

Annual Short Report October 2013
For the year ended 31 August 2013

M&G Strategic Corporate Bond Fund

How to contact us



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

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

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

INVESTMENT OBJECTIVE, POLICY AND APPROACH

Investment objective of the M&G Strategic Corporate Bond Fund

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

Investment policy of the M&G Strategic Corporate Bond Fund

The Fund invests mainly in investment grade bonds. The Fund may invest in derivatives in pursuit of the fund objective and for the purposes of efficient portfolio management. The Fund may also invest in other assets including collective investment schemes, other transferable securities and other debt instruments (including corporate, high yield and government debt, convertible and preference stocks), cash, and near cash, deposits, warrants and money market instruments.

Investment approach

The M&G Strategic Corporate Bond Fund is invested primarily in 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*



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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.

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

- The value of stockmarket investments, and the income from them, will fluctuate. This will cause the Fund price to fall as well as rise and you may not get back the original amount you invested.
- There is a risk that one or more countries will exit the Euro and re-establish their own currencies. In light of this uncertainty or in the event that this does occur, there is an increased risk of asset prices fluctuating or losing value. It may also be difficult to buy and sell securities and issuers may be unable to repay the debt. In addition, there is a risk that disruption in Eurozone markets could give rise to difficulties in valuing the assets of the Fund. In the event that it is not possible to carry out an accurate valuation of the Fund, dealing may be temporarily suspended.
- **Derivatives** – The Fund may use derivatives for the purposes of meeting the Fund's objective, and protecting the capital value from risk. We anticipate that the use of derivatives will not materially alter the risk profile of the Fund or increase price fluctuations, in comparison to equivalent funds that cannot invest in derivatives.

The Fund may take short positions through the use of derivatives which are not backed by equivalent physical assets. Short positions reflect an investment view that the price of the underlying asset is expected to fall in value. Accordingly, if this view is incorrect and the asset rises in value, the short position could involve greater risk due to the theoretical possibility of an unlimited rise in its value.

Some derivative transactions may be entered into directly with an eligible person or institution (a 'counterparty'). There is a risk that the counterparty may not meet its obligations or becomes insolvent which could cause the Fund to incur a loss.

- **Fixed income securities** – Changes in the interest rate will affect the value and the interest earned from the fixed income securities held by the Fund. When interest rates rise, the capital value of the Fund is likely to fall and vice versa.

The value of the Fund will fall if the issuer of a fixed income security held is unable to pay income payments or repay its debt (known as a default). A default, expected default, or downgrading will make a fixed income security harder to sell as its value and income are likely to fall. Fixed income securities that pay a higher level of income usually have a lower credit rating because of the increased risk of default. The higher the rating the less likely it is that the issuer will default, but ratings are subject to change.

- **Liquidity** – In difficult market conditions the value of certain fund investments may be less predictable than normal. In some cases this may make such investments harder to sell at the last quoted market price, or at a price considered to be fair. Such conditions could result in unpredictable changes in the value of your holding.

* 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 2 September 2013, for the year ended 31 August 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 retain a light allocation to 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 and Bank of Ireland, 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 review period. 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, it fell from 6.2 years at the beginning of September 2012 to as low as five years at the end of November 2012, and hovered 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 started to modestly increase the fund's duration and this reached 6.1 years at the end of August 2013.

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.

FUND SUMMARY

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
First interim	02.12.13	31.01.14
Second interim	03.03.14	30.04.14
Third interim	02.06.14	31.07.14
Final	01.09.14	31.10.14

	Final distribution		Ongoing Charges Figure ^[b]	
	Inc 31.10.13 ^[a]	Acc 02.09.13 ^[a]	31.08.13	31.08.12
Sterling	p	p	%	%
Class 'A'	0.4144	0.5640	1.16	1.16
Class 'I'	7.0212	7.1684	0.66	0.65 ^[c]
Class 'R'	0.6520	0.6648	0.91	0.90 ^[c]
Class 'X'	0.3784	0.5064	1.41	1.41

^[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 had not been in existence for a full financial year.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 31.08.13		Net asset value per share as at 31.08.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
	Sterling	p	p	p	p	%
Class 'A'	69.71	95.47	68.81	92.17	+1.31	+3.58
Class 'I'	1,010.93	1,039.50	998.06	999.91	+1.29	+3.96
Class 'R'	101.10	103.75	99.81	99.98	+1.29	+3.77
Class 'X'	69.69	93.75	68.79	90.69	+1.31	+3.37

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.

PRICES ^[a]

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008 ^[a]	51.48	47.21	60.01	55.28
	2009	60.66	49.65	74.02	58.73
	2010	65.22	59.96	82.11	73.62
	2011	65.94	61.86	85.85	78.53
	2012	71.19	65.32	95.64	85.67
	2013 ^[b]	72.68	68.86	98.43	93.75
Class 'I'	2012 ^[c]	1,033.34	1,000.00	1,038.88	1,000.00
	2013 ^[b]	1,054.82	998.87	1,070.58	1,020.01
Class 'R'	2012 ^[c]	103.30	100.00	103.80	100.00
	2013 ^[b]	105.45	99.88	106.90	101.84
Class 'X'	2008 ^[a]	51.45	47.18	59.48	54.81
	2009	60.62	49.62	73.22	58.21
	2010	65.19	59.94	81.09	72.82
	2011	65.90	61.82	84.58	77.50
	2012	71.15	65.29	94.04	84.41
	2013 ^[b]	72.63	68.82	96.71	92.09

^[a] Includes prices from the merging fund up to 31 August 2009.

^[b] To 2 September 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 ^[a]**Interest income per share**

	Calendar year	Interims	Distributed	Total	Reinvested
			Final		
Sterling (net)		p	p	p	p
Class 'A'	2008	1.3348	0.4892	1.8240	2.2214
	2009	1.4821	0.5820	2.0641	2.4772
	2010	1.5200	0.5260	2.0460	2.5844
	2011	1.5920	0.4940	2.0860	2.6636
	2012	1.5060	0.4300	1.9360	2.3968
	2013 ^[b]	1.1628	0.4144	1.5772	1.6100
Class 'I'	2012	n/a	1.8320	1.8320	2.4480
	2013 ^[b]	19.7244	7.0212	26.7456	20.4708
Class 'R'	2012	n/a	0.1680	0.1680	0.7812
	2013 ^[b]	1.8280	0.6520	2.4800	1.5844

INCOME (continued) [a]

Interest income per share

	Calendar year	Interims	Distributed Final	Total	Reinvested
Sterling (net)		p	p	p	p
Class 'X'	2008	1.2576	0.4628	1.7204	2.0875
	2009	1.4069	0.5520	1.9589	2.3249
	2010	1.4300	0.4940	1.9240	2.4036
	2011	1.4960	0.4640	1.9600	2.4700
	2012	1.4068	0.3960	1.8028	2.1828
	2013 [b]	1.0564	0.3784	1.4348	0.5064

[a] Includes distributions from the merging fund up to 31 August 2009

[b] Up to final: ex-distribution date 2 September 2013;
payment date 31 October 2013.

MAJOR HOLDINGS

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

	% of fund as at 31.08.13		% of fund as at 31.08.12
Treasury 3.25% 2044 (£)	1.92	Treasury 2.5% IL 2016 (£)	3.11
Treasury 4.25% 2027 (£)	1.42	Treasury 3.75% 2052 (£)	2.96
Treasury 5% 2025 (£)	1.20	Treasury 2.5% IL 2020 (£)	1.34
Imperial Tobacco Finance 9% 2022 (£)	0.97	Lloyds TSB Bank 5.125% 2025 (£)	1.16
Wells Fargo 5.25% 2023 (£)	0.95	Deutsche Telekom 6.5% 2022 (£)	0.99
EDF 5.5% 2041 (£)	0.95	EDF 5.5% 2041 (£)	0.90
Lloyds TSB Bank 5.125% 2025 (£)	0.93	Imperial Tobacco Finance 9% 2022 (£)	0.86
Treasury 3.75% 2052 (£)	0.91	Wal-Mart Stores 5.625% 2040 (\$)	0.84
Virgin Media Secured Finance 7% 2018 (£)	0.81	Wells Fargo Bank 5.25% 2023 (£)	0.83
Northern Trust Global Fund - Sterling [a]	0.78	US Treasury 1.75% 2022 (\$)	0.82

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

CLASSIFICATION OF INVESTMENTS

The table below shows the percentage holding per sector.

	% of fund as at	
	31.08.13	31.08.12
'AAA' credit rated bonds	9.04	14.52
'AA' credit rated bonds	9.09	8.99
'A' credit rated bonds	26.89	32.90
'BBB' credit rated bonds	38.93	33.00
'BB' credit rated bonds	5.14	3.58
'B' credit rated bonds	1.44	1.17
'CCC' credit rated bonds	0.07	0.02
Bonds with no credit rating	6.75	2.65
Credit default swaps	0.05	0.10
Forward currency contracts	0.31	0.16
Interest rate futures contracts	0.05	0.04
'AAA' rated money market funds [a]	0.78	0.78

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

OTHER INFORMATION

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

Short Reports

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

Investment Report and Financial Statements

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

Important information

The investment objective and policy of the M&G Strategic Corporate Bond Fund are the same in substance as the predecessor OEIC sub-fund (the merging fund) and therefore when reporting performance of the M&G Strategic Corporate Bond Fund the history of the merging fund is included.

Authorised Corporate Director

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Investment Manager

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(Authorised and regulated by the Financial Conduct Authority)

Fund manager

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associate of M&G Securities Limited)

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Independent Auditors

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

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

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