full financial year.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.06.13		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
	p	p	p	p	%	%
Sterling	p	p	p	p	%	%
Class 'A'	237.61	570.60	181.86	433.35	+30.66	+31.67
Class 'C'	242.68	n/a	185.59	n/a	+30.76	n/a
Class 'I'	1,288.80	1,307.76	n/a	n/a	n/a	n/a
Class 'R'	128.86	130.48	n/a	n/a	n/a	n/a
Class 'X'	237.57	563.84	181.84	428.23	+30.65	+31.67

PERFORMANCE SINCE LAUNCH

	six months 02.01.13 %	one year 02.07.12 %	five years 01.07.08 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+13.6	+30.0	+9.8	+10.6 ^[c]
Class 'C'	+13.7	+30.1	+9.9	+8.9 ^[d]
Class 'I'	+13.6	n/a	n/a	+29.4 ^[e]
Class 'R'	+13.6	n/a	n/a	+29.4 ^[e]
Class 'X'	+13.6	+30.0	+9.8	+14.8 ^[f]

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid excluding reinvested income.

^[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. Not annualised.

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

SINGLE YEAR PERFORMANCE (5 YEARS ENDING JUNE)

From To	29.06.12 28.06.13 %	30.06.11 29.06.12 %	30.06.10 30.06.11 %	30.06.09 30.06.10 %	30.06.08 30.06.09 %
Sterling					
Class 'A'	+31.6	-4.7	+37.5	+24.1	-23.9

Source: Morningstar, Inc., bid to bid with net income reinvested.

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008	165.40	84.29	379.35	194.19
	2009	143.98	85.52	336.63	198.48
	2010	185.06	135.17	435.26	317.92
	2011	198.69	154.28	469.35	364.46
	2012 ^[a]	207.43	165.06	494.23	390.62
	2013 ^[b]	245.31	207.63	585.64	495.68
Class 'C'	2008	171.29	86.52	n/a	n/a
	2009	147.44	87.37	n/a	n/a
	2010	190.09	137.81	n/a	n/a
	2011	202.84	158.08	n/a	n/a
	2012 ^[a]	213.32	168.49	n/a	n/a
	2013 ^[b]	251.94	212.08	n/a	n/a
Class 'I'	2012 ^[c]	1,128.84	999.24	1,128.84	999.24
	2013 ^[b]	1,334.28	1,126.26	1,341.51	1,132.36
Class 'R'	2012 ^[c]	112.76	99.92	112.76	99.92
	2013 ^[b]	133.32	112.62	133.90	113.11
Class 'X'	2008	165.45	84.26	374.88	191.90
	2009	143.93	85.49	332.66	196.14
	2010	184.99	135.12	430.13	314.18
	2011	198.61	154.22	463.82	360.16
	2012 ^[a]	207.41	165.04	488.40	386.02
	2013 ^[b]	245.28	207.60	578.73	489.82

^[a] The Prudential Small Companies Trust merged into the M&G Smaller Companies Fund immediately after 17 February 2012.

^[b] To 1 July 2013.

^[c] From 3 August 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 price of shares and the income from them may go down as well as up, and you may get back less than you invested.

M&G Smaller Companies Fund

FUND STATISTICS

INCOME

Dividend income per share

	Calendar year	Interim	Distributed	Total	Reinvested
			Final		p
Sterling (net)		p	p	p	p
Class 'A'	2008	nil	0.6680	0.6680	1.5321
	2009	0.6730	0.8280	1.5010	3.4721
	2010	0.1290	0.6980	0.8270	1.9350
	2011	0.0730	0.7550	0.8280	1.9482
	2012	0.2550	1.2610	1.5160	3.5777
	2013 [a]	0.4080	1.3949	1.8029	4.2618
Class 'C'	2008	nil	3.2460	3.2460	n/a
	2009	1.5600	1.6390	3.1990	n/a
	2010	1.1300	1.8220	2.9520	n/a
	2011	1.3140	2.2150	3.5290	n/a
	2012	1.5790	2.7080	4.2870	n/a
	2013 [a]	1.9300	3.1819	5.1119	n/a
Class 'I'	2013 [a]	6.0550	12.2286	18.2836	18.3208
Class 'R'	2013 [a]	0.4880	1.0962	1.5842	1.5380
Class 'X'	2008	nil	0.7640	0.7640	1.7311
	2009	0.6730	0.8280	1.5010	3.4324
	2010	0.1230	0.7020	0.8250	1.9082
	2011	0.0750	0.7640	0.8390	1.9515
	2012	0.2550	1.2530	1.5080	3.5160
	2013 [a]	0.4080	1.4046	1.8126	4.1573

[a] Up to final: ex-distribution date 1 July 2013;
payment date 31 August 2013.

NET ASSETS

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling		p	p		
Class 'A'	Jun 2011	188.99	446.45	71,669,243	8,760,493
	Jun 2012	181.86	433.35	89,107,793	8,971,152
	Jun 2013	237.61	570.60	77,111,095	7,922,952
Class 'C'	Jun 2011	192.86	n/a	542,790	n/a
	Jun 2012	185.59	n/a	58,821,393	n/a
	Jun 2013	242.68	n/a	57,676,193	n/a
Class 'I'	Jun 2013	1,288.80	1,307.76	1,695,100	266,700
Class 'R'	Jun 2013	128.86	130.48	238,000	1,000
Class 'X'	Jun 2011	188.92	441.20	1,695,668	644,412
	Jun 2012	181.84	428.23	1,744,668	588,812
	Jun 2013	237.57	563.84	1,884,268	613,912

Total net asset value of sub-fund

Year ended	£	€ [a]
Jun 2011	181,655,000	200,892,000
Jun 2012	315,781,000	391,664,000
Jun 2013	401,979,000	468,562,000

[a] Based on the midday exchange rate on the last business day of each financial year.

PORTFOLIO

PORTFOLIO STATEMENT

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
Oil equipment, services & distribution		3.06	2.35
1,500,000 Cape	3,611	0.90	
438,714 Hunting	3,227	0.80	
1,454,675 Kentz	5,481	1.36	
Chemicals		5.19	5.36
696,183 Carclo	2,593	0.65	
2,840,766 Elementis	6,250	1.55	
3,662,935 Synthomer (formerly Yule Catto)	6,996	1.74	
326,838 Victrex	5,040	1.25	
Mining		0.26	0.35
929,516 Petra Diamonds	1,047	0.26	
Construction & materials		4.87	3.14
673,536 Galliford Try	6,284	1.56	
13,511,317 Low & Bonar	8,749	2.18	
2,180,157 Tyman	4,535	1.13	
Aerospace & defence		3.45	4.70
3,800,650 Senior	9,452	2.35	
260,704 Ultra Electronics Holdings	4,427	1.10	
Electronic & electrical equipment		5.61	6.74
3,131,772 e2v Technologies	3,711	0.92	
1,800,746 Volex	1,801	0.45	
2,174,001 Xaar	17,033	4.24	
Industrial engineering		3.11	3.55
1,455,832 Fenner	4,501	1.12	
1,097,631 Hill & Smith Holdings	4,742	1.18	
121,092 Spirax-Sarco Engineering	3,245	0.81	
Industrial transportation		3.74	3.46
202,667 Clarkson	3,303	0.82	
1,184,133 James Fisher & Sons	11,723	2.92	
Support services		8.27	6.51
500,000 Ashtead Group	3,228	0.80	
237,242 DCC	6,104	1.52	
3,138,495 Howden Joinery Group	7,831	1.95	
980,234 Hyder Consulting	4,411	1.10	
1,078,044 Northgate	3,638	0.90	
2,534,373 Regus	3,936	0.98	
1,240,000 STthree	4,086	1.02	
Food producers		2.17	3.51
2,007,225 Devro	5,897	1.47	
583,380 New Britain Palm Oil	2,829	0.70	
Healthcare equipment & services		0.86	2.13
418,511 Consort Medical	3,463	0.86	
Pharmaceuticals & biotechnology		1.85	1.71
1,052,315 Dechra Pharmaceuticals	7,424	1.85	
Food & drug retailers		2.94	3.66
9,740,230 Booker Group	11,805	2.94	
General retailers		3.76	1.56
3,472,858 Carphone Warehouse	8,543	2.13	
1,490,000 N Brown Group	6,556	1.63	
Media		6.25	3.92
5,496,768 Entertainment One	10,444	2.60	
988,348 Euromoney Institutional Investor	10,328	2.57	
2,660,000 Wilmington Group	4,362	1.08	

M&G Smaller Companies Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 30 June 2013

Holding	Value £'000	30.06.13 %	30.06.12 %
Travel & leisure			
2,851,245 bwin.party digital entertainment	3,239	0.81	
1,025,000 Mitchells & Butlers	3,797	0.94	
833,916 Restaurant Group	4,170	1.04	
Banks			
208,444 Bank of Georgia Holdings	3,406	0.85	0.00
Real estate investment & services			
1,870,000 LSL Property Services	6,723	1.67	
6,900,000 Quintain Estates & Development	5,417	1.35	
1,955,656 Safestore	2,435	0.61	
Real estate investment trusts			
7,833,645 Hansteen Holdings	6,337	1.57	2.49
Financial services			
1,181,029 Brewin Dolphin Holdings	2,725	0.68	
454,736 Close Brothers Group	4,427	1.10	
576,538 International Personal Finance	2,923	0.73	
1,882,286 Jupiter Fund Management	5,432	1.35	
1,600,000 Tullett Prebon	5,069	1.26	
Software & computer services			
10,166,637 Anite	13,776	3.43	8.65
179,000 AVEVA Group	3,995	0.99	
290,350 Fidessa Group	5,522	1.37	
1,432,569 Micro Focus	10,071	2.51	
Technology hardware & equipment			
2,725,994 Spirent Communications	3,816	0.95	3.73
2,195,400 Wolfson Microelectronics	3,469	0.86	
AIM quoted			
27,250,000 1Spatial	2,180	0.54	22.26
5,846,632 blinkx	6,446	1.60	
3,732,945 Borders & Southern Petroleum	551	0.14	
2,672,600 Digital Barriers	4,650	1.16	
1,616,014 EMIS Group	12,209	3.04	
4,237,465 Enteq Upstream	2,542	0.63	
483,479 Epistem Holdings	2,756	0.68	
1,234,934 Faroe Petroleum	1,321	0.33	
615,000 Geopark Holdings	3,536	0.88	
1,636,773 Hargreaves Services	13,700	3.41	
21,626,398 IQE	3,893	0.97	
512,304 Ithaca Energy	561	0.14	
1,514,497 LO-Q	8,406	2.09	
2,805,787 Max Property Group	3,367	0.84	
4,066,572 OPG Power Ventures	2,908	0.72	
304,124 Providence Resources	1,627	0.40	
15,262,559 San Leon Energy	809	0.20	
460,223 WANdisco	4,257	1.06	
Unquoted / unlisted			
965,000 Betex Group ^[a]	0	0.00	
8,429 Black Lion Resources	0	0.00	
'AAA' rated money market funds ^[b]			
9,887,000 Northern Trust Global Fund - Sterling	9,887	2.46	2.80
Portfolio of investments			
(notes 1b & 1d on page 121 & 122)	404,991	100.75	100.43
Net other liabilities	(3,012)	(0.75)	(0.43)
Net assets attributable to shareholders	401,979	100.00	100.00

^[a] Delisted on 19 October 2007.

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

PORTFOLIO TRANSACTIONS

for the year ended 30 June 2013

	£'000
Largest purchases	
Carphone Warehouse	7,916
Cape	4,605
Hargreaves Services	4,474
blinkx	4,465
Tullett Prebon	4,391
Quintain Estates & Development	4,384
Tyman	4,312
Wilmington Group	4,116
Entertainment One	3,558
Mitchells & Butlers	3,323
Anite	3,136
Carclo	2,932
Bank of Georgia Holdings	2,881
Epistem Holdings	2,640
International Personal Finance	2,430
bwin.party digital entertainment	1,976
Ashtead Group	1,787
DS Smith	1,783
1Spatial	1,635
Kentz	1,609
Northern Trust Global Fund - Sterling ^[a]	59,025
Other purchases	19,707
Total purchases	147,085
Largest sales	
Xaar	13,693
Cove Energy	6,780
Nautical Petroleum	4,621
Henderson Group	4,351
Consort Medical	4,308
Sportingbet	4,266
Burford Capital	3,624
Chemring Group	3,350
Booker Group	3,217
Psion	3,016
Halfords Group	2,864
EMIS Group	2,789
Endace	2,550
DS Smith	2,172
Optimal Payments	1,950
Anite	1,934
Senior	1,817
Elementis	1,795
WANdisco	1,606
The Local Shopping REIT	1,408
Northern Trust Global Fund - Sterling ^[a]	57,969
Other sales	25,191
Total sales	155,271

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

M&G Smaller Companies Fund

FINANCIAL STATEMENTS

For the year ended 30 June 2013.

STATEMENT OF TOTAL RETURN

	Note	2013		2012	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		96,037		(11,552)
Revenue	4	9,147		6,001	
Expenses	5	(4,130)		(3,063)	
Net revenue before taxation		5,017		2,938	
Taxation	6	(10)		(15)	
Net revenue after taxation			5,007		2,923
Total return before distributions			101,044		(8,629)
Finance costs: Distributions	12		(5,015)		(2,919)
Change in net assets attributable to shareholders from investment activities			96,029		(11,548)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2013		2012	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		315,781		181,655
Amounts received on issue of shares	35,915		1,778	
Transfer of assets from the Prudential Small Companies Trust to the M&G Smaller Companies Fund	0		158,703	
Amounts paid on cancellation of shares	(46,111)		(15,120)	
		(10,196)		145,361
Stamp Duty Reserve Tax (SDRT)		(42)		(26)
Change in net assets attributable to shareholders from investment activities (see above)		96,029		(11,548)
Retained distributions on Accumulation shares		407		339
Closing net assets attributable to shareholders		401,979		315,781

BALANCE SHEET

	as at 30 June 2013		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		404,991		317,135
Debtors				
Amounts receivable from the Prudential Small Companies Trust	0		24	
Amounts receivable on issues	614		29	
Distributions receivable	3		2	
Dividends receivable	1,006		893	
Overseas tax recoverable	21		2	
Sales awaiting settlement	372		792	
Tax recoverable	0		22	
		2,016		1,764
Cash and bank balances				
Cash held as bank balances	1		1	
		1		1
Total other assets		2,017		1,765
Total assets		407,008		318,900
Liabilities				
Creditors				
Amounts payable on cancellations	(1,088)		(178)	
Expenses payable	(254)		(201)	
Net distributions payable on income shares	(3,147)		(2,739)	
Purchases awaiting settlement	(539)		0	
SDRT payable	(1)		(1)	
Total liabilities		(5,029)		(3,119)
Net assets attributable to shareholders		401,979		315,781

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

a) Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

b) Basis of valuation of investments

All investments are valued at their fair value as at 12 noon on 28 June 2013, being the last business day of the financial year. The fair value of non-derivative securities is bid price. Where the sub-fund holds unquoted investments the Authorised Corporate Director (ACD) will use their discretion to determine the most appropriate valuation.

c) Investment gains and losses

Gains and losses, including exchange differences, on the realisation of investments and increases and decreases in the valuation of investments held at the balance sheet date, including unrealised exchange differences, are treated as capital.

M&G Smaller Companies Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies (continued)

d) Exchange rates

Transactions in foreign currencies are translated at the rate of exchange ruling on the date of the transaction. Where applicable, assets and liabilities denominated in foreign currencies are translated into Sterling at the rate of exchange ruling as at 12 noon on 28 June 2013, being the last business day of the financial year.

e) Dividend and interest income

Dividends from quoted equity and non-equity shares are recognised net of attributable tax credits when the security is quoted ex-dividend.

Overseas dividends received after the deduction of withholding tax are shown gross of taxation, with the taxation consequences shown within the taxation charge.

Dividends are recognised as either revenue or capital depending upon the nature and circumstances of the dividend receivable.

Distributions from collective investment schemes are recognised net of attributable tax credits when the security is quoted ex-distribution and are treated as revenue.

Bank interest is recognised on an accruals basis and treated as revenue.

f) Stock dividends

The ordinary element of stocks received in lieu of cash dividends is recognised as revenue of the sub-fund. Any enhancement above the cash dividend is treated as capital.

g) Underwriting commission

This is treated as revenue and recognised when the issue takes place, except where the sub-fund is required to take up all or some of the shares underwritten, in which case the commission is deducted from the cost of these shares.

h) Expenses

All expenses (other than those relating to the purchase and sale of investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis.

i) Apportionment of income and expenses to multiple share classes

With the exception of the ACD's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

j) Taxation

The rate of corporation tax for the sub-fund is 20%, with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

k) Deferred taxation

Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

l) Distribution policy

The policy of the sub-fund is to distribute all available income, excluding any items treated as capital in accordance with the above policies and after deduction of expenses properly chargeable against revenue.

Stock dividends do not form part of the distributable income.

Income attributable to Accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

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

2 Risk management policies

In pursuing the sub-fund's investment objective, as set out in the Authorised Corporate Director's (ACD's) Report, the ACD accepts market price risk and currency risk in relation to the investment portfolio. Generally, the ACD will not seek to hedge this exposure since the ACD believes that, in the long term, such hedging would be detrimental to total return.

The market in securities issued by smaller companies is narrow and investors should expect wider than average price fluctuations.

A proportion of the portfolio is quoted on the Alternative Investment Market (AIM) and the liquidity of these stocks cannot be guaranteed. The nature of AIM investments is such that prices can be volatile and realisations may not achieve current book value, especially when such sales represent a significant proportion of that company's market capital. Nevertheless, on the grounds that the investments are not intended for immediate realisation, we regard bid price as the most objective and appropriate method of valuation.

Since the objective of the sub-fund is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

The sub-fund's assets comprise securities that can be readily realised, apart from those quoted on the AIM, to meet obligations that may arise on the redemption of shares. As noted on page 127 the ACD's policy is that the sub-fund should normally be close to fully invested.

These policies have been consistently applied since the beginning of the financial year (30.06.12: same).

M&G Smaller Companies Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

3 Net capital gains / (losses)

	2013 £'000	2012 £'000
Non-derivative securities	96,044	(11,546)
Currency losses	(2)	(1)
Transaction charges	(5)	(5)
Net capital gains / (losses)	96,037	(11,552)

4 Revenue

	2013 £'000	2012 £'000
Bank interest	4	2
Interest distributions	41	22
Overseas dividends	494	381
Property income dividends	149	133
UK dividends	8,381	5,451
Underwriting commission	78	12
Total revenue	9,147	6,001

5 Expenses

	2013 £'000	2012 £'000
Payable to the Authorised Corporate Director or associate		
Authorised Corporate Director's periodic charge	3,546	2,702
Administration fee	548	333
	4,094	3,035
Payable to the Depositary or associate		
Depositary's fee (including VAT)	27	18
Other expenses		
Audit fee (including VAT)	9	9
Safe custody charge	0	1
	9	10
Total expenses	4,130	3,063

6 Taxation

	2013 £'000	2012 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Overseas tax	10	15
Current tax charge (note 6b)	10	15
Deferred tax (note 6c)	0	0
Total taxation	10	15
b) Factors affecting taxation charge for the year		
Net revenue before taxation	5,017	2,938
Corporation tax at 20%	1,003	588
Effects of:		
UK dividends not taxable	(1,676)	(1,090)
Overseas dividends not taxable	(99)	(77)
Current year expenses not utilised	772	579
Overseas tax	10	15
Current tax charge (note 6a)	10	15
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The sub-fund has not recognised a deferred tax asset of £6,831,000 (30.06.12: £6,059,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (30.06.12: same).

8 Related parties

M&G Securities Limited, as Authorised Corporate Director, is a related party and acts as principal on all the transactions of shares in the sub-fund except with in-specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in net assets attributable to shareholders and note 12. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Authorised Corporate Director's (ACD's) periodic charge and administration fee are disclosed in note 5. Amounts due at the year end to the ACD of £241,000 (30.06.12: £187,000) in respect of the ACD's periodic charge and administration fees are included in the expenses payable as disclosed in the balance sheet.

At the balance sheet date, material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 54.41% (30.06.12: 43.06%) of the sub-fund's shares.

9 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have been included in respect of the currency exposure only when this is applicable (30.06.12: same).

Currency exposure

There was no significant foreign currency exposure within the sub-fund at the balance sheet date (30.06.12: same).

Interest rate profile

The majority of the sub-fund's assets comprise equity shares which neither pay interest nor have a maturity date (30.06.12: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.06.12: same).

10 Portfolio transaction costs

	2013 £'000	2012 £'000
a) Purchases		
Purchases excluding transaction costs	146,697	234,636
Commissions	100	37
Taxes	288	119
Total transaction costs	388	156
Total purchases including transaction costs	147,085	234,792 ^[a]
b) Sales		
Sales excluding transaction costs	155,382	87,610
Commissions	(111)	(60)
Total sales net of transaction costs	155,271	87,550

[a] Includes investment costs from merged funds totalling £158,713,000.

M&G Smaller Companies Fund

FINANCIAL STATEMENTS

NOTES TO THE FINANCIAL STATEMENTS

11 Shareholder funds

This sub-fund contains Sterling Class 'A' (Net Income and Net Accumulation) shares, Sterling Class 'C' (Net Income) shares, Sterling Class 'I' (Net Income and Net Accumulation) shares, Sterling Class 'R' (Net Income and Net Accumulation) shares and Sterling Class 'X' (Net Income and Net Accumulation) shares.

The charging structure for each share class, as at 30 June 2013, is set out in the following table (30.06.12: same):

CHARGES AND EXPENSES

	Initial charge %	Withdrawal fee %	ACD's annual remuneration %
Sterling			
Class 'A'	4.00	n/a	1.50
Class 'C'	nil	n/a	nil
Class 'I' ^[a]	1.00	n/a	0.75
Class 'R' ^[a]	1.00	n/a	1.00
Class 'X'	nil	4.50 ^[b]	1.50

^[a] With effect from 3 August 2012, the launch date of the Sterling Class 'I' and Sterling Class 'R' share classes.

^[b] The withdrawal fee diminishes over a period of five years. Please refer to the Key Investor Information Document (KIID) in conjunction with the Important Information for Investors document.

With the exception of the Authorised Corporate Director's periodic charge, which is directly attributable to individual share classes, all income and expenses are apportioned to the sub-fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

The net asset values for each share class are set out in the following table:

NET ASSET VALUES

	30.06.13		30.06.12	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	183,221	45,208	162,047	38,876
Class 'C'	139,970	n/a	109,164	n/a
Class 'I'	21,846	3,488	n/a	n/a
Class 'R'	307	1	n/a	n/a
Class 'X'	4,476	3,462	3,172	2,522

The net asset value per share and the number of shares are given in the net assets table on page 119. The distribution per share is given in the distribution table on page 125. Each share class has the same rights on winding-up.

12 Finance costs

	2013 £'000	2012 £'000
Income shares (Sterling)		
Class 'A' - Interim	358	172
- Final	1,076	1,124
Class 'C' - Interim	1,131	8
- Final	1,835	1,593
Class 'I' - Interim ^[a]	0	n/a
- Final	207	n/a
Class 'R' - Interim ^[b]	0	n/a
- Final	3	n/a
Class 'X' - Interim	7	4
- Final	26	22
Accumulation shares (Sterling)		
Class 'A' - Interim	86	52
- Final	260	266
Class 'I' - Interim ^[c]	0	n/a
- Final	33	n/a
Class 'R' - Interim ^[d]	0	n/a
- Final ^[d]	0	n/a
Class 'X' - Interim	8	4
- Final	20	17
Finance costs: Dividend distributions	5,050	3,262
Income deducted on cancellation of shares	108	34
Income received on issue of shares	(143)	(377)
Finance costs: Distributions	5,015	2,919
Net revenue per statement of total return	5,007	2,923
Undistributed income brought forward	8	4
Undistributed income carried forward	0	(8)
Finance costs: Distributions	5,015	2,919

^[a] The interim distribution for Sterling Class 'I' (Income) shares was £6.

^[b] The interim distribution for Sterling Class 'R' (Income) shares was £5.

^[c] The interim distribution for Sterling Class 'I' (Accumulation) shares was £6.

^[d] The total distribution for Sterling Class 'R' (Accumulation) shares was £16.

M&G Smaller Companies Fund

FINANCIAL STATEMENTS

DISTRIBUTION TABLE

Dividend distributions on Income shares	Net income	Equalisation	Distribution paid/payable	
			2013	2012
Sterling	p	p	p	p
Class 'A' - Interim				
Group 1:	0.4080	-	0.4080	0.2550
Group 2:	0.2235	0.1845	0.4080	0.2550
- Final				
Group 1:	1.3949	-	1.3949	1.2610
Group 2:	1.1958	0.1991	1.3949	1.2610
Class 'C' - Interim				
Group 1:	1.9300	-	1.9300	1.5790
Group 2:	1.0946	0.8354	1.9300	1.5790
- Final				
Group 1:	3.1819	-	3.1819	2.7080
Group 2:	2.4016	0.7803	3.1819	2.7080
Class 'I' - Interim				
Group 1:	6.0550	-	6.0550	n/a
Group 2:	6.0550	-	6.0550	n/a
- Final				
Group 1:	12.2286	-	12.2286	n/a
Group 2:	6.8943	5.3343	12.2286	n/a
Class 'R' - Interim				
Group 1:	0.4880	-	0.4880	n/a
Group 2:	0.4880	-	0.4880	n/a
- Final				
Group 1:	1.0962	-	1.0962	n/a
Group 2:	0.4006	0.6956	1.0962	n/a
Class 'X' - Interim				
Group 1:	0.4080	-	0.4080	0.2550
Group 2:	0.1116	0.2964	0.4080	0.2550
- Final				
Group 1:	1.4046	-	1.4046	1.2530
Group 2:	1.2620	0.1426	1.4046	1.2530

DISTRIBUTION TABLE (continued)

Dividend distributions on Accumulation shares	Net income	Equalisation	Amount reinvested	
			2013	2012
Sterling	p	p	p	p
Class 'A' - Interim				
Group 1:	0.9714	-	0.9714	0.6085
Group 2:	0.0560	0.9154	0.9714	0.6085
- Final				
Group 1:	3.2904	-	3.2904	2.9692
Group 2:	2.9995	0.2909	3.2904	2.9692
Class 'I' - Interim				
Group 1:	6.0550	-	6.0550	n/a
Group 2:	6.0550	-	6.0550	n/a
- Final				
Group 1:	12.2658	-	12.2658	n/a
Group 2:	9.2313	3.0345	12.2658	n/a
Class 'R' - Interim				
Group 1:	0.4880	-	0.4880	n/a
Group 2:	0.4880	-	0.4880	n/a
- Final				
Group 1:	1.0500	-	1.0500	n/a
Group 2:	1.0500	-	1.0500	n/a
Class 'X' - Interim				
Group 1:	0.9586	-	0.9586	0.5930
Group 2:	0.2081	0.7505	0.9586	0.5930
- Final				
Group 1:	3.1987	-	3.1987	2.9230
Group 2:	3.0527	0.1460	3.1987	2.9230

Interim period 01.07.12 - 31.12.12

Final period 01.01.13 - 30.06.13

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

Equalisation applies only to shares purchased during the distribution period (Group 2). It is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes.

M&G Smaller Companies Fund

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Further Information

LIQUIDITY

The ACD's policy is that the sub-funds should normally be close to fully invested but this is subject to the need to retain liquidity for the purpose of effecting the redemption of shares, and the efficient management of the sub-funds in accordance with their objectives. There may, therefore, be occasions when there will be higher levels of liquidity, for example following the issue of shares or the realisation of investments. Higher liquidity levels may also arise when a sub-fund's asset allocation policy is changed.

DILUTION

The actual cost of purchasing or selling a sub-fund's investments may deviate from the mid-market price due to dealing costs and these costs can have an adverse effect on the value of the sub-fund, known as 'dilution'. The Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Conduct Authority, allows the cost of dilution to be recovered from investors on the purchase or redemption of shares by means of a dilution adjustment to the dealing price, and this is the policy which has been adopted by the ACD.

Further information on the ACD's dilution adjustment policy is in the Prospectus, which is available free of charge from the ACD, M&G Securities Limited.

THE EU SAVINGS DIRECTIVE

The percentage of the following M&G sub-funds held in interest-bearing assets (as defined by the UK rules for the EU Savings Directive 2003/48/EC) is as follows:

M&G Corporate Bond Fund	98.87%
M&G Dividend Fund	0.42%
M&G Emerging Markets Bond Fund	99.02%
M&G European Corporate Bond Fund	98.75%
M&G European High Yield Bond Fund	96.09%
M&G Fund of Investment Trust Shares	4.09%
M&G International Sovereign Bond Fund	98.00%
M&G Recovery Fund	0.55%
M&G Smaller Companies Fund	2.46%

OTHER

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.

PORTFOLIO TURNOVER RATES

The Portfolio Turnover Rate (PTR) is a ratio that reflects the volume of trading within each sub-fund over the course of a 12 month period. The PTR is calculated by taking the sum of all transactions in securities less the sum of all transactions in the sub-fund's shares and is expressed as a percentage of the sub-fund's average net asset value.

The unaudited PTRs for the sub-funds currently registered in Switzerland are as follows:

	as at 30.06.13	as at 30.06.12
M&G Corporate Bond Fund	40.53%	208.76%
M&G Emerging Markets Bond Fund	136.13%	155.51%
M&G European Corporate Bond Fund	44.44%	202.72%
M&G European High Yield Bond Fund	75.12%	82.40%
M&G Recovery Fund	6.09%	-5.69%

TOTAL EXPENSE RATIOS

The Total Expense Ratio (TER) is shown only for those share classes currently available in Switzerland. The TER shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

The unaudited TERs for the sub-funds currently registered in Switzerland are as follows:

			Total Expense Ratio	
Share class (Accumulation)			30.06.13	30.06.12
			%	%
M&G Corporate Bond Fund	Sterling	Class 'A'	1.16	1.16
M&G Emerging Markets Bond Fund	Euro	Class 'A'	1.53	1.45
		Class 'C'	1.00	0.95
	US dollar	Class 'A'	1.56	1.60
		Class 'C'	1.00	0.98
M&G European Corporate Bond Fund	Euro	Class 'A'	1.16	1.17
		Class 'C'	0.66	0.66
	Swiss franc	Class 'A-H'	1.20	n/a
		Class 'C-H'	0.70	n/a
M&G European High Yield Bond Fund	Euro	Class 'A'	1.46	1.46
		Class 'C'	0.96	0.96
M&G Recovery Fund	Sterling	Class 'A'	1.65	1.66
		Class 'A'	1.65	1.66
	Euro	Class 'C'	0.90	0.90

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.

Notes

