

## M&G Investment Funds (2)



# Contents

<b>Introduction</b>	<b>Page 1</b>
Company Information <sup>[a]</sup>	Page 1
For European Investors	Page 2
Authorised Corporate Director's Report <sup>[a]</sup>	Page 3
<b>M&amp;G Investment Funds (2)</b>	<b>Page 4</b>
Authorised Corporate Director's Responsibilities	Page 4
Depositary's Responsibilities and Report	Page 4
Independent Auditors' Report	Page 5
<b>Aggregated Financial Statements (audited)</b>	<b>Page 7</b>
Directors' Statement	Page 10
<b>Investment Report <sup>[a]</sup> and Financial Statements for:</b>	
M&G Extra Income Fund	Page 11
M&G Gilt & Fixed Interest Income Fund	Page 23
M&G High Yield Corporate Bond Fund	Page 33
M&G Index-Linked Bond Fund	Page 51
M&G Index Tracker Fund	Page 61
M&G Short Dated Corporate Bond Fund <sup>[b]</sup>	Page 75
M&G UK Growth Fund	Page 85
<b>Further Information <sup>[a]</sup></b>	<b>Page 96</b>
Liquidity	Page 96
Dilution	Page 96
The EU Savings Directive	Page 96
Other	Page 96
Portfolio Turnover Rates	Page 96
Total Expense Ratios	Page 96

<sup>[a]</sup> Collectively, these comprise the Authorised Corporate Director's Report.

<sup>[b]</sup> Formerly known as the M&G High Interest Fund.

# Introduction

## COMPANY INFORMATION

### Company

M&G Investment Funds (2)

### 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 Extra Income Fund

Richard Hughes

#### M&G Gilt & Fixed Interest Income Fund

Jim Leaviss

#### M&G High Yield Corporate Bond Fund

Stephen Isaacs

#### M&G Index-Linked Bond Fund

Mike Riddell

#### M&G Index Tracker Fund

Richard O'Connor

#### M&G Short Dated Corporate Bond Fund

Ben Lord

#### M&G UK Growth Fund

Mike Felton

At the start of the review period Garfield Kiff was the fund manager.

### 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

On 9 November 2012 the M&G High Interest Fund changed its name to the M&G Short Dated Corporate Bond Fund.

On 15 March 2013 the M&G UK Select Fund (a sub-fund of M&G Investment Funds (3)) merged into the M&G UK Growth Fund.

### 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 Depositary.

# 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](mailto: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

Since 25 March 2013, the effective proportion of the net assets of the M&G UK Growth Fund in PEA ('Plan d'Épargne 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

### 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 31 May 2013.

The sub-funds in this report are all part of an umbrella Open-Ended Investment Company (OEIC), M&G Investment Funds (2). 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 (2), as an umbrella OEIC, contains seven sub-funds, 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 Extra Income Fund

M&G Gilt & Fixed Interest Income Fund

M&G High Yield Corporate Bond Fund

M&G Index-Linked Bond Fund

M&G Index Tracker Fund

M&G Short Dated Corporate Bond Fund

M&G UK Growth Fund

The Company was authorised on 1 August 2001 and was launched on 24 January 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 31 May 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

15 July 2013

# M&G Investment Funds (2)

## 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 (2) for the year ended 31 May 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  
15 July 2013

National Westminster Bank Plc  
Trustee and Depositary Services

# M&G Investment Funds (2)

## INDEPENDENT AUDITORS' REPORT

### Independent auditors' report to the shareholders of M&G Investment Funds (2) ICVC

We have audited the financial statements of M&G Investment Funds (2) ICVC ('the Company') for the year ended 31 May 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 (2) 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 31 May 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  
15 July 2013

PricewaterhouseCoopers LLP  
Chartered Accountants and  
Statutory Auditors

The financial statements are published at [www.mandg.co.uk/reports](http://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 (2)

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# Aggregated Financial Statements (audited)

For the year ended 31 May 2013.

STATEMENT OF TOTAL RETURN					
	Note	2013		2012 <sup>[a]</sup>	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		432,215		(47,893)
Revenue	4	185,774		175,006	
Expenses	5	(46,780)		(42,103)	
Finance costs: Interest	12	(16)		(5)	
Net revenue before taxation		138,978		132,898	
Taxation	6	(21)		(155)	
Net revenue after taxation			138,957		132,743
<b>Total return before distributions</b>			<b>571,172</b>		<b>84,850</b>
Finance costs: Distributions	12	(135,109)		(128,825)	
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>436,063</b>		<b>(43,975)</b>

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS					
		2013		2012 <sup>[a]</sup>	
		£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>			<b>4,094,884</b>		<b>3,807,661</b>
Amounts received on issue of shares		432,715		727,724	
Value of securities transferred from in-specie issues		77,153		140,008	
Amounts paid on cancellation of shares		(566,944)		(366,749)	
Value of securities transferred from in-specie cancellations		0		(204,621)	
			(57,076)		296,362
Stamp Duty Reserve Tax (SDRT)			(336)		(242)
Change in net assets attributable to shareholders from investment activities (see above)			436,063		(43,975)
Retained distributions on Accumulation shares			37,870		34,973
Unclaimed distributions			99		105
<b>Closing net assets attributable to shareholders</b>			<b>4,511,504</b>		<b>4,094,884</b>

<sup>[a]</sup> The comparative figures for 2012 include the M&G Income Fund, which terminated during the period.

## BALANCE SHEET

	as at 31 May 2013		as at 31 May 2012	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		4,468,849		4,086,156
<b>Debtors</b>				
Amounts due from M&G / Prudential mergers		31		473
Amounts receivable on issues		7,254		3,576
Currency deals outstanding		4,989		7
Debt security interest receivable		39,267		35,325
Deposit interest receivable		1		1
Distributions receivable		23		47
Dividends receivable		6,828		7,597
Overseas tax recoverable		130		86
Premium from credit default swaps receivable		1,444		1,273
Prepaid expenses		3		47
Sales awaiting settlement		7,228		33,313
Tax recoverable		14		8
			67,212	81,753
<b>Cash and bank balances</b>				
Amounts held at futures clearing houses and brokers		190		9,574
Cash held as bank balances		24,424		71
			24,614	9,645
<b>Total other assets</b>		<b>91,826</b>		<b>91,398</b>
<b>Total assets</b>		<b>4,560,675</b>		<b>4,177,554</b>
<b>Liabilities</b>				
Investment liabilities		(836)		(12,346)
<b>Creditors</b>				
Amounts payable on cancellations		(8,549)		(1,334)
Corporation tax payable		0		(14)
Currency deals outstanding		(5,007)		(7)
Expenses payable		(2,557)		(2,192)
Income tax payable		(4,005)		(3,967)
Net distributions payable on Income shares		(20,654)		(20,849)
Purchases awaiting settlement		(7,538)		(32,274)
SDRT payable		(25)		0
			(48,335)	(60,637)
<b>Bank overdraft</b>		<b>0</b>		<b>(9,687)</b>
			0	(9,687)
<b>Total other liabilities</b>		<b>(48,335)</b>		<b>(70,324)</b>
<b>Total liabilities</b>		<b>(49,171)</b>		<b>(82,670)</b>
<b>Net assets attributable to shareholders</b>		<b>4,511,504</b>		<b>4,094,884</b>

# 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 £'000
Non-derivative securities	469,639	(94,058)
Derivative contracts	19,862	(23,220)
Forward currency contracts	(65,485)	44,966
Currency gains	7,197	21,648
Special dividends taken to capital	1,048	2,801
Transaction charges	(46)	(30)
<b>Net capital gains / (losses)</b>	<b>432,215</b>	<b>(47,893)</b>

The following fees are borne by the Authorised Corporate Director:

Transaction charges	(2)	(2)
---------------------	-----	-----

### 4 Revenue

	2013 £'000	2012 £'000
Bank interest	63	108
Derivative revenue	(1,026)	(909)
Interest distributions	275	412
Interest on debt securities	127,234	120,884
Overseas dividends	1,314	2,964
Premium from credit default swaps	6,558	4,848
Property income dividends	304	351
Stock dividends	4,996	1,960
UK dividends	46,030	44,375
Underwriting commission	26	13
<b>Total revenue</b>	<b>185,774</b>	<b>175,006</b>

### 5 Expenses

	2013 £'000	2012 £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge	39,870	35,826
Administration fee	6,499	5,831
	46,369	41,657
<b>Payable to the Depository or associate</b>		
Depository's fee (including VAT)	240	221
Distribution fees	5	3
	245	224
<b>Other expenses</b>		
Audit fee (including VAT)	76	72
Regulatory fees	14	27
Safe custody charge	43	109
Share class hedging fee	4	0
Tax consultancy fees <sup>[a]</sup>	29	14
	166	222
<b>Total expenses</b>	<b>46,780</b>	<b>42,103</b>

<sup>[a]</sup> Fees paid to overseas firms affiliated with PricewaterhouseCoopers LLP.

The following fees are borne by the Authorised Corporate Director:

<b>Payable to the Depository or associate</b>		
Depository's fee (including VAT)	25	22
<b>Other expenses</b>		
Safe custody charge	11	15
<b>Total expenses borne by the ACD</b>	<b>36</b>	<b>37</b>

### 6 Taxation

	2013 £'000	2012 £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	19
Overseas tax	26	137
Overseas tax recoverable: exchange rate movements	2	(1)
Income tax prior period adjustment	(3)	0
Prior period adjustment	(4)	0
Current tax charge (note 6b)	21	155
Deferred tax (note 6c)	0	0
<b>Total taxation</b>	<b>21</b>	<b>155</b>

#### b) Factors affecting taxation charge for the year

Net revenue before taxation	138,978	132,898
Corporation tax at 20%	27,795	26,579
Effects of:		
Retail Prices Index adjustment to gilts	(1,831)	(1,825)
UK dividends <sup>[a]</sup>	(9,199)	(8,875)
Stock dividends not taxable	(999)	(392)
Overseas dividends not taxable <sup>[a]</sup>	(262)	(590)
Interest distributions	(16,613)	(17,370)
Prior period expenses utilised	(1,610)	0
Current period expenses not utilised	2,719	2,492
Overseas tax	26	137
Overseas tax recoverable: exchange rate movements	2	(1)
Income tax prior period adjustment	(3)	0
Prior period adjustment	(4)	0
<b>Current tax charge (note 6a)</b>	<b>21</b>	<b>155</b>

<sup>[a]</sup> As an Open-Ended Investment Company this item is not subject to corporation tax.

#### 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
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

# Aggregated Financial Statements (audited)

## NOTES TO THE FINANCIAL STATEMENTS

### 7 Contingent liabilities and outstanding commitments

#### Rights issues

At the balance sheet date, the Company had a contingent liability totalling £5,002 (31.05.12: £0), details of which are disclosed in the notes to the financial statements of the relevant sub-funds.

#### Warrants

There were no outstanding commitments at the balance sheet date (31.05.12: same).

### 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 £'000
<b>a) Purchases</b>		
Purchases excluding transaction costs	4,536,096	5,825,552
Commissions	247	206
Taxes	924	797
Total transaction costs	1,171	1,003
<b>Total purchases including transaction costs</b>	<b>4,537,267</b>	<b>5,826,555</b>
<b>b) Sales</b>		
Sales excluding transaction costs	4,623,836	5,186,439
Commissions	(303)	(214)
<b>Total sales net of transaction costs</b>	<b>4,623,533</b>	<b>5,186,225</b>

### 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 £'000
<b>Income shares (sterling)</b>		
Class 'A' - Dividend distributions	25,206	26,335
Interest distributions	13,587	13,275
Class 'C' - Dividend distributions	6,030	4,857
Class 'I' - Dividend distributions	179	n/a
Interest distributions	329	n/a
Class 'R' - Dividend distributions	18	n/a
Interest distributions	30	n/a
Class 'X' - Dividend distributions	1,399	1,222
Interest distributions	32,078	31,776
<b>Accumulation shares (sterling)</b>		
Class 'A' - Dividend distributions	9,555	9,579
Interest distributions	20,497	18,986
Class 'I' - Dividend distributions	116	n/a
Interest distributions	169	n/a
Class 'R' - Dividend distributions	4	n/a
Interest distributions	0	n/a
Class 'X' - Dividend distributions	484	269
Interest distributions	6,364	6,070
<b>Accumulation shares (euro)</b>		
Class 'A' - Dividend distributions	11	17
Class 'C' - Dividend distributions	0	n/a
Class 'A-H' - Interest distributions	65	36
Class 'C-H' - Interest distributions	120	16
<b>Accumulation shares (US dollar)</b>		
Class 'A-H' - Interest distributions	6	0
Class 'C-H' - Interest distributions	479	0
	116,726	112,438
Income tax deducted at source	18,240	17,359
	134,966	129,797
Income deducted on cancellation of shares	1,276	1,071
Income received on issue of shares	(1,133)	(2,043)
<b>Finance costs: Distributions</b>	<b>135,109</b>	<b>128,825</b>
Finance costs: Interest	16	5
<b>Total finance costs</b>	<b>135,125</b>	<b>128,830</b>
Net revenue per statement of total return	138,957	132,743
Expenses offset against capital	4,286	3,969
Relief on expenses offset against capital	(759)	(794)
Effective yield adjustment not distributed	(6,627)	(6,614)
Stock dividends not distributed	(959)	(473)
Undistributed income brought forward	71	65
Undistributed income carried forward	(5)	(71)
Income deficit transferred from capital	145	0
<b>Finance costs: Distributions</b>	<b>135,109</b>	<b>128,825</b>

# 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

15 July 2013

# M&G Extra Income Fund

## AUTHORISED CORPORATE DIRECTOR'S REPORT

### Investment objective and policy of the M&G Extra Income Fund

The Fund invests mainly in a range of UK equities with the aim of achieving a high income stream which also increases over time. The target yield is 50% higher than that of the FTSE All-Share Index but this may vary in the shorter term. Although income will be the primary consideration, the investment manager will also be mindful of total return (the combination of income and growth of capital).

### Investment approach

The M&G Extra Income Fund is managed to provide investors with a high income through a portfolio of UK equities and high quality corporate bonds (in order to aid income generation). The fund targets a yield that is 50% higher than that of the FTSE All-Share Index. Although this gives the fund a bias towards the higher yielding sectors of the market, it aims to have a broadly diversified portfolio within these yield constraints.

The equity component of the fund has a bias towards good value, out of favour stocks. Good quality investments are selected from the available universe of higher yielding equities by identifying those companies that exhibit the following qualities: strong business franchise, good cashflow characteristics and attractive dividend growth prospects.

Stocks will generally be sold if these criteria no longer apply, but the specific sell discipline is triggered by over-valuation, falling yield or better opportunities elsewhere.

### 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 3 June 2013, for the year ended 31 May 2013

During the 12 months under review, amongst the new holdings of note were Rio Tinto, Informa and Direct Line. Rio Tinto is one of the largest and best-run miners, its valuation was attractive and dividend<sup>[a]</sup> growth is returning to the sector. Informa is a business information group and the position represented a partial switch out of media group United Business Media, following some good performance. Informa has produced steady growth, has a record of increasing its dividend and could be the subject of consolidation moves within media companies.

The portfolio has had a reduced exposure to financials for some time, due to concerns about banks' weak balance sheets, but has partially offset this stance by focusing primarily on insurance companies instead, which have enjoyed a good year. To this end, insurer Direct Line was added to the portfolio during the period under review.

Two holdings left the portfolio due to takeovers: the UK's largest software company, Logica, and telecommunications group Cable & Wireless Worldwide, which was absorbed by Vodafone. Elsewhere, the market rally was used as an opportunity to realise profits in some of the fund's better performers such as insurer Standard Life, price comparison website Moneysupermarket.com, magazine and newspaper wholesaler Smiths News, BT, Unilever and cardboard and corrugated paper manufacturer DS Smith. Conversely, poor performance prompted the sale of Hays, the UK's largest recruitment firm, and Marks & Spencer was sold on concerns about the company's strategy in the competitive environment on the high street.

There were no major changes to the fixed income portion of the portfolio, which continues to be invested mostly in high grade corporate bonds<sup>[b]</sup>. The fund maintains a small exposure to UK government bonds with a short time to their final payment date, including an index-linked<sup>[c]</sup> position as the market seems to be underestimating the future level of inflation.

### Richard Hughes Fund manager

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

<sup>[a]</sup> 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.

<sup>[b]</sup> Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'.

<sup>[c]</sup> Index-linked government bonds are interest-bearing loans extended by an investor to governments, where both the value of the loan and the interest payments are 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 Extra Income Fund

## FUND STATISTICS

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

### DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
First interim	02.09.13	31.10.13
Second interim	02.12.13	31.01.14
Third interim	03.03.14	30.04.14
Final	02.06.14	31.07.14

	Final distribution		Ongoing Charges Figure <sup>[b]</sup>	
	Inc 31.07.13 <sup>[a]</sup>	Acc 03.06.13 <sup>[a]</sup>	31.05.13	31.05.12
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>%</b>	<b>%</b>
Class 'A'	14.1384	103.2931	1.41	1.41
Class 'C'	13.6818	n/a	0.16	0.16
Class 'I'	25.7107	26.0455	0.91 <sup>[c]</sup>	n/a
Class 'R'	2.7731	2.8053	1.17 <sup>[c]</sup>	n/a
Class 'X'	14.3969	102.3546	1.41	1.41

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

<sup>[b]</sup> 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.

<sup>[c]</sup> 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 31.05.13		Net asset value per share as at 31.05.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>%</b>	<b>%</b>
Class 'A'	702.36	5,230.93	593.16	4,220.85	+18.41	+23.93
Class 'C'	756.90	n/a	632.74	n/a	+19.62	n/a
Class 'I'	1,117.52	1,161.78	n/a	n/a	n/a	n/a
Class 'R'	111.55	116.00	n/a	n/a	n/a	n/a
Class 'X'	708.11	5,171.67	598.00	4,172.95	+18.41	+23.93

### PERFORMANCE SINCE LAUNCH

	six months 03.12.12 %	one year 01.06.12 %	five years 03.06.08 % p.a. <sup>[a]</sup>	since launch % p.a. <sup>[a]</sup>
<b>Sterling <sup>[b]</sup></b>				
Class 'A'	+8.7	+18.5	+2.0	+7.0 <sup>[c]</sup>
Class 'C'	+9.4	+19.7	+3.0	+1.8 <sup>[d]</sup>
Class 'I'	+9.0	n/a	n/a	+11.2 <sup>[e]</sup>
Class 'R'	+9.2	n/a	n/a	+11.0 <sup>[e]</sup>
Class 'X'	+8.7	+18.5	+2.0	+3.3 <sup>[f]</sup>

<sup>[a]</sup> Shows the compound rate of return, per annum, over the period.

<sup>[b]</sup> Bid to bid excluding reinvested income.

<sup>[c]</sup> 19 November 1973, the end of the initial offer period of the predecessor unit trust.

<sup>[d]</sup> 1 December 2005, the launch date of the share class.

<sup>[e]</sup> 3 August 2012, the launch date of the share class. Not annualised.

<sup>[f]</sup> 1 October 2002, the launch date of the share class.

### SINGLE YEAR PERFORMANCE (5 YEARS ENDING MAY)

From	31.05.12	31.05.11	31.05.10	29.05.09	30.05.08
To	31.05.13	31.05.12	31.05.11	31.05.10	29.05.09
	%	%	%	%	%
<b>Sterling</b>					
Class 'A'	+23.9	+0.5	+17.7	+18.5	-18.4

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

### PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
<b>Sterling (net)</b>		<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
Class 'A'	2008	701.96	485.18	3,919.74	2,833.04
	2009	575.01	433.98	3,598.48	2,604.09
	2010	617.36	532.79	4,032.82	3,444.07
	2011	638.70	559.38	4,261.10	3,820.33
	2012	657.72	589.82	4,762.59	4,132.31
	2013 <sup>[a]</sup>	736.65	653.13	5,378.05	4,729.30
Class 'C'	2008	716.52	499.37	n/a	n/a
	2009	597.06	448.68	n/a	n/a
	2010	646.80	557.62	n/a	n/a
	2011	672.33	591.20	n/a	n/a
	2012	704.74	629.20	n/a	n/a
	2013 <sup>[a]</sup>	792.19	699.96	n/a	n/a
Class 'I'	2012 <sup>[b]</sup>	1,044.25	996.37	1,055.80	1,000.00
	2013 <sup>[a]</sup>	1,175.35	1,037.04	1,194.38	1,048.52
Class 'R'	2012 <sup>[b]</sup>	104.09	100.00	105.51	100.00
	2013 <sup>[a]</sup>	117.53	103.25	119.25	104.77
Class 'X'	2008	707.80	489.18	3,875.09	2,800.74
	2009	579.74	437.66	3,557.45	2,574.40
	2010	622.44	537.13	3,986.82	3,404.79
	2011	644.05	563.99	4,212.74	3,776.87
	2012	663.19	594.63	4,708.54	4,085.41
	2013 <sup>[a]</sup>	742.82	658.55	5,316.99	4,675.64

<sup>[a]</sup> To 3 June 2013.

<sup>[b]</sup> 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 Extra Income Fund

## FUND STATISTICS

### INCOME

Dividend income per share						
	Calendar year	Interims	Distributed Final	Interim	Total	Reinvested
Sterling (net)		p	p	p	p	p
Class 'A'	2008	13.0000	14.7900	6.5500	34.3400	195.8074
	2009	13.1000	12.0150	5.2500	30.3650	175.6943
	2010	10.5000	12.2000	5.2500	27.9500	178.2085
	2011	10.5000	12.1510	5.3500	28.0010	189.3228
	2012	11.1000	13.8080	5.5500	30.4580	213.0706
	2013 <sup>[a]</sup>	11.2000	14.1384	-	25.3384	143.2931
Class 'C'	2008	13.0000	15.4850	6.5500	35.0350	n/a
	2009	13.1000	12.9900	6.4000	32.4900	n/a
	2010	13.7500	8.8250	7.0000	29.5750	n/a
	2011	11.4000	10.8820	7.3000	29.5820	n/a
	2012	11.8000	12.9630	7.3000	32.0630	n/a
	2013 <sup>[a]</sup>	12.1000	13.6818	-	25.7818	n/a
Class 'I'	2012	n/a	n/a	5.5500	5.5500	11.1500
	2013 <sup>[a]</sup>	11.2000	25.7107	-	36.9107	31.7455
Class 'R'	2012	n/a	n/a	nil	nil	1.5000
	2013 <sup>[a]</sup>	1.5000	2.7731	-	4.2731	2.8053
Class 'X'	2008	13.0000	15.0660	6.5500	34.6160	193.5089
	2009	13.1000	12.2750	5.2500	30.6250	173.7841
	2010	10.5000	12.4200	5.2500	28.1700	176.0903
	2011	10.5000	12.3800	5.3500	28.2300	187.1113
	2012	11.1000	14.0590	5.5500	30.7090	210.6551
	2013 <sup>[a]</sup>	11.2000	14.3969	-	25.5969	142.3546

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

The M&G Extra Income Fund distributes quarterly and in order to conduct a controlled distribution flow to shareholders the three interim distribution rates will, at the fund manager's discretion and so far as possible, be broadly similar. All remaining income will be paid out at the final distribution, which will normally be greater than the rate declared at an interim.

### NET ASSETS

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
<b>Sterling</b>		<b>p</b>	<b>p</b>		
Class 'A'	May 2011	620.83	4,201.49	36,173,557	719,048
	May 2012	593.16	4,220.85	34,974,557	698,723
	May 2013	702.36	5,230.93	33,408,457	714,683
Class 'C'	May 2011	655.62	n/a	13,771,619	n/a
	May 2012	632.74	n/a	12,809,919	n/a
	May 2013	756.90	n/a	12,091,019	n/a
Class 'I'	May 2013	1,117.52	1,161.78	339,050	79,500
Class 'R'	May 2013	111.55	116.00	494,000	81,000
Class 'X'	May 2011	625.90	4,153.53	3,536,430	86,169
	May 2012	598.00	4,172.95	3,857,930	89,859
	May 2013	708.11	5,171.67	4,272,630	207,159
<b>Total net asset value of sub-fund</b>	<b>Year ended</b>	<b>£</b>		<b>€ <sup>[a]</sup></b>	
	May 2011	370,790,000		424,828,000	
	May 2012	344,819,000		431,024,000	
	May 2013	409,874,000		479,908,000	

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

## PORTFOLIO

### PORTFOLIO STATEMENT

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Oil &amp; gas producers</b>		<b>8.28</b>	<b>9.33</b>
2,800,000 BP	13,268	3.24	
900,000 Royal Dutch Shell 'B'	20,646	5.04	
<b>Chemicals</b>		<b>2.14</b>	<b>1.99</b>
500,000 AZ Electronic Materials	1,580	0.39	
1,200,000 Elementis	2,846	0.69	
71,590 Johnson Matthey	1,842	0.45	
1,250,000 Synthomer (formerly Yule Catto)	2,520	0.61	
<b>Mining</b>		<b>2.55</b>	<b>1.99</b>
350,000 BHP Billiton	6,792	1.66	
125,000 Rio Tinto	3,636	0.89	
<b>Construction &amp; materials</b>		<b>0.73</b>	<b>0.72</b>
400,000 Balfour Beatty	939	0.23	
80,000 Keller Group	758	0.19	
900,000 Marshalls	1,260	0.31	
<b>Aerospace &amp; defence</b>		<b>0.49</b>	<b>0.40</b>
500,000 BAE Systems	2,019	0.49	
<b>General industrials</b>		<b>0.63</b>	<b>0.92</b>
500,000 DS Smith	1,223	0.30	
100,000 Smiths Group	1,372	0.33	
<b>Electronic &amp; electrical equipment</b>		<b>1.25</b>	<b>0.77</b>
600,000 Halma	3,135	0.77	
676,647 Morgan Advanced (formerly Morgan Crucible)	1,974	0.48	
<b>Industrial engineering</b>		<b>0.57</b>	<b>0.61</b>
900,000 Melrose	2,326	0.57	
<b>Industrial transportation</b>		<b>0.54</b>	<b>0.42</b>
800,000 BBA Aviation	2,217	0.54	

# M&G Extra Income Fund

## PORTFOLIO

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Support services</b>			
50,000 Bunzl	643	0.16	
800,000 Carillion	2,051	0.50	
195,553 De La Rue	1,879	0.46	
1,100,000 Electrocomponents	2,980	0.73	
1,100,000 Premier Farnell	2,376	0.58	
1,500,000 Smiths News	2,561	0.62	
		<b>3.05</b>	<b>3.34</b>
<b>Automobiles &amp; parts</b>			
800,000 GKN	2,385	0.58	
		<b>0.58</b>	<b>0.35</b>
<b>Beverages</b>			
350,000 Britvic	1,850	0.45	
		<b>0.45</b>	<b>0.36</b>
<b>Food producers</b>			
150,000 Unilever	4,155	1.01	
		<b>1.01</b>	<b>0.94</b>
<b>Tobacco</b>			
640,000 British American Tobacco	23,328	5.69	
200,000 Imperial Tobacco	4,774	1.16	
		<b>6.85</b>	<b>6.78</b>
<b>Pharmaceuticals &amp; biotechnology</b>			
225,000 AstraZeneca	7,626	1.86	
1,100,000 GlaxoSmithKline	18,717	4.57	
		<b>6.43</b>	<b>6.68</b>
<b>Food &amp; drug retailers</b>			
1,000,000 Tesco	3,645	0.89	
		<b>0.89</b>	<b>0.26</b>
<b>General retailers</b>			
50,000 NEXT	2,303	0.56	
		<b>0.56</b>	<b>0.67</b>
<b>Media</b>			
450,000 Informa	2,295	0.56	
1,150,000 Moneysupermarket.com	2,380	0.58	
200,000 Pearson	2,462	0.60	
450,000 Reed Elsevier	3,344	0.82	
400,000 UBM	2,880	0.70	
		<b>3.26</b>	<b>2.81</b>
<b>Travel &amp; leisure</b>			
500,000 Compass Group	4,290	1.05	
1,250,000 Marston's	1,779	0.43	
500,000 National Express	1,007	0.25	
1,130,555 William Hill	4,917	1.20	
		<b>2.93</b>	<b>2.49</b>
<b>Fixed line telecommunications</b>			
2,000,000 BT Group	6,082	1.48	
700,000 TalkTalk Telecom	1,597	0.39	
		<b>1.87</b>	<b>2.09</b>
<b>Mobile telecommunications</b>			
9,000,000 Vodafone Group	17,149	4.18	
		<b>4.18</b>	<b>4.99</b>
<b>Electricity</b>			
245,427 SSE	3,819	0.93	
		<b>0.93</b>	<b>1.16</b>
<b>Gas, water &amp; multi-utilities</b>			
1,250,000 Centrica	4,765	1.16	
675,000 National Grid	5,329	1.30	
750,000 Pennon Group	5,122	1.25	
250,000 Severn Trent	5,132	1.25	
1,150,000 United Utilities	8,694	2.12	
		<b>7.08</b>	<b>7.78</b>
<b>Banks</b>			
1,818,176 HSBC Holdings	13,191	3.22	
		<b>3.22</b>	<b>3.39</b>
<b>Non-life insurance</b>			
600,000 Catlin Group	3,015	0.74	
800,000 Direct Line Insurance Group	1,686	0.41	
150,000 Jardine Lloyd Thompson Group	1,332	0.33	
1,750,000 RSA Insurance Group	2,009	0.49	
		<b>1.97</b>	<b>1.92</b>
<b>Life insurance</b>			
600,000 Aviva	2,004	0.49	
900,000 Chesnara	2,259	0.55	
		<b>5.10</b>	<b>3.63</b>

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Life insurance (continued)</b>			
2,750,000 Legal & General Group	5,013	1.22	
425,000 Old Mutual	864	0.21	
350,000 Prudential	3,948	0.96	
1,400,000 Resolution	4,053	0.99	
700,000 Standard Life	2,774	0.68	
		<b>0.74</b>	<b>0.61</b>
<b>Real estate investment &amp; services</b>			
4,423,076 Redefine International	1,780	0.43	
2,300,000 Standard Life Investment Property Income Trust	1,288	0.31	
		<b>2.11</b>	<b>2.00</b>
<b>Real estate investment trusts</b>			
370,000 A&J Mucklow Group	1,431	0.35	
354,221 British Land	2,157	0.53	
1,500,000 Hansteen Holdings	1,333	0.33	
203,925 Land Securities Group	1,886	0.46	
650,000 Segro	1,800	0.44	
		<b>2.57</b>	<b>1.99</b>
<b>Financial services</b>			
300,000 Ashmore Group	1,199	0.29	
250,000 Close Brothers Group	2,477	0.60	
300,000 Henderson Group	506	0.12	
350,000 Intermediate Capital Group	1,648	0.40	
225,000 Provident Financial	3,458	0.84	
450,000 Tullett Prebon	1,321	0.32	
		<b>0.84</b>	<b>0.79</b>
<b>Equity investment instruments</b>			
1,498,400 Carador Income Fund	1,007	0.25	
1,850,000 Ecofin Water & Power Opportunities	2,400	0.59	
		<b>0.44</b>	<b>0.76</b>
<b>Software &amp; computer services</b>			
500,000 Sage Group	1,819	0.44	
		<b>5.74</b>	<b>5.43</b>
<b>Non-convertible preference shares</b>			
£1,500,000 Aviva 8.375% Cum. Irrd. Pref.	1,808	0.44	
£3,800,000 General Accident 7.875% Cum. Irrd. Pref.	4,275	1.04	
£5,000,000 General Accident 8.875% Cum. Irrd. Pref.	6,200	1.51	
£7,725,000 Lloyds Banking Group 9.25% Non-cum. Irrd. Pref.	9,270	2.26	
£1,600,000 Standard Chartered 8.25% Non-cum. Irrd. Pref.	2,016	0.49	
		<b>2.60</b>	<b>2.97</b>
<b>'AAA' credit rated bonds</b>			
£2,400,000 KfW 5.55% 2021	3,049	0.74	
£355,000 Treasury 1.25% IL 2017	526	0.13	
£835,000 Treasury 2.5% IL 2016	2,895	0.71	
£1,500,000 Treasury 3.75% 2019	1,726	0.42	
£1,225,000 Treasury 4% 2022	1,444	0.35	
£850,000 Treasury 4.5% 2019	1,009	0.25	
		<b>1.13</b>	<b>1.66</b>
<b>'AA' credit rated bonds</b>			
£1,300,000 Land Securities Capital Markets Var. Rate 2025	1,536	0.37	
£1,050,000 Rabobank Nederland 3.25% 2017	1,120	0.27	
£1,250,000 Wal-Mart Stores 4.875% 2039	1,439	0.35	
£450,000 Wal-Mart Stores 5.625% 2034	578	0.14	
		<b>6.16</b>	<b>7.09</b>
<b>'A' credit rated bonds</b>			
£650,000 Anheuser-Busch InBev 9.75% 2024	1,041	0.25	
£2,100,000 AT&T 5.875% 2017	2,450	0.60	
£700,000 BAA Funding Var. Rate 2015	716	0.17	
£1,473,000 BAA Funding Var. Rate 2025	1,721	0.42	
£1,500,000 BAT Holdings 5.5% 2016	1,698	0.41	
£1,950,000 EDF Energy Networks 6.875% 2022	2,585	0.63	
£250,000 Électricité de France 6.125% 2034	309	0.08	
£1,200,000 Granite Master Issuer FRN 2054	1,099	0.27	
£1,550,000 HSBC Holdings Var. Rate 2022	1,750	0.43	
£1,750,000 JPMorgan Chase 5.375% 2016	1,952	0.48	
£845,000 London Merchant Securities 6.5% 2026	1,019	0.25	



# M&G Extra Income Fund

## PORTFOLIO

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>'A' credit rated bonds (continued)</b>			
£300,000 London Stock Exchange 9.125% 2019	403	0.10	
£460,000 London Stock Exchange Var. Rate 2016	513	0.13	
£400,000 McDonalds 6.375% 2020	504	0.12	
£250,000 Motability Operations Group 6.625% 2019	319	0.08	
£400,000 Royal Bank of Scotland 7.5% 2024	535	0.13	
£1,000,000 Standard Life Var. Rate Perp.	1,098	0.27	
£650,000 UBS London 6.375% 2016	748	0.18	
£1,200,000 Verizon Wireless Capital 8.875% 2018	1,622	0.40	
£700,000 Wells Fargo 5.25% 2023	820	0.20	
£1,750,000 Yorkshire Water Services Odsal Finance 6.5876% 2023	2,287	0.56	
		<b>6.81</b>	<b>6.56</b>
<b>'BBB' credit rated bonds</b>			
£1,000,000 BSKyB Finance UK 5.75% 2017	1,167	0.28	
£2,180,000 Deutsche Telekom Var. Rate 2019	2,854	0.70	
£1,350,000 EDF Energy Networks 5.125% 2016	1,520	0.37	
£600,000 FirstGroup 5.25% 2022	643	0.16	
£300,000 FirstGroup 6.875% 2024	359	0.09	
£200,000 Go-Ahead Group 5.375% 2017	223	0.05	
£878,000 Imperial Tobacco Finance 8.125% 2024	1,216	0.30	
£1,050,000 Imperial Tobacco Finance 9% 2022	1,497	0.37	
£1,350,000 KPN 5.75% 2016	1,498	0.37	
£439,000 KPN 6% 2019	519	0.13	
£375,000 Legal & General Group 10% IL 2041	516	0.13	
£1,666,000 Lloyds TSB Bank 6.625% 2015	1,780	0.43	
£160,000 Marks & Spencer 5.625% 2014	165	0.04	
£1,200,000 Mondelez International (formerly Kraft Foods) 7.25% 2018	1,499	0.37	
£700,000 NEXT 5.875% 2016	792	0.19	
£1,500,000 Reed Elsevier Investments 5.625% 2016	1,696	0.41	
£335,000 Rentokil Initial 5.75% 2016	367	0.09	
£155,000 Stagecoach 5.75% 2016	174	0.04	
£1,000,000 Talisman Energy 6.625% 2017	1,185	0.29	
£1,660,000 Tate & Lyle International Finance 6.75% 2019	2,052	0.50	
£200,000 Telecom Italia 6.375% 2019	216	0.05	
£400,000 Telefónica Emisiones 5.375% 2026	419	0.10	
£1,862,000 Tesco 6.125% 2022	2,267	0.55	
£450,000 United Business Media 6.5% 2016	513	0.13	
£918,000 United Utilities Water 5.375% 2018	1,062	0.26	
£850,000 Virgin Media Secured Finance 7% 2018	892	0.22	
£3,000 Xstrata Canada Financial 7.375% 2020	4	0.00	
£700,000 Yorkshire Water Services Var. Rate 2025	792	0.19	
		<b>0.00</b>	<b>0.06</b>
<b>'BB' credit rated bonds</b>			
<b>Bonds with no credit rating <sup>[a]</sup></b>			
£1,500,000 Carlsberg Breweries 7.25% 2016	1,783	0.44	
£400,000 Hammerson 5.25% 2016	449	0.11	
£1,283,000 Hammerson 6.875% 2020	1,604	0.39	
£1,100,000 Heineken 7.25% 2015	1,211	0.30	
£1,236,000 John Lewis 6.125% 2025	1,503	0.37	
£520,000 John Lewis 8.375% 2019	680	0.17	
£850,000 National Express 6.25% 2017	953	0.23	
£2,300,000 Segro 5.25% 2015	2,481	0.61	
£500,000 TUI Travel 6% 2014 (TUI Travel)	576	0.14	
£297,000 WM Morrison Supermarkets 3.5% 2026	294	0.07	
		<b>2.83</b>	<b>3.52</b>
<b>Unquoted / unlisted <sup>[a]</sup></b>			
£250,000 National Grid 6% Cnv. 2003 (Energis)	0	0.00	

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>'AAA' rated money market funds <sup>[b]</sup></b>			
6,617,000 Northern Trust Global Fund - Sterling	6,617	1.61	0.89
<b>Portfolio of investments (notes 1b &amp; 1d on page 16)</b>	<b>414,445</b>	<b>101.12</b>	<b>101.12</b>
<b>Net other liabilities</b>	<b>(4,571)</b>	<b>(1.12)</b>	<b>(1.12)</b>
<b>Net assets attributable to shareholders</b>	<b>409,874</b>	<b>100.00</b>	<b>100.00</b>

<sup>[a]</sup> The underlying stock for each convertible bond is shown in brackets.

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

### PORTFOLIO TRANSACTIONS

for the year ended 31 May 2013

	£'000
<b>Largest purchases</b>	
BHP Billiton	3,880
Rio Tinto	3,878
Resolution	3,091
Deutsche Telekom Var. Rate 2019 (£)	2,837
Tesco	2,592
EDF Energy Networks 6.875% 2022 (£)	2,586
Informa	1,892
Carlsberg Breweries 7.25% 2016 (£)	1,805
Direct Line Insurance Group	1,673
Verizon Wireless Capital 8.875% 2018 (£)	1,657
Morgan Advanced (formerly Morgan Crucible)	1,637
KPN 5.75% 2016 (£)	1,493
AZ Electronic Materials	1,189
Ashmore Group	1,103
Melrose	1,045
National Express	1,034
Virgin Media Secured Finance 7% 2018 (£)	895
Imperial Tobacco	842
Tate & Lyle	817
HSBC Holdings	774
Northern Trust Global Fund - Sterling <sup>[a]</sup>	49,712
Other purchases	6,923
<b>Total purchases</b>	<b>93,355</b>
<b>Largest sales</b>	
Anglo American	3,375
HSBC Holdings	2,781
GlaxoSmithKline Capital 6.375% 2039 (£)	2,118
DS Smith	2,114
Royal Dutch Shell 'B'	1,950
Aviva	1,890
Vodafone Group	1,592
GlaxoSmithKline	1,471
RSA Insurance Group	1,381
Hays	1,288
WPP Finance 6.375% 2020 (£)	1,240
Pearson	1,207
FirstGroup 8.125% 2018 (£)	1,093
Logica	1,050
Compass Group	1,025
SSE	1,016
BT Group	1,013
Linde Finance 12.25% 2017 (£)	1,000
Legal & General Group	960
E.ON International Finance 5.875% 2037 (£)	948
Northern Trust Global Fund - Sterling <sup>[a]</sup>	46,163
Other sales	18,378
<b>Total sales</b>	<b>95,053</b>

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

# M&G Extra Income Fund

## FINANCIAL STATEMENTS

For the year ended 31 May 2013.

### STATEMENT OF TOTAL RETURN

	Note	2013		2012	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		67,826		(12,726)
Revenue	4	18,717		18,629	
Expenses	5	(4,286)		(3,969)	
Net revenue before taxation		14,431		14,660	
Taxation	6	(1)		(19)	
Net revenue after taxation			14,430		14,641
<b>Total return before distributions</b>			<b>82,256</b>		<b>1,915</b>
Finance costs: Distributions	12		(17,960)		(17,816)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>64,296</b>		<b>(15,901)</b>

### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2013		2012	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>344,819</b>		<b>370,790</b>
Amounts received on issue of shares	25,954		11,011	
Amounts paid on cancellation of shares	(27,129)		(22,728)	
		(1,175)		(11,717)
Stamp Duty Reserve Tax (SDRT)		(109)		(51)
Change in net assets attributable to shareholders from investment activities (see above)		64,296		(15,901)
Retained distributions on Accumulation shares		1,995		1,647
Unclaimed distributions		48		51
<b>Closing net assets attributable to shareholders</b>		<b>409,874</b>		<b>344,819</b>

## BALANCE SHEET

	as at 31 May 2013		as at 31 May 2012	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		414,445		348,675
Debtors				
Amounts receivable on issues	155		160	
Debt security interest receivable	1,567		1,520	
Distributions receivable	1		1	
Dividends receivable	1,831		2,170	
Sales awaiting settlement	260		15	
Tax recoverable	14		5	
		3,828		3,871
Cash and bank balances				
Cash held as bank balances	15		0	
		15		0
<b>Total other assets</b>		<b>3,843</b>		<b>3,871</b>
<b>Total assets</b>		<b>418,288</b>		<b>352,546</b>
<b>Liabilities</b>				
Creditors				
Amounts payable on cancellations	(560)		(345)	
Corporation tax payable	0		(14)	
Expenses payable	(246)		(196)	
Net distributions payable on Income shares	(7,093)		(7,032)	
Purchases awaiting settlement	(505)		(140)	
SDRT payable	(10)		0	
<b>Total liabilities</b>		<b>(8,414)</b>		<b>(7,727)</b>
<b>Net assets attributable to shareholders</b>		<b>409,874</b>		<b>344,819</b>

## 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 31 May 2013, being the last business day of the financial year. The fair value of non-derivative securities is bid price, excluding any accrued interest. 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 31 May 2013, being the last business day of the financial year.

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 1 Accounting policies (continued)

##### 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.

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.

##### 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.

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. Generally, the ACD will not seek to hedge these exposures since the ACD believes that, in the long term, such hedging would be detrimental to total return.

The ACD considers the credit rating, yield and maturity of each interest-bearing 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 is likely to fall and vice versa.

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, occasionally, 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.

# M&G Extra Income Fund

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 2 Risk management policies (continued)

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 96, 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 (31.05.12: same).

#### 3 Net capital gains / (losses)

	2013 £'000	2012 £'000
Non-derivative securities	67,829	(12,723)
Transaction charges	(3)	(3)
<b>Net capital gains / (losses)</b>	<b>67,826</b>	<b>(12,726)</b>

#### 4 Revenue

	2013 £'000	2012 £'000
Bank interest	0	1
Interest distributions	16	24
Interest on debt securities	3,544	3,825
Overseas dividends	121	602
Property income dividends	218	210
Stock dividends	1,275	521
UK dividends	13,526	13,435
Underwriting commission	17	11
<b>Total revenue</b>	<b>18,717</b>	<b>18,629</b>

#### 5 Expenses

	2013 £'000	2012 £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge	3,671	3,393
Administration fee	573	534
	4,244	3,927
<b>Payable to the Depositary or associate</b>		
Depositary's fee (including VAT)	27	26
Distribution fees	1	0
	28	26
<b>Other expenses</b>		
Audit fee (including VAT)	10	10
Regulatory fees	0	1
Safe custody charge	4	5
	14	16
<b>Total expenses</b>	<b>4,286</b>	<b>3,969</b>

#### 6 Taxation

	2013 £'000	2012 £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	19
Prior period adjustment	1	0
	1	19
Current tax charge (note 6b)	1	19
Deferred tax (note 6c)	0	0
<b>Total taxation</b>	<b>1</b>	<b>19</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue before taxation	14,431	14,660
Corporation tax at 20%	2,886	2,932
Effects of:		
UK dividends not taxable	(2,705)	(2,687)
Stock dividends not taxable	(255)	(104)
Overseas dividends not taxable	(24)	(122)
Current period expenses not utilised	98	0
Prior period adjustment	1	0
<b>Current tax charge (note 6a)</b>	<b>1</b>	<b>19</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

At the period end, after offset against income taxable on receipt, there is a potential deferred tax asset of £98,000 (2012: £nil) in relation to surplus management expenses. It is unlikely that the fund will generate sufficient taxable profits in the future to utilise these amounts and therefore no deferred tax asset has been recognised.

#### 7 Contingent liabilities and outstanding commitments

There were no contingent liabilities or outstanding commitments at the balance sheet date (31.05.12: 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 periodic charge are disclosed in note 5. Amounts due at the year end to the Authorised Corporate Director of £4,244,000 (31.05.12: £3,927,000) 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, the sub-fund held shares in related parties of M&G Securities Limited with a value of £3,948,000 (31.05.12: £2,380,000).

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 20.36% (31.05.12: 21.28%) of the sub-fund's shares.

# M&G Extra Income 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 (31.05.12: same).

#### Currency exposure

There was no significant foreign currency exposure within the sub-fund at the balance sheet date (31.05.12: same).

#### Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 31.05.13 £'000	as at 31.05.12 £'000	as at 31.05.13 £'000	as at 31.05.12 £'000	as at 31.05.13 £'000	as at 31.05.12 £'000
UK government / corporate bonds	4,519	3,632	75,413	71,670	79,932	75,302
Bank balances / money market funds	15	3,068	0	0	15	3,068
<b>Total</b>	<b>4,534</b>	<b>6,700</b>	<b>75,413</b>	<b>71,670</b>	<b>79,947</b>	<b>78,370</b>

The weighted average gross interest rate of these fixed interest-bearing assets at the balance sheet date was 2.82% (31.05.12: 3.70%) and the weighted average period for which the interest rates were fixed was 7.93 years (31.05.12: 8.02 years) 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 the London Interbank Offered Rate (LIBOR) (31.05.12: same).

#### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.05.12: same).

#### 10 Portfolio transaction costs

	2013 £'000	2012 £'000
<b>a) Purchases</b>		
Purchases excluding transaction costs	93,237	79,171
Commissions	26	14
Taxes	92	67
Total transaction costs	118	81
<b>Total purchases including transaction costs</b>	<b>93,355</b>	<b>79,252</b>
<b>b) Sales</b>		
Sales excluding transaction costs	95,088	92,108
Commissions	(35)	(16)
<b>Total sales net of transaction costs</b>	<b>95,053</b>	<b>92,092</b>

#### 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 31 May 2013, is set out in the following table (31.05.12: same):

#### CHARGES AND EXPENSES

	Initial charge %	Withdrawal fee %	ACD's annual remuneration %
<b>Sterling</b>			
Class 'A'	4.00	n/a	1.25
Class 'C'	nil	n/a	0.00
Class 'I' <sup>[a]</sup>	1.00	n/a	0.75
Class 'R' <sup>[a]</sup>	1.00	n/a	1.00
Class 'X'	nil	4.50 <sup>[b]</sup>	1.25

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

<sup>[b]</sup> 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

	31.05.13		31.05.12	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
<b>Sterling</b>				
Class 'A'	234,647	37,384	207,454	29,492
Class 'C'	91,516	n/a	81,053	n/a
Class 'I'	3,789	924	n/a	n/a
Class 'R'	551	94	n/a	n/a
Class 'X'	30,255	10,714	23,070	3,750

The net asset value per share and the number of shares are given in the net assets table on page 13. The distribution per share is given in the distribution table on pages 21 & 22. Each share class has the same rights on winding-up.

# M&G Extra Income Fund

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 12 Finance costs

	2013 £'000	2012 £'000
<b>Income shares (sterling)</b>		
Class 'A' - First interim	1,933	1,925
- Second interim	1,926	1,978
- Third interim	1,896	1,964
- Final	4,723	4,829
Class 'C' - First interim	930	985
- Second interim	701	738
- Third interim	796	819
- Final	1,654	1,661
Class 'I' - First interim <sup>[a]</sup>	0	n/a
- Second interim	7	n/a
- Third interim	13	n/a
- Final	87	n/a
Class 'R' - First interim	0	n/a
- Second interim <sup>[b]</sup>	0	n/a
- Third interim	0	n/a
- Final	14	n/a
Class 'X' - First interim	217	191
- Second interim	224	203
- Third interim	229	208
- Final	615	542
<b>Accumulation shares (sterling)</b>		
Class 'A' - First interim	276	258
- Second interim	295	269
- Third interim	299	270
- Final	738	666
Class 'I' - First interim <sup>[c]</sup>	0	n/a
- Second interim <sup>[d]</sup>	0	n/a
- Third interim	1	n/a
- Final	21	n/a
Class 'R' - First interim	0	n/a
- Second interim <sup>[e]</sup>	0	n/a
- Third interim	0	n/a
- Final	2	n/a
Class 'X' - First interim	37	33
- Second interim	40	34
- Third interim	74	32
- Final	212	85
Finance costs: Dividend distributions	17,960	17,690
Income deducted on cancellation of shares	234	238
Income received on issue of shares	(234)	(112)
<b>Finance costs: Distributions</b>	<b>17,960</b>	<b>17,816</b>

#### 12 Finance costs (continued)

	2013 £'000	2012 £'000
Net revenue per statement of total return	14,430	14,641
Expenses offset against capital	4,286	3,969
Relief on expenses offset against capital	(759)	(794)
Undistributed income brought forward	3	3
Undistributed income carried forward	0	(3)
<b>Finance costs: Distributions</b>	<b>17,960</b>	<b>17,816</b>

<sup>[a]</sup> The first interim distribution for Sterling Class 'I' (Income) shares in 2013 was £6.

<sup>[b]</sup> The second interim distribution for Sterling Class 'R' (Income) shares in 2013 was £15.

<sup>[c]</sup> The first interim distribution for Sterling Class 'I' (Accumulation) shares in 2013 was £6.

<sup>[d]</sup> The second interim distribution for Sterling Class 'I' (Accumulation) shares in 2013 was £140.

<sup>[e]</sup> The second interim distribution for Sterling Class 'R' (Accumulation) shares in 2013 was £15.

# M&G Extra Income Fund

## FINANCIAL STATEMENTS

DISTRIBUTION TABLE				
Dividend distributions on Income shares	Net income	Equalisation	Distribution paid/payable	
			2012/13	2011/12
<b>Sterling</b>				
Class 'A' - First interim	p	p	p	p
Group 1:	5.5500	-	5.5500	5.3500
Group 2:	1.2534	4.2966	5.5500	5.3500
- Second interim				
Group 1:	5.6000	-	5.6000	5.5500
Group 2:	-	5.6000	5.6000	5.5500
- Third interim				
Group 1:	5.6000	-	5.6000	5.5500
Group 2:	-	5.6000	5.6000	5.5500
- Final				
Group 1:	14.1384	-	14.1384	13.8080
Group 2:	5.3089	8.8295	14.1384	13.8080
Class 'C' - First interim				
Group 1:	7.3000	-	7.3000	7.3000
Group 2:	2.8730	4.4270	7.3000	7.3000
- Second interim				
Group 1:	5.6000	-	5.6000	5.5500
Group 2:	0.5103	5.0897	5.6000	5.5500
- Third interim				
Group 1:	6.5000	-	6.5000	6.2500
Group 2:	-	6.5000	6.5000	6.2500
- Final				
Group 1:	13.6818	-	13.6818	12.9630
Group 2:	1.7317	11.9501	13.6818	12.9630
Class 'I' - First interim				
Group 1:	5.5500	-	5.5500	n/a
Group 2:	5.5500	-	5.5500	n/a
- Second interim				
Group 1:	5.6000	-	5.6000	n/a
Group 2:	-	5.6000	5.6000	n/a
- Third interim				
Group 1:	5.6000	-	5.6000	n/a
Group 2:	-	5.6000	5.6000	n/a
- Final				
Group 1:	25.7107	-	25.7107	n/a
Group 2:	9.3783	16.3324	25.7107	n/a
Class 'R' - First interim				
Group 1:	-	-	-	n/a
Group 2:	-	-	-	n/a
- Second interim				
Group 1:	1.5000	-	1.5000	n/a
Group 2:	1.5000	-	1.5000	n/a
- Third interim				
Group 1:	-	-	-	n/a
Group 2:	-	-	-	n/a
- Final				
Group 1:	2.7731	-	2.7731	n/a
Group 2:	0.7950	1.9781	2.7731	n/a

## DISTRIBUTION TABLE (continued)

Dividend distributions on Income shares	Net income	Equalisation	Distribution paid/payable	
			2012/13	2011/12
<b>Sterling</b>				
Class 'X' - First interim	p	p	p	p
Group 1:	5.5500	-	5.5500	5.3500
Group 2:	1.1110	4.4390	5.5500	5.3500
- Second interim				
Group 1:	5.6000	-	5.6000	5.5500
Group 2:	-	5.6000	5.6000	5.5500
- Third interim				
Group 1:	5.6000	-	5.6000	5.5500
Group 2:	-	5.6000	5.6000	5.5500
- Final				
Group 1:	14.3969	-	14.3969	14.0590
Group 2:	4.4460	9.9509	14.3969	14.0590
<b>Dividend distributions on Accumulation shares</b>				
<b>Sterling</b>				
Class 'A' - First interim	p	p	p	p
Group 1:	39.5000	-	39.5000	36.2063
Group 2:	8.9382	30.5618	39.5000	36.2063
- Second interim				
Group 1:	40.0000	-	40.0000	37.9044
Group 2:	6.9368	33.0632	40.0000	37.9044
- Third interim				
Group 1:	40.0000	-	40.0000	38.3000
Group 2:	-	40.0000	40.0000	38.3000
- Final				
Group 1:	103.2931	-	103.2931	95.2706
Group 2:	42.2447	61.0484	103.2931	95.2706
Class 'I' - First interim				
Group 1:	5.5500	-	5.5500	n/a
Group 2:	5.5500	-	5.5500	n/a
- Second interim				
Group 1:	5.6000	-	5.6000	n/a
Group 2:	-	5.6000	5.6000	n/a
- Third interim				
Group 1:	5.7000	-	5.7000	n/a
Group 2:	-	5.7000	5.7000	n/a
- Final				
Group 1:	26.0455	-	26.0455	n/a
Group 2:	6.5058	19.5397	26.0455	n/a
Class 'R' - First interim				
Group 1:	-	-	-	n/a
Group 2:	-	-	-	n/a
- Second interim				
Group 1:	1.5000	-	1.5000	n/a
Group 2:	1.5000	-	1.5000	n/a
- Third interim				
Group 1:	-	-	-	n/a
Group 2:	-	-	-	n/a
- Final				
Group 1:	2.8053	-	2.8053	n/a
Group 2:	1.5046	1.3007	2.8053	n/a

# M&G Extra Income Fund

## FINANCIAL STATEMENTS

### DISTRIBUTION TABLE (continued)

Dividend distributions on Accumulation shares	Net income	Equalisation	Amount reinvested	
			2012/13	2011/12
Sterling	p	p	p	p
Class 'X' - First interim				
Group 1:	38.7500	-	38.7500	35.4992
Group 2:	12.9905	25.7595	38.7500	35.4992
- Second interim				
Group 1:	39.2500	-	39.2500	37.1677
Group 2:	-	39.2500	39.2500	37.1677
- Third interim				
Group 1:	40.0000	-	40.0000	37.5000
Group 2:	5.0655	34.9345	40.0000	37.5000
- Final				
Group 1:	102.3546	-	102.3546	95.1551
Group 2:	49.3101	53.0445	102.3546	95.1551

First interim period 01.06.12 - 31.08.12

Second interim period 01.09.12 - 30.11.12

Third interim period 01.12.12 - 28.02.13

Final period 01.03.13 - 31.05.13

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.



# M&G Gilt & Fixed Interest Income Fund

## AUTHORISED CORPORATE DIRECTOR'S REPORT

### Investment objective of the M&G Gilt & Fixed Interest Income Fund

The Fund is designed to provide a secure income with stability of capital consistent with investment in gilts.

### Investment policy of the M&G Gilt & Fixed Interest Income Fund

The Fund invests mainly in short, medium or long-dated gilts according to M&G's view at any given moment of the likely course of interest rates and trend of the gilt-edged market. The Fund's exposure to gilts may be gained through the use of derivatives. The Fund may also invest in other assets including 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 Gilt & Fixed Interest Income Fund is managed on a total return basis, with the aim of outperforming its peer group. The fund manager's investment approach is driven primarily by macroeconomic factors such as views on inflation, interest rates and economic growth and tends not to be influenced by short-term changes in the economic or market environment. A minimum of 80% of the fund is to be invested in UK government bonds, subject to which, it can invest a maximum of 20% in government guaranteed securities and up to 5% in corporate bonds and cash. The corporate bond purchases are made in consultation with the fund managers of the M&G Corporate Bond Fund and the M&G High Yield Corporate Bond 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 'A' shares, the nominated share class.

## INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

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

During the review period, we increased our allocation to bonds (interest-bearing loans) issued by the UK government, also known as gilts, that have either a short or very long time to their final repayment date. For example, we put money into gilts maturing in 2014 and 2049 as we believe that these represented a more compelling investment than gilts in the 10- to 15-year area of the market. The fund's overall duration<sup>[a]</sup> position was reduced from 9.9 years to 7.4 years during the period under review, shorter than the FTSE Government UK Gilts All Stocks Index, as we expect government bond yields<sup>[b]</sup> to rise, particularly on issues maturing in 10 to 15 years.

Following a period of strong performance relative to conventional gilts, and due to a slightly more benign outlook for inflation, we sold our holdings in index-linked bonds<sup>[c]</sup> from the UK government during the period. Additionally, we sold our position in German index-linked bonds to take profits following good performance and before the bonds reached maturity.

Amid historically low returns on gilts, we searched for more attractive investments outside the UK government bond market. For example, we established a 1.1% stake in Finnish government debt as it is the only eurozone country with a stable AAA credit rating from all the major rating agencies.

In addition, we continued to invest in good quality bonds issued by companies (corporate bonds) and government-guaranteed issues as they offered an attractive yield but without a significant increase in risk relative to government bonds. For example, we bought bonds issued by the French railway operator Réseau Ferré de France at the end of 2012, before selling them in April 2013 to realise profits.

### Jim Leaviss Fund manager

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

<sup>[a]</sup> Duration is a measure of the portfolio's sensitivity to changes in interest rates.

<sup>[b]</sup> Yield is the bond's prospective rate of return and has an inverse relationship to price. If a bond's price goes down, its yield goes up, and vice versa.

<sup>[c]</sup> Interest payments and repayment values of index-linked bonds are adjusted by the rate of inflation thereby protecting the value of the investment from general price increases.

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 Gilt & Fixed Interest Income Fund

## FUND STATISTICS

### DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
First interim	02.09.13	31.10.13
Second interim	02.12.13	31.01.14
Third interim	03.03.14	30.04.14
Final	02.06.14	31.07.14

	Final distribution		Ongoing Charges Figure <sup>[b]</sup>	
	Inc 31.07.13 <sup>[a]</sup>	Acc 03.06.13 <sup>[a]</sup>	31.05.13	31.05.12
<b>Sterling</b>	p	p	%	%
Class 'A'	0.1168	0.6584	0.91	0.91
Class 'I'	1.9372	1.8908	0.66 <sup>[c]</sup>	n/a

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

<sup>[b]</sup> 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.

<sup>[c]</sup> 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 31.05.13		Net asset value per share as at 31.05.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
	p	p	p	p	%	%
<b>Sterling</b>						
Class 'A'	85.85	464.00	87.01	467.23	-1.33	-0.69
Class 'I'	973.54	980.50	n/a	n/a	n/a	n/a

### PERFORMANCE SINCE LAUNCH

	six months 03.12.12 %	one year 01.06.12 %	five years 03.06.08 % p.a. <sup>[a]</sup>	since launch % p.a. <sup>[a]</sup>
<b>Sterling <sup>[b]</sup></b>				
Class 'A'	-1.7	-3.3	+6.9	+7.2 <sup>[c]</sup>
Class 'I'	-1.6	n/a	n/a	-2.6 <sup>[d]</sup>

<sup>[a]</sup> Shows the compound rate of return, per annum, over the period.

<sup>[b]</sup> Bid to bid with net income reinvested.

<sup>[c]</sup> 9 December 1980, the end of the initial offer period of the predecessor unit trust.

<sup>[d]</sup> 3 August 2012, the launch date of the share class. Not annualised.

### SINGLE YEAR PERFORMANCE (5 YEARS ENDING MAY)

From	31.05.12	31.05.11	31.05.10	29.05.09	30.05.08
To	31.05.13	31.05.12	31.05.11	31.05.10	29.05.09
	%	%	%	%	%
<b>Sterling</b>					
Class 'A'	-1.1	+13.1	+4.8	+5.7	+13.0

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

## PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
<b>Sterling (net)</b>		p	p	p	p
Class 'A'	2008 <sup>[a]</sup>	76.44	65.33	385.05	324.27
	2009	77.52	72.00	393.12	364.40
	2010	80.17	72.61	419.36	375.21
	2011	86.92	74.97	465.05	395.55
	2012	88.90	84.27	477.39	451.84
	2013 <sup>[b]</sup>	87.69	84.36	473.26	454.60
Class 'I'	2012 <sup>[c]</sup>	1,002.89	973.73	1,002.91	976.66
	2013 <sup>[b]</sup>	994.71	957.11	999.86	960.00

<sup>[a]</sup> On 1 September 2008, the fund's objective was changed.

<sup>[b]</sup> To 3 June 2013.

<sup>[c]</sup> 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

	Calendar year	Interest income per share			Reinvested	
		Interims	Distributed Final	Interim	Total	Total
<b>Sterling (net)</b>		p	p	p	p	p
Class 'A'	2008	1.0228	0.5172	0.5284	2.0684	10.1750
	2009	1.0123	0.4876	0.4656	1.9655	9.6358
	2010	0.9020	0.4580	0.3820	1.7420	8.2375
	2011	0.6096	0.2940	0.2980	1.2016	5.9376
	2012	0.3852	0.1340	0.1600	0.6792	3.3076
	2013 <sup>[a]</sup>	0.2844	0.1168	-	0.4012	1.3884
Class 'I'	2012	n/a	n/a	0.6792	0.6792	2.9620
	2013 <sup>[a]</sup>	4.1196	1.9372	-	6.0568	3.8964

<sup>[a]</sup> Up to final: ex-distribution date 3 June 2013; payment date 31 July 2013.

## NET ASSETS

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
<b>Sterling</b>		p	p		
Class 'A'	May 2011	77.69	413.17	292,120,931	123,802,360
	May 2012	87.01	467.23	319,173,931	154,250,860
	May 2013	85.85	464.00	246,311,931	136,744,660
Class 'I'	May 2013	973.54	980.50	730,700	721,300

### Total net asset value of sub-fund

Year ended	£	€ <sup>[a]</sup>
May 2011	738,462,000	846,039,000
May 2012	998,409,000	1,248,013,000
May 2013	860,142,000	1,007,112,000

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

# M&G Gilt & Fixed Interest Income Fund

## PORTFOLIO

### PORTFOLIO STATEMENT

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>'AAA' credit rated bonds</b>			
£3,000,000 CTRL Section 1 Finance 5.234% 2035	3,684	0.43	
£7,000,000 European Investment Bank 8.75% 2017	9,213	1.07	
£10,000,000 European Investment Bank FRN 2018	10,015	1.17	
£10,000,000 Finland (Republic of) FRN 2016	10,008	1.16	
£20,000,000 International Bank for Reconstruction & Development 0.875% 2014	20,102	2.34	
£18,000,000 KfW 3.125% 2014	18,678	2.17	
£7,000,000 KfW 5.5% 2015	7,843	0.91	
£20,050,000 Network Rail Infrastructure Finance 1.25% 2015	20,267	2.37	
£3,000,000 Network Rail Infrastructure Finance 4.625% 2020	3,611	0.42	
£20,000,000 Network Rail Infrastructure Finance FRN 2016	20,000	2.33	
£68,300,000 Treasury 1% 2017	68,816	8.00	
£15,000,000 Treasury 1.25% 2018	15,176	1.76	
£112,000,000 Treasury 2% 2016	116,502	13.54	
£164,000,000 Treasury 2.25% 2014	166,394	19.34	
£66,000,000 Treasury 3.5% Perp.	57,009	6.63	
£30,000,000 Treasury 3.75% 2052	32,574	3.79	
£10,000,000 Treasury 4% 2016	11,125	1.29	
£15,000,000 Treasury 4% 2060	17,372	2.02	
£3,450,000 Treasury 4% Perp.	3,402	0.40	
£15,000,000 Treasury 4.25% 2039	17,868	2.08	
£10,000,000 Treasury 4.25% 2049	11,965	1.39	
£25,000,000 Treasury 4.25% 2055	30,212	3.51	
£30,000,000 Treasury 4.5% 2034	37,114	4.31	
£15,000,000 Treasury 5% 2018	17,879	2.08	
£30,000,000 Treasury 6% 2028	43,232	5.03	
£15,000,000 Treasury 8% 2021	22,218	2.58	
£15,000,000 Treasury 8.75% 2017	19,997	2.32	
<b>'AA' credit rated bonds</b>			
£20,000,000 Barclays Bank 1.5% 2017	20,438	2.37	
£7,088,000 Transport for London 1.25% 2017	7,120	0.83	
£12,000,000 Transport for London 3.875% 2042	12,108	1.41	
<b>Interest rate futures contracts</b>			
<b>'AAA' rated money market funds <sup>[a]</sup></b>			
1,063,000 Northern Trust Global Fund - Sterling	1,063	0.12	0.22
<b>Portfolio of investments (notes 1b &amp; 1d on page 26)</b>	<b>853,005</b>	<b>99.17</b>	<b>99.27</b>
<b>Net other assets</b>	<b>7,137</b>	<b>0.83</b>	<b>0.73</b>
<b>Net assets attributable to shareholders</b>	<b>860,142</b>	<b>100.00</b>	<b>100.00</b>

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

## PORTFOLIO TRANSACTIONS

For the year ended 31 May 2013

	£'000
<b>Largest purchases</b>	
Treasury 2.25% 2014 (£)	139,441
Treasury 2% 2016 (£)	117,026
Treasury 6% 2028 (£)	56,973
Treasury 4.5% 2013 (£)	56,259
Treasury 1% 2017 (£)	55,344
Treasury 3.75% 2052 (£)	44,198
Treasury 4.25% 2039 (£)	26,860
Treasury 8% 2021 (£)	22,019
Treasury 8.75% 2017 (£)	21,120
Network Rail Infrastructure Finance FRN 2018 (£)	20,000
Treasury 8% 2013 (£)	19,084
UK Long Gilt Bond Futures Sep 2012 <sup>[a]</sup>	18,347
Treasury 1.25% 2018 (£)	15,336
Treasury 4% 2022 (£)	14,546
Transport for London 3.875% 2042 (£)	13,285
Treasury 4% 2016 (£)	11,129
Treasury 0.125% IL 2044 (£)	10,345
European Investment Bank FRN 2025 (£)	10,000
Germany (Federal Republic of) 2.25% IL 2013 (£)	9,206
Treasury 5% 2025 (£)	7,500
Northern Trust Global Fund - Sterling <sup>[b]</sup>	238,485
Other purchases	35,144
<b>Total purchases</b>	<b>961,647</b>
<b>Largest sales</b>	
Treasury 4.5% 2013 (£)	126,373
Treasury 2.5% IL 2013 (£)	83,764
Treasury 2.5% IL 2016 (£)	73,669
Treasury 2.75% (£)	52,336
Treasury 4.25% 2046 (£)	38,367
Treasury 4.25% 2032 (£)	37,126
Treasury 4.25% 2040 (£)	37,052
Treasury 1% 2017 (£)	36,898
Treasury 3.75% 2052 (£)	35,311
Germany (Federal Republic of) 2.25% IL 2013 (£)	33,865
Treasury 4% 2060 (£)	30,470
Treasury 4.5% 2019 (£)	29,561
Treasury 5% 2025 (£)	26,809
Treasury 4.25% 2055 (£)	26,484
Treasury 4.5% 2034 (£)	23,183
Treasury 8% 2013 (£)	18,295
Treasury 6% 2028 (£)	14,698
Treasury 4% 2022 (£)	14,315
Treasury 0.125% IL 2044 (£)	11,149
Treasury 2.25% 2014 (£)	10,192
Northern Trust Global Fund - Sterling <sup>[b]</sup>	239,618
Other sales	59,247
<b>Total sales</b>	<b>1,058,782</b>

<sup>[a]</sup> Purchases and sales of Futures have been included at the value of their exposure.

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

# M&G Gilt & Fixed Interest Income Fund

## FINANCIAL STATEMENTS

For the year ended 31 May 2013.

### STATEMENT OF TOTAL RETURN

	Note	2013		2012	
		£'000	£'000	£'000	£'000
Income					
Net capital (losses) / gains	3		(12,318)		95,503
Revenue	4	16,014		18,643	
Expenses	5	(8,452)		(8,031)	
Finance costs: Interest	12	(3)		(1)	
Net revenue before taxation		7,559		10,611	
Taxation	6	0		0	
Net revenue after taxation		7,559		10,611	
<b>Total return before distributions</b>		<b>(4,759)</b>		<b>106,114</b>	
Finance costs: Distributions	12	(7,565)		(10,610)	
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>(12,324)</b>		<b>95,504</b>	

### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2013		2012	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>998,409</b>		<b>738,462</b>
Amounts received on issue of shares	63,513		222,308	
Amounts paid on cancellation of shares	(193,803)		(64,051)	
		(130,290)		158,257
Change in net assets attributable to shareholders from investment activities (see above)		(12,324)		95,504
Retained distributions on Accumulation shares		4,345		6,180
Unclaimed distributions		2		6
<b>Closing net assets attributable to shareholders</b>		<b>860,142</b>		<b>998,409</b>

## BALANCE SHEET

	as at 31 May 2013		as at 31 May 2012	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		853,005		991,221
Debtors				
Amounts receivable on issues	109		976	
Debt security interest receivable	8,680		10,688	
Distributions receivable	1		4	
Sales awaiting settlement	0		24,826	
		8,790		36,494
Cash and bank balances				
Amounts held at futures clearing houses and brokers	0		666	
Cash held as bank balances	1		1	
		1		667
<b>Total other assets</b>		<b>8,791</b>		<b>37,161</b>
<b>Total assets</b>		<b>861,796</b>		<b>1,028,382</b>
<b>Liabilities</b>				
Investment liabilities		0		(131)
Creditors				
Amounts payable on cancellations	(331)		0	
Expenses payable	(399)		(430)	
Income tax payable	(622)		(801)	
Net distributions payable on Income shares	(302)		(428)	
Purchases awaiting settlement	0		(28,183)	
		(1,654)		(29,842)
<b>Total liabilities</b>		<b>(1,654)</b>		<b>(29,973)</b>
<b>Net assets attributable to shareholders</b>		<b>860,142</b>		<b>998,409</b>

## 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 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 31 May 2013, being the last business day of the financial year. The fair value of non-equity shares is bid price, excluding any accrued interest, and the fair value of investments managed by the Authorised Corporate Director (ACD) is their single price.

#### 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 31 May 2013, being the last business day of the financial year.

# M&G Gilt & Fixed Interest Income Fund

## 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) Interest 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.

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. Generally, the ACD will not seek to hedge these exposures since the ACD believes that, in the long term, such hedging would be detrimental to total return.

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 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 holdings in different investment grades to mitigate potential exposure to credit default risk.

# M&G Gilt & Fixed Interest Income Fund

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 2 Risk management policies (continued)

During the year, it has been the policy to hedge the majority of the non-sterling denominated investment portfolio against currency movements through the use of forward currency contracts.

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.

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

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 96, 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 (31.05.12: same).

#### 3 Net capital (losses) / gains

	2013 £'000	2012 £'000
Non-derivative securities	(11,802)	100,683
Derivative contracts	(399)	(5,275)
Forward currency contracts	46	(822)
Currency (losses) / gains	(158)	918
Transaction charges	(5)	(1)
<b>Net capital (losses) / gains</b>	<b>(12,318)</b>	<b>95,503</b>

#### 4 Revenue

	2013 £'000	2012 £'000
Bank interest	0	3
Derivative revenue	(23)	(895)
Interest distributions	17	61
Interest on debt securities	16,020	19,474
<b>Total revenue</b>	<b>16,014</b>	<b>18,643</b>

#### 5 Expenses

	2013 £'000	2012 £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge	6,980	6,634
Administration fee	1,398	1,327
	<b>8,378</b>	<b>7,961</b>
<b>Payable to the Depository or associate</b>		
Depository's fee (including VAT)	52	50
Distribution fees	1	1
	<b>53</b>	<b>51</b>
<b>Other expenses</b>		
Audit fee (including VAT)	12	11
Safe custody charge	9	8
	<b>21</b>	<b>19</b>
<b>Total expenses</b>	<b>8,452</b>	<b>8,031</b>

#### 6 Taxation

	2013 £'000	2012 £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	0
Current tax charge (note 6b)	0	0
Deferred tax (note 6c)	0	0
<b>Total taxation</b>	<b>0</b>	<b>0</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue before taxation	7,559	10,611
Corporation tax at 20%	1,512	2,122
Effects of:		
Interest distributions	(1,512)	(2,122)
<b>Current tax charge (note 6a)</b>	<b>0</b>	<b>0</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The sub-fund does not have an unrecognised deferred tax asset at the year end (31.05.12: 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 (31.05.12: same).

# M&G Gilt & Fixed Interest Income 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 periodic charge are disclosed in note 5. Amounts due at the year end to the Authorised Corporate Director of £381,000 (31.05.12: £412,000) 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 9.94% (31.05.12: 9.16%) 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 (31.05.12: 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 31.05.13 £'000	as at 31.05.12 £'000	as at 31.05.13 £'000	as at 31.05.12 £'000	as at 31.05.13 £'000	as at 31.05.12 £'000
Euro	0	24,932	1	(24,717)	1	215
Sterling	853,005	966,158	7,136	32,036	860,141	998,194
<b>Total</b>	<b>853,005</b>	<b>991,090</b>	<b>7,137</b>	<b>7,319</b>	<b>860,142</b>	<b>998,409</b>

##### Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 31.05.13 £'000	as at 31.05.12 £'000	as at 31.05.13 £'000	as at 31.05.12 £'000	as at 31.05.13 £'000	as at 31.05.12 £'000
Euro	1	0	0	24,681	1	24,681
Sterling	41,086	12,848	811,919	954,358	853,005	967,206
<b>Total</b>	<b>41,087</b>	<b>12,848</b>	<b>811,919</b>	<b>979,039</b>	<b>853,006</b>	<b>991,887</b>

	Weighted average gross interest rate of fixed interest-bearing assets		Weighted average period for which interest rates are fixed <sup>[a]</sup>	
	as at 31.05.13 %	as at 31.05.12 %	as at 31.05.13 years	as at 31.05.12 years
Euro	n/a	0.05	n/a	0.87
Sterling	1.51	1.57	9.57	15.21

[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); and variable rate bonds (31.05.12: same).

##### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.05.12: 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 Gilt & Fixed Interest Income 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 Gilt & Fixed Interest Income 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 £24,613,396 over the next 30 days from the balance sheet date, 31 May 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
<b>a) Purchases</b>		
Total purchases excluding transaction costs	961,647	2,844,516
<b>b) Sales</b>		
Total sales excluding transaction costs	1,058,782	2,674,613

There were no significant transaction costs during the year (31.05.12: same).

# M&G Gilt & Fixed Interest Income Fund

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 11 Shareholder funds

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

The charging structure for each share class, as at 31 May 2013, is set out in the following table (31.05.12: same):

#### CHARGES AND EXPENSES

	Initial charge %	Withdrawal fee %	ACD's annual remuneration %
<b>Sterling</b>			
Class 'A'	nil	n/a	0.75
Class 'I' <sup>[a]</sup>	1.00	n/a	0.50

<sup>[a]</sup> With effect from 3 August 2012, the launch date of the Sterling Class 'I' share class.

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

	31.05.13		31.05.12	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
<b>Sterling</b>				
Class 'A'	211,457	634,499	277,703	720,706
Class 'I'	7,114	7,072	n/a	n/a

The net asset value per share and the number of shares are given in the net assets table on page 24. The distribution per share is given in the distribution table on page 31. Each share class has the same rights on winding-up.

#### 12 Finance costs

	2013 £'000	2012 £'000
<b>Income shares (sterling)</b>		
Class 'A' - First interim	495	953
- Second interim	421	667
- Third interim	384	549
- Final	288	428
Class 'I' - First interim	0	n/a
- Second interim	8	n/a
- Third interim	11	n/a
- Final	14	n/a
<b>Accumulation shares (sterling)</b>		
Class 'A' - First interim	1,273	2,095
- Second interim	1,124	1,546
- Third interim	1,030	1,420
- Final	900	1,119
Class 'I' - First interim	0	n/a
- Second interim	0	n/a
- Third interim	4	n/a
- Final	14	n/a
	5,966	8,777
Income tax deducted at source	1,512	2,122
Finance costs: Interest distributions	7,478	10,899
Income deducted on cancellation of shares	139	87
Income received on issue of shares	(52)	(376)
<b>Finance costs: Distributions</b>	<b>7,565</b>	<b>10,610</b>
Finance costs: Interest	3	1
<b>Total finance costs</b>	<b>7,568</b>	<b>10,611</b>
Net revenue per statement of total return	7,559	10,611
Undistributed income brought forward	6	5
Undistributed income carried forward	0	(6)
<b>Finance costs: Distributions</b>	<b>7,565</b>	<b>10,610</b>



# M&G Gilt & Fixed Interest Income Fund

## FINANCIAL STATEMENTS

DISTRIBUTION TABLE						
Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equalisation	Distribution paid/payable	
	p	p	p	p	2012/13	2011/12
<b>Sterling</b>						
Class 'A' - First interim						
Group 1:	0.2000	0.0400	0.1600	-	0.1600	0.2980
Group 2:	0.1029	0.0206	0.0823	0.0777	0.1600	0.2980
- Second interim						
Group 1:	0.1800	0.0360	0.1440	-	0.1440	0.2060
Group 2:	0.0798	0.0160	0.0638	0.0802	0.1440	0.2060
- Third interim						
Group 1:	0.1755	0.0351	0.1404	-	0.1404	0.1792
Group 2:	0.0993	0.0199	0.0794	0.0610	0.1404	0.1792
- Final						
Group 1:	0.1460	0.0292	0.1168	-	0.1168	0.1340
Group 2:	0.0671	0.0134	0.0537	0.0631	0.1168	0.1340
Class 'I' - First interim						
Group 1:	0.8490	0.1698	0.6792	-	0.6792	n/a
Group 2:	0.8490	0.1698	0.6792	-	0.6792	n/a
- Second interim						
Group 1:	2.6375	0.5275	2.1100	-	2.1100	n/a
Group 2:	1.2999	0.2600	1.0399	1.0701	2.1100	n/a
- Third interim						
Group 1:	2.5120	0.5024	2.0096	-	2.0096	n/a
Group 2:	1.0733	0.2147	0.8586	1.1510	2.0096	n/a
- Final						
Group 1:	2.4215	0.4843	1.9372	-	1.9372	n/a
Group 2:	1.0176	0.2035	0.8141	1.1231	1.9372	n/a

## DISTRIBUTION TABLE (continued)

Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
	p	p	p	p	2012/13	2011/12
<b>Sterling</b>						
Class 'A' - First interim						
Group 1:	1.0690	0.2138	0.8552	-	0.8552	1.5804
Group 2:	0.5784	0.1157	0.4627	0.3925	0.8552	1.5804
- Second interim						
Group 1:	0.9660	0.1932	0.7728	-	0.7728	1.1020
Group 2:	0.4341	0.0868	0.3473	0.4255	0.7728	1.1020
- Third interim						
Group 1:	0.9125	0.1825	0.7300	-	0.7300	0.9544
Group 2:	0.3994	0.0799	0.3195	0.4105	0.7300	0.9544
- Final						
Group 1:	0.8230	0.1646	0.6584	-	0.6584	0.7252
Group 2:	0.3851	0.0770	0.3081	0.3503	0.6584	0.7252
Class 'I' - First interim						
Group 1:	1.0240	0.2048	0.8192	-	0.8192	n/a
Group 2:	1.0240	0.2048	0.8192	-	0.8192	n/a
- Second interim						
Group 1:	2.6785	0.5357	2.1428	-	2.1428	n/a
Group 2:	0.7845	0.1569	0.6276	1.5152	2.1428	n/a
- Third interim						
Group 1:	2.5070	0.5014	2.0056	-	2.0056	n/a
Group 2:	0.8205	0.1641	0.6564	1.3492	2.0056	n/a
- Final						
Group 1:	2.3635	0.4727	1.8908	-	1.8908	n/a
Group 2:	1.0669	0.2134	0.8535	1.0373	1.8908	n/a
First interim period	01.06.12 - 31.08.12					
Second interim period	01.09.12 - 30.11.12					
Third interim period	01.12.12 - 28.02.13					
Final period	01.03.13 - 31.05.13					

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

# M&G Gilt & Fixed Interest Income Fund

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# M&G High Yield Corporate Bond Fund

## AUTHORISED CORPORATE DIRECTOR'S REPORT

### Investment objective of the M&G High Yield Corporate Bond Fund

The Fund is designed 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 High Yield Corporate Bond Fund

The Fund invests predominantly in higher yielding corporate debt instruments which may be denominated in sterling, European currencies and other major global currencies, should the investment managers deem them to be appropriate investments. The Fund's exposure to higher yielding corporate debt instruments may be gained through the use of derivatives and 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, government and public securities and other transferable securities, cash and near cash, deposits, warrants, money market instruments and other derivative instruments.

### Investment approach

The M&G High Yield Corporate Bond Fund invests predominantly in higher yielding corporate bonds. The fund manager's investment approach concentrates on bottom-up analysis of individual bond issues whilst remaining aware of macroeconomic developments. There is a focus on proprietary research rather than external research. Credit risk is constantly monitored and always well diversified. Foreign currency exposure is typically hedged to sterling using forward foreign currency contracts, although some currency exposure may exist.

### 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 3 June 2013, for the year ended 31 May 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. We currently view B rated companies as offering attractive value and we increased allocation to this area over the review period.

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 (interest-bearing loans) issued by Indesit, an Italian manufacturer of white goods with a strong presence across Europe.

We have been working closely with our analysts in the US and the fund gradually increased its exposure to the country, based on our positive economic outlook for the US economy. We purchased bonds issued by a number of US names, such as electricity producer Calpine and housebuilder Taylor Morrison, which we believe is well positioned to benefit from a US housing market recovery.

We slightly reduced the portfolio's overall level of risk towards the end of the review period as we believed valuations in some of its positions had become 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 bonds issued by IVS Group, an operator of vending machines based in Italy which we had purchased earlier in the review period.

Throughout the review period, we held a relatively modest position in banks and car makers, although within financials, we viewed the insurance sector more favourably. We made additional purchases in bonds issued by British life-insurers Old Mutual and Friends Provident, along with re-insurer Swiss Re.

### Stefan Isaacs Fund manager

Stefan Isaacs 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 High Yield Corporate Bond Fund

## FUND STATISTICS

### DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
First interim	01.07.13	31.07.13
Second interim	01.08.13	31.08.13
Third interim	02.09.13	30.09.13
Fourth interim	01.10.13	31.10.13
Fifth interim	01.11.13	30.11.13
Sixth interim	02.12.13	31.12.13
Seventh interim	02.01.14	31.01.14
Eighth interim	03.02.14	28.02.14
Ninth interim	03.03.14	31.03.14
Tenth interim	01.04.14	30.04.14
Eleventh interim	01.05.14	31.05.14
Final	02.06.14	30.06.14

	Final distribution		Ongoing Charges Figure <sup>[b]</sup>	
	Inc 30.06.13 <sup>[a]</sup>	Acc 03.06.13 <sup>[a]</sup>	31.05.13	31.05.12
<b>Sterling</b>	p	p	%	%
Class 'A'	0.1948	0.4168	1.41	1.42
Class 'I'	4.3540	4.5124	0.82 <sup>[c]</sup>	n/a
Class 'R'	0.4080	0.4252	1.17 <sup>[c]</sup>	n/a
Class 'X'	0.1968	0.4168	1.41	1.42
<b>Euro <sup>[f]</sup></b>	¢	¢	%	%
Class 'A-H'	n/a	5.4593	1.46	1.48
Class 'C-H'	n/a	6.1649	0.87	0.99
<b>US dollar <sup>[f]</sup></b>	¢	¢	%	%
Class 'A-H'	n/a	5.4765	1.46	1.49
Class 'C-H'	n/a	6.1807	0.86	0.97

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

<sup>[b]</sup> 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.

<sup>[c]</sup> 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 31.05.13		Net asset value per share as at 31.05.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
<b>Sterling</b>	p	p	p	p	%	%
Class 'A'	50.49	109.05	45.53	93.58	+10.89	+16.53
Class 'I'	1,067.05	1,116.18	n/a	n/a	n/a	n/a
Class 'R'	106.70	111.37	n/a	n/a	n/a	n/a
Class 'X'	50.51	109.12	45.55	93.65	+10.89	+16.52
<b>Euro</b>	€	€	€	€	%	%
Class 'A-H'	n/a	12.0721	n/a	10.2991	n/a	+17.22
Class 'C-H'	n/a	12.2256	n/a	10.3845	n/a	+17.73
<b>US dollar</b>	\$	\$	\$	\$	%	%
Class 'A-H'	n/a	12.1921	n/a	10.3428	n/a	+17.88
Class 'C-H'	n/a	12.3501	n/a	10.4215	n/a	+18.51

### PERFORMANCE SINCE LAUNCH

	six months 03.12.12 %	one year 01.06.12 %	five years 03.06.08 % p.a. <sup>[a]</sup>	since launch % p.a. <sup>[a]</sup>
<b>Sterling <sup>[b]</sup></b>				
Class 'A'	+3.9	+15.2	+7.9	+6.7 <sup>[c]</sup>
Class 'I'	+4.2	n/a	n/a	+11.4 <sup>[d]</sup>
Class 'R'	+4.0	n/a	n/a	+11.2 <sup>[d]</sup>
Class 'X'	+3.9	+15.2	+7.9	+5.5 <sup>[e]</sup>
<b>Euro <sup>[f]</sup></b>				
Class 'A-H'	+4.3	+15.9	n/a	+7.8 <sup>[g]</sup>
Class 'C-H'	+4.5	+16.4	n/a	+8.3 <sup>[g]</sup>
<b>US dollar <sup>[f]</sup></b>				
Class 'A-H'	+4.5	+16.6	n/a	+8.2 <sup>[g]</sup>
Class 'C-H'	+4.8	+17.2	n/a	+8.8 <sup>[g]</sup>

<sup>[a]</sup> Shows the compound rate of return, per annum, over the period.

<sup>[b]</sup> Bid to bid with net income reinvested.

<sup>[c]</sup> 1 October 2002, the launch date of the share class.

<sup>[d]</sup> 3 August 2012, the launch date of the share class. Not annualised.

<sup>[e]</sup> 16 October 1998, the end of the initial offer period of the predecessor unit trust.

<sup>[f]</sup> Bid to bid with gross income reinvested.

<sup>[g]</sup> 10 December 2010, the launch date of the share class.

### SINGLE YEAR PERFORMANCE (5 YEARS ENDING MAY)

From To	31.05.12 %	31.05.11 %	31.05.10 %	29.05.09 %	30.05.08 %
<b>Sterling</b>					
Class 'X'	+15.2	-1.2	+11.1	+20.6	-4.4

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

# M&G High Yield Corporate Bond Fund

## FUND STATISTICS

### PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
<b>Sterling (net)</b>		<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
Class 'A'	2008 <sup>[a]</sup>	47.49	34.78	78.00	59.88
	2009	46.29	33.38	84.44	58.52
	2010	48.99	45.67	93.16	84.72
	2011	49.55	42.47	96.10	84.38
	2012	50.55	44.79	106.45	90.19
	2013 <sup>[b]</sup>	51.60	49.96	110.89	106.48
Class 'I'	2012 <sup>[c]</sup>	1,068.49	1,000.00	1,087.46	1,000.00
	2013 <sup>[b]</sup>	1,090.80	1,055.71	1,135.10	1,088.93
Class 'R'	2012 <sup>[c]</sup>	106.84	100.00	108.63	100.00
	2013 <sup>[b]</sup>	109.05	105.57	113.26	108.72
Class 'X'	2008 <sup>[a]</sup>	47.54	34.79	78.06	59.89
	2009	46.31	33.39	84.52	58.57
	2010	49.01	45.69	93.22	84.81
	2011	49.57	42.49	96.16	84.44
	2012	50.57	44.81	106.53	90.25
	2013 <sup>[b]</sup>	51.62	49.98	110.96	106.56
<b>Euro (gross)</b>		<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
Class 'A-H'	2010 <sup>[d]</sup>	n/a	n/a	10.0923	10.0000
	2011	n/a	n/a	10.4996	9.2572
	2012	n/a	n/a	11.7501	9.9021
	2013 <sup>[b]</sup>	n/a	n/a	12.2759	11.7678
Class 'C-H'	2010 <sup>[d]</sup>	n/a	n/a	10.0923	10.0000
	2011	n/a	n/a	10.5218	9.2990
	2012	n/a	n/a	11.8777	9.9648
	2013 <sup>[b]</sup>	n/a	n/a	12.4303	11.9020
<b>US dollar (gross)</b>		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Class 'A-H'	2010 <sup>[d]</sup>	n/a	n/a	10.0937	10.0000
	2011	n/a	n/a	10.5045	9.2549
	2012	n/a	n/a	11.8484	9.9214
	2013 <sup>[b]</sup>	n/a	n/a	12.3975	11.8757
Class 'C-H'	2010 <sup>[d]</sup>	n/a	n/a	10.0939	10.0000
	2011	n/a	n/a	10.5299	9.2957
	2012	n/a	n/a	11.9783	9.9787
	2013 <sup>[b]</sup>	n/a	n/a	12.5555	12.0082

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

[b] To 3 June 2013.

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

[d] From 10 December 2010 (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	Interims	Total
<b>Sterling (net)</b>		<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
Class 'A'	2008	0.9180	0.1752	1.0888	2.1820
	2009	1.0828	0.1766	1.0158	2.2752
	2010	0.8560	0.1880	1.0783	2.1223
	2011	0.9680	0.1740	1.1780	2.3200
	2012	2.6348	0.2180	1.1760	4.0288
	2013 <sup>[a]</sup>	1.0740	0.1948	-	1.2688
Class 'I'	2012	n/a	n/a	18.0424	18.0424
	2013 <sup>[a]</sup>	24.9702	4.3540	-	29.3242
Class 'R'	2012	n/a	n/a	1.7242	1.7242
	2013 <sup>[a]</sup>	2.3748	0.4080	-	2.7828
Class 'X'	2008	0.9156	0.1760	1.0932	2.1848
	2009	1.0803	0.1784	1.0164	2.2751
	2010	0.8560	0.1880	1.0789	2.1229
	2011	0.9680	0.1740	1.1800	2.3220
	2012	0.9416	0.2180	1.1780	2.3376
	2013 <sup>[a]</sup>	1.0708	0.1968	-	1.2676
<b>Euro (gross)</b>		<b>¢</b>	<b>¢</b>	<b>¢</b>	<b>¢</b>
Class 'A-H'	2011	n/a	n/a	n/a	n/a
	2012	n/a	n/a	n/a	n/a
	2013 <sup>[a]</sup>	n/a	n/a	n/a	n/a
Class 'C-H'	2011	n/a	n/a	n/a	n/a
	2012	n/a	n/a	n/a	n/a
	2013 <sup>[a]</sup>	n/a	n/a	n/a	n/a
<b>US dollar (gross)</b>		<b>¢</b>	<b>¢</b>	<b>¢</b>	<b>¢</b>
Class 'A-H'	2011	n/a	n/a	n/a	n/a
	2012	n/a	n/a	n/a	n/a
	2013 <sup>[a]</sup>	n/a	n/a	n/a	n/a
Class 'C-H'	2011	n/a	n/a	n/a	n/a
	2012	n/a	n/a	n/a	n/a
	2013 <sup>[a]</sup>	n/a	n/a	n/a	n/a

[a] Up to final: ex-distribution date 3 June 2013;  
payment date 30 June 2013.

# M&G High Yield Corporate Bond Fund

## FUND STATISTICS

### NET ASSETS

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
<b>Sterling</b>					
		p	p		
Class 'A'	May 2011	48.68	95.09	266,511,470	202,959,202
	May 2012	45.53	93.58	329,527,470	278,691,202
	May 2013	50.49	109.05	361,095,470	314,522,202
Class 'I'	May 2013	1,067.05	1,116.18	1,420,300	719,000
Class 'R'	May 2013	106.70	111.37	1,595,000	62,000
Class 'X'	May 2011	48.70	95.15	1,394,199,642	114,508,960
	May 2012	45.55	93.65	1,338,287,642	118,303,960
	May 2013	50.51	109.12	1,279,987,642	131,091,960
<b>Euro</b>					
		€	€		
Class 'A-H'	May 2011	n/a	10.3926	n/a	38,000
	May 2012	n/a	10.2991	n/a	64,500
	May 2013	n/a	12.0721	n/a	147,800
Class 'C-H'	May 2011	n/a	10.4165	n/a	2,500
	May 2012	n/a	10.3845	n/a	93,000
	May 2013	n/a	12.2256	n/a	179,900
<b>US dollar</b>					
		\$	\$		
Class 'A-H'	May 2011	n/a	10.3980	n/a	2,000
	May 2012	n/a	10.3428	n/a	2,000
	May 2013	n/a	12.1921	n/a	44,500
Class 'C-H'	May 2011	n/a	10.4249	n/a	2,000
	May 2012	n/a	10.4215	n/a	2,000
	May 2013	n/a	12.3501	n/a	1,052,600
<b>Total net asset value of sub-fund</b>					
	Year ended	£		€ [a]	
	May 2011	1,111,087,000		1,272,948,000	
	May 2012	1,132,498,000		1,415,624,000	
	May 2013	1,352,184,000		1,583,230,000	

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

## PORTFOLIO

### PORTFOLIO STATEMENT

as at 31 May 2013

Holding [a]	Value £'000	31.05.13 %	31.05.12 %
<b>'AAA' credit rated bonds</b>			
€50,000,000 Bundesrepublik Deutschland 4.25% 2014	43,760	3.24	
€50,000,000 Bundesschatzanweisungen 0.25% 2014	42,773	3.16	
€20,000,000 Germany (Federal Republic of) 1.5% IL 2016	21,076	1.56	
<b>'AA' credit rated bonds</b>			
£5,400,000 GE Capital Trust III Var. Rate 2067	5,562	0.41	5.84
€4,000,000 GE Capital Trust IV Var. Rate 2066	3,450	0.26	
\$90,000,000 US Treasury Bill 0% 2013	59,155	4.37	

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding [a]	Value £'000	31.05.13 %	31.05.12 %
<b>'A' credit rated bonds</b>			
£3,500,000 HSBC Bank Capital Funding Var. Rate Perp.	3,570	0.26	
€5,000,000 Swiss Reinsurance Var. Rate Perp.	4,407	0.33	
<b>'BBB' credit rated bonds</b>			
€3,550,000 American International Var. Rate 2067	2,908	0.22	4.33
£5,500,000 American International Var. Rate 2067	5,311	0.39	5.41
\$7,000,000 Credit Suisse Group Guernsey I Var. Rate 2041	4,936	0.37	
€4,000,000 Delta Lloyd Levensverzekering Var. Rate 2042	3,946	0.29	
£6,500,000 Friends Life Group 8.25% 2022	7,306	0.54	
£332,000 HSBC Capital Funding Var. Rate Perp.	360	0.03	
\$3,500,000 JPMorgan Var. Rate Perp.	2,324	0.17	
£5,000,000 Lloyds TSB Bank Var. Rate 2020	5,223	0.39	
£4,500,000 Lloyds TSB Bank Var. Rate 2021	5,440	0.40	
€6,320,000 Mondi Consumer Packaging (formerly Nordenia International) 9.75% 2020	6,133	0.45	
€2,000,000 ProSecure Funding 4.668% 2016	1,737	0.13	
\$7,000,000 Qwest 6.875% 2033	4,602	0.34	
€1,000,000 SG Capital Trust III Var. Rate Perp.	839	0.06	
\$11,000,000 Société Générale Var. Rate Perp.	7,451	0.55	
<b>'BB' credit rated bonds</b>			
£5,500,000 Anglian Water Osprey Financing 7% 2018	6,031	0.45	28.24
£6,000,000 Arrow Global Finance 7.875% 2020	6,126	0.45	31.81
\$10,000,000 Bank of America Var. Rate Perp.	7,510	0.56	
\$9,000,000 BBVA Var. Rate Perp.	5,946	0.44	
\$4,750,000 BBVA International Preferred Var. Rate Perp.	2,912	0.22	
€8,054,000 Bombardier 7.25% 2016	7,154	0.53	
€6,000,000 Bormioli Rocco Holdings 10% 2018	5,432	0.40	
£13,000,000 Cabot Financial Luxembourg 10.375% 2019	14,755	1.09	
\$12,000,000 Calpine 7.5% 2021	8,559	0.63	
\$2,500,000 Citigroup Var. Rate Perp. (5.9%)	1,716	0.13	
\$10,000,000 Citigroup Var. Rate Perp. (5.95%)	6,869	0.51	
\$469,000 Cogeco Cable 4.875% 2020	309	0.02	
€7,500,000 Commerzbank 7.75% 2021	7,006	0.52	
£6,770,000 CPUK Finance 11.625% 2042	7,695	0.57	
€2,042,000 Crown European Holdings 7.125% 2018	1,888	0.14	
\$400,000 Dresdner Funding Trust I 8.151% 2031	280	0.02	
€7,555,000 Fiat Finance & Trade 7.75% 2016 'EMTN'	7,089	0.52	
€3,500,000 Fiat Industrial Finance Europe 6.25% 2018	3,376	0.25	
£7,366,000 Finmeccanica Finance 8% 2019	8,545	0.63	
€3,047,000 Frigoglass Finance 8.25% 2018	2,661	0.20	
\$4,000,000 Frontier Communications 8.125% 2018	3,021	0.21	
€4,100,000 Greif Luxembourg Finance 7.375% 2021	3,896	0.29	
£5,900,000 Heathrow Finance (formerly BAA) 7.125% 2017	6,481	0.48	
€8,000,000 HeidelbergCement Finance 9.5% 2018	9,005	0.67	
€12,500,000 Kabel Deutschland 6.5% 2018	11,359	0.84	
£3,205,000 Ladbrokes Group Finance 7.625% 2017	3,635	0.27	
€5,000,000 Lafarge 6.75% 2019	4,959	0.37	
£1,400,000 Lafarge 10% 2017	1,717	0.12	
£12,000,000 Lowell Group Financing 10.75% 2019	13,515	1.00	
€2,000,000 National Westminster Bank Var. Rate Perp.	1,304	0.10	
€6,000,000 OI European Group 4.875% 2021	5,366	0.40	

# M&G High Yield Corporate Bond Fund

## PORTFOLIO

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding <sup>[a]</sup>	Value £'000	31.05.13 %	31.05.12 %
<b>'BB' credit rated bonds (continued)</b>			
€5,037,000 OI European Group 6.75% 2020	4,969	0.37	
£4,000,000 Old Mutual 8% 2021	4,402	0.33	
£5,000,000 Old Mutual Var. Rate Perp.	4,741	0.35	
\$4,500,000 Petroleum Geo-Services 7.375% 2018	3,283	0.24	
£3,252,000 Priory Group No.3 7% 2018	3,366	0.25	
€3,000,000 RBS Capital Trust Var. Rate Perp.	1,909	0.14	
€22,500,000 Rexam Var. Rate 2067	20,787	1.54	
€4,750,000 Royal Bank of Scotland 5.5% Perp.	3,134	0.23	
€1,125,000 RPG Byty 6.75% 2020	932	0.07	
\$5,000,000 Sable International Finance 7.75% 2017	3,517	0.26	
€7,210,000 Sappi Papier Holding 6.625% 2018	6,441	0.48	
\$4,400,000 Sappi Papier Holding 7.75% 2017	3,153	0.23	
\$13,000,000 Sappi Papier Holding 8.375% 2019	9,336	0.69	
\$5,000,000 Sealed Air 8.125% 2019	3,714	0.27	
\$2,435,000 Smurfit Kappa Acquisitions 4.875% 2018	1,657	0.12	
€3,125,000 Smurfit Kappa Acquisitions 5.125% 2018	2,847	0.21	
€10,492,000 Smurfit Kappa Acquisitions 7.25% 2017	9,416	0.70	
€15,916,000 Smurfit Kappa Acquisitions 7.75% 2019	14,876	1.10	
\$3,000,000 Stora Enso 6.404% 2016	2,108	0.16	
CHF12,470,000 Sunrise Communications International 5.625% 2017	8,830	0.65	
€5,000,000 Sunrise Communications International 7% 2017	4,563	0.34	
CHF6,880,000 Sunrise Communications International 7% 2017	5,065	0.37	
\$10,477,000 Taylor Morrison 7.75% 2020	7,645	0.57	
£3,000,000 Thames Water Kemble Finance 7.75% 2019	3,329	0.25	
€15,000,000 UPCB Finance 7.625% 2020	13,823	1.02	
€26,750,000 UPCB Finance II 6.375% 2020	24,406	1.80	
£4,343,000 Virgin Media Finance 8.875% 2019	4,803	0.36	
€3,000,000 Viridian Group II 11.125% 2017	2,738	0.20	
\$12,945,000 Viridian Group II 11.125% 2017	8,936	0.66	
€3,900,000 Wendel 5.875% 2019	3,664	0.27	
\$5,000,000 Wind Acquisition Finance 7.25% 2018	3,419	0.25	
€10,977,000 Wind Acquisition Finance 7.375% 2018	9,878	0.73	
	<b>39.95</b>	<b>33.31</b>	
<b>'B' credit rated bonds</b>			
€11,100,000 Abengoa 4.5% Cnv. 2017 (Abengoa) 4.5% 2017	8,725	0.65	
\$5,000,000 Abengoa Finance 8.875% 2017	3,155	0.23	
\$2,690,000 Agrokro 8.875% 2020	1,972	0.15	
€5,500,000 Agrokro 9.875% 2019	5,279	0.39	
CHF5,750,000 Aguila 3 7.875% 2018	4,227	0.31	
\$4,000,000 Alice Finco 9.875% 2020	3,007	0.22	
€11,000,000 Ardagh Packaging Finance 7.375% 2017	10,122	0.75	
£4,200,000 Arqiva Broadcast Finance 9.5% 2020	4,533	0.34	
£12,875,000 Bakkavor Finance 2 8.25% 2018	13,357	0.99	
€2,730,000 Bank of Ireland 10% 2020	2,597	0.19	
€7,500,000 Bank of Ireland 10% 2022	7,238	0.54	
€3,685,000 Belden 5.5% 2023	3,195	0.24	
€3,750,000 Boardriders 8.875% 2017	3,416	0.26	
£5,000,000 Boparan Finance 9.875% 2018	5,583	0.41	
£3,610,000 Cable & Wireless International Finance 8.625% 2019	4,136	0.31	
€10,645,000 Carlson Wagonlit 7.5% 2019	9,636	0.71	

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding <sup>[a]</sup>	Value £'000	31.05.13 %	31.05.12 %
<b>'B' credit rated bonds (continued)</b>			
€10,000,000 Catalent Pharma Solutions 9.75% 2017	8,816	0.65	
\$2,638,000 Cemex España 9.875% 2019	1,977	0.16	
\$7,359,000 Cemex Finance 9.375% 2022 '144A'	5,445	0.40	
\$5,000,000 Cemex Finance 9.375% 2022 'REGS'	3,681	0.27	
€3,797,000 Cemex Finance 9.625% 2017	3,439	0.25	
\$1,125,000 Cemex SAB 5.875% 2019	741	0.06	
€3,000,000 Cerba European 7% 2020	2,635	0.19	
\$7,200,000 Chrysler 8% 2019	5,175	0.38	
\$14,650,000 Cincinnati Bell 8.375% 2020	10,292	0.77	
€12,041,000 Cirsa Funding Luxembourg 8.75% 2018	10,437	0.77	
€6,109,000 Edcon Proprietary 9.5% 2018 'REGS' (issued 22 Feb 2011)	5,322	0.39	
€11,297,000 Edcon Proprietary 9.5% 2018 'REGS' (issued 8 Feb 2013)	9,704	0.72	
\$2,350,000 Edcon Proprietary 9.5% 2018	1,550	0.11	
£12,376,000 Elli Finance UK 8.75% 2019	13,722	1.01	
£14,760,000 Exova 10.5% 2018	15,941	1.18	
\$3,530,000 First Quantum Minerals 7.25% 2019	2,307	0.17	
€5,875,000 Foodcorp Proprietary 8.75% 2018	5,541	0.41	
£12,000,000 Gala Group Finance 8.875% 2018	12,881	0.95	
€2,080,000 Guala Closures FRN 2019	1,799	0.13	
€7,645,000 Inaer Aviation Finance 9.5% 2017	6,608	0.49	
€15,000,000 Ineos Group Holdings 7.875% 2016	12,963	0.96	
€6,725,000 Intergen 8.5% 2017	5,844	0.42	
\$13,781,000 Intergen 9% 2017	9,308	0.69	
£14,000,000 Intergen 9.5% 2017	14,211	1.05	
€4,000,000 Iron Mountain 6.75% 2018	3,485	0.26	
£8,297,000 Iron Mountain 7.25% 2014	8,297	0.61	
€12,000,000 Kerling 10.625% 2017	10,902	0.81	
£7,000,000 Matalan Finance 8.875% 2016	7,055	0.52	
CHF36,685,000 Matterhorn Mobile 6.75% 2019	26,925	1.99	
€2,727,272 Mobile Challenger Intermediate 8.75% 2019	2,330	0.17	
€4,150,000 Nara Cable Funding 8.875% 2018	3,739	0.28	
\$5,000,000 Nara Cable Funding 8.875% 2018 '144A' 31/05s	3,394	0.25	
\$7,550,000 Nara Cable Funding 8.875% 2018 '144A' 01/06s	5,230	0.39	
€17,491,000 New World Resources 7.875% 2018	11,920	0.88	
€2,370,000 Numericable Finance 8.75% 2019	2,197	0.16	
£4,000,000 Odeon & UCI Finco 9% 2018	4,280	0.32	
€15,250,000 Ontex IV 7.5% 2018	13,724	1.01	
€1,100,000 OTE 4.625% 2016	919	0.07	
€1,600,000 OTE 7.875% 2018	1,459	0.11	
€3,000,000 OTE Step-Up 2015 7.25% 2015	2,670	0.20	
£14,200,000 Phones4u Finance 9.5% 2018	14,749	1.09	
€3,455,000 Polish Television Holding Step-Up 2017	3,157	0.23	
€6,653,000 Refresco Group 7.375% 2018	6,066	0.45	
\$20,000,000 Reynolds 5.75% 2020	12,937	0.96	
\$10,000,000 Reynolds 7.125% 2019	7,017	0.52	
€6,700,000 Schmolz + Bickenbach 9.875% 2019	5,894	0.44	
€5,105,000 Sisal Holding Istituto di Pagamento 7.25% 2017	4,419	0.33	
\$11,000,000 Sprint Nextel 8.375% 2017	8,297	0.61	
€6,000,000 Stork Technical Services Holdings 11% 2017	4,791	0.35	
€7,000,000 Styrolution 7.625% 2016	6,309	0.47	
€5,800,000 Sunrise Communications Holdings 8.5% 2018	5,352	0.40	
€5,405,000 Techem Energy Metering Service 7.875% 2020	5,068	0.37	
€6,000,000 Telenet Finance 6.375% 2020	5,465	0.40	
€2,500,000 Telenet Finance III 6.625% 2021	2,276	0.17	
€5,000,000 Telenet Finance V 6.25% 2022	4,495	0.33	

# M&G High Yield Corporate Bond Fund

## PORTFOLIO

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding <sup>[a]</sup>	Value £'000	31.05.13 %	31.05.12 %
<b>'B' credit rated bonds (continued)</b>			
€3,260,000 Telenet Finance V 6.75% 2024	2,965	0.22	
€2,000,000 TVN Finance 7.875% 2018	1,795	0.13	
€3,000,000 TVN Finance 10.75% 2017	2,768	0.20	
€16,509,000 Unitymedia 9.5% 2021	16,250	1.20	
€23,067,000 Unitymedia 9.625% 2019	21,965	1.62	
€7,000,000 Unitymedia Hessen 7.5% 2019	6,508	0.48	
\$10,000,000 Unitymedia Hessen 7.5% 2019	7,132	0.53	
CHF6,250,000 UPC Holding Jun 2017 6.75% 2023	4,448	0.33	
€2,600,000 Verisure Holding 8.75% 2018	2,461	0.18	
€4,178,000 Verisure Holding FRN 2018	3,649	0.27	
\$2,000,000 Windstream 7.5% 2023	1,376	0.10	
€4,005,000 Xefin Lux 8% 2018	3,592	0.27	
<b>'CCC' credit rated bonds</b>			
		<b>5.87</b>	<b>3.53</b>
€1,869,732 ARD Finance 11.125% 2018	1,721	0.13	
€5,700,000 Ardagh Glass Finance 7.125% 2017	4,950	0.37	
€4,300,000 Ardagh Glass Finance 8.75% 2020	3,902	0.29	
€3,000,000 Ardagh Packaging Finance 9.25% 2020	2,795	0.21	
€3,570,000 Beverage Packaging Holdings 9.5% 2017	3,135	0.23	
€2,000,000 CMA 8.875% 2019	1,440	0.11	
€23,950,000 Codere Finance Luxembourg 8.25% 2015	13,303	0.98	
\$8,270,000 Codere Finance Luxembourg 9.25% 2019	3,457	0.26	
€9,000,000 GCL Holdings 9.375% 2018	8,339	0.62	
€2,500,000 Heckler & Koch 9.5% 2018	1,927	0.14	
€470,000 Magyar Telecom 9.5% 2016	163	0.01	
€5,475,000 Matterhorn Mobile Holdings 8.25% 2020	5,009	0.37	
€5,000,000 NorCell 12.4% 2019	4,356	0.32	
€24,330,000 NorCell Sweden Holding 10.75% 2019	22,868	1.69	
\$2,800,000 Reynolds Group Issuer 9% 2019	1,937	0.14	
<b>'CC' credit rated bonds</b>			
		<b>0.00</b>	<b>0.07</b>
<b>'C' credit rated bonds</b>			
		<b>0.00</b>	<b>0.13</b>
<b>Bonds with no credit rating</b>			
		<b>2.22</b>	<b>3.63</b>
€6,898,000 Bank of Ireland 10% 2016	6,127	0.45	
€5,751,708 Boats Investments Netherlands 11% 2017	2,401	0.18	
€3,000,000 Cattles 6.875% 2014 <sup>[b]</sup>	70	0.01	
€4,714,000 Gestamp Funding Luxembourg 5.875% 2020	3,956	0.29	
€3,847,784 Hellas Telecom III 8.5% 2013 <sup>[b]</sup>	10	0.00	
€3,719,000 Holding Medi-Partenaires 7% 2020	3,127	0.23	
€3,672,000 Indesit 4.5% 2018	3,163	0.23	
£5,000,000 Pennon Var. Rate Perp.	5,274	0.39	
€4,248,366 R&R Ice Cream 9.25% 2018	3,660	0.27	
€2,590,000 Trionista TopCo 6.875% 2021	2,245	0.17	
<b>Other securities <sup>[c]</sup></b>			
		<b>0.00</b>	<b>0.00</b>
1,583 Polestar (Exchange Shares)	0	0.00	
<b>Credit default swaps <sup>[c]</sup></b>			
		<b>0.59</b>	<b>(0.92)</b>
\$(189,000,000) CDX North American High Yield Series 19 Dec 2017 - J.P. Morgan	7,343	0.54	
€(2,500,000) Fiat Industrial Mar 2018 - HSBC Bank	248	0.02	
€(5,000,000) Fiat Jun 2017 - J.P. Morgan	185	0.01	
€(5,000,000) UPC Holding Jun 2017 - Credit Suisse	261	0.02	

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding <sup>[a]</sup>	Value £'000	31.05.13 %	31.05.12 %
<b>Forward currency contracts</b>			
		<b>0.19</b>	<b>(0.12)</b>
€4,300,419 Bought for £3,639,772 (expires 24.06.13) - State Street Bank	34	0.00	
€(878,493,182) Sold for £752,431,881 (expires 05.06.13) - BNP Paribas / Deutsche Bank / HSBC Bank / J.P. Morgan	2,131	0.16	
€(318,699) Sold for £270,506 (expires 24.06.13) - State Street Bank	(2)	0.00	
CHF(72,926,057) Sold for £51,213,546 (expires 05.06.13) - Credit Suisse	955	0.07	
\$19,915,549 Bought for £13,097,287 (expires 24.06.13) - State Street Bank	(4)	0.00	
\$(426,168,456) Sold for £279,630,633 (expires 05.06.13) - National Australia Bank / RBS / State Street Bank	(515)	(0.04)	
\$(6,383,426) Sold for £4,215,311 (expires 24.06.13) - State Street Bank	19	0.00	
<b>'AAA' rated money market funds <sup>[d]</sup></b>			
		<b>2.43</b>	<b>2.64</b>
32,795,000 Northern Trust Global Fund - Sterling	32,795	2.43	
<b>Portfolio of investments (notes 1b &amp; 1d on page 40)</b>	<b>1,317,102</b>	<b>97.41</b>	<b>98.37</b>
<b>Net other assets</b>	<b>35,082</b>	<b>2.59</b>	<b>1.63</b>
<b>Net assets attributable to shareholders</b>	<b>1,352,184</b>	<b>100.00</b>	<b>100.00</b>

<sup>[a]</sup> The underlying stock for each convertible bond is shown in brackets.

<sup>[b]</sup> Defaulted bond.

<sup>[c]</sup> Unquoted / unlisted.

<sup>[d]</sup> Uncommitted surplus cash is placed into 'AAA' rated money market funds with the aim of reducing counterparty risk.

At the balance sheet date, futures and forward currency contracts were executed with the counterparties disclosed above, for the purpose of efficient portfolio management. Collateral obligations on losses for each transaction would be met using cash held at the futures clearing house or custodian respectively.



# M&G High Yield Corporate Bond Fund

## PORTFOLIO

### PORTFOLIO TRANSACTIONS

For the year ended 31 May 2013

Largest purchases	£'000
US Treasury Bill 0% 2013 (\$)	59,509
Germany (Federal Republic of) 4.25% 2014 (€)	44,188
Bundesschatzanweisungen 0.25% 2014 (€)	42,768
UPCB Finance II 6.375% 2020 (€)	21,815
Matterhorn Mobile 6.75% 2019 (CHF)	15,378
Cabot Financial Luxembourg 10.375% 2019 (€)	13,471
Reynolds Group Issuer 5.75% 2020 (\$)	12,437
Elli Finance UK 8.75% 2019 (€)	12,270
Matalan Finance 8.875% 2016 (€)	10,970
Taylor Morrison 7.75% 2020 (\$)	9,967
Gala Group Finance 8.875% 2018 (€)	9,700
Edcon Proprietary 9.5% 2018 'REGS' (issued 8 Feb 2013) (€)	9,285
Phones4u Finance 9.5% 2018 (€)	9,058
Fiat Finance & Trade 7.75% 2016 'NOV' (€)	9,049
Sappi Papier Holding 8.375% 2019 (\$)	8,531
Sunrise Communications International 5.625% 2017 (CHF)	8,486
Abengoa 4.5% Cnv. 2017 (Abengoa) 4.5% 2017 (€)	8,422
Calpine 7.5% 2021 (\$)	8,213
Finmeccanica Finance 8% 2019 (€)	7,939
Bank of Ireland 10% 2016 (€)	7,647
Northern Trust Global Fund - Sterling <sup>[a]</sup>	522,841
Other purchases	423,467
<b>Total purchases</b>	<b>1,275,411</b>
Largest sales	£'000
Germany (Federal Republic of) 2.25% IL 2013 (€)	95,466
US Treasury 0.875% 2017 (\$)	60,179
Treasury 2.5% IL 2020 (€)	25,750
Mondi Consumer Packaging (formerly Nordenia International) 9.75% 2020 (€)	18,762
Edcon Proprietary FRN 2014 (€)	17,815
House of Fraser 8.875% 2018 (€)	14,589
Ziggo Bond 8% 2018 (€)	12,008
Sprint Nextel 8.375% 2017 (\$)	10,202
Fresenius US Finance II 9% 2015 (\$)	9,334
Virgin Media Finance 8.875% 2019 (€)	8,865
Fiat Finance & Trade 7.75% 2018 (€)	8,646
Faurecia 9.375% 2016 (€)	8,478
Ardagh Packaging Finance 7.375% 2017 (€)	8,322
Southern Water Greensands Financing 8.5% 2019 (€)	8,193
Boparan Finance 9.875% 2018 (€)	8,063
Windstream 7.875% 2017 (\$)	7,977
Basell Finance 8.1% 2027 (\$)	7,789
R&R Ice Cream 8.375% 2017 (€)	7,617
Virgin Media Secured Finance 7% 2018 (€)	7,584
CEDC Finance International 8.875% 2016 (€)	7,262
Northern Trust Global Fund - Sterling <sup>[a]</sup>	519,932
Other sales	390,030
<b>Total sales</b>	<b>1,262,863</b>

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

## FINANCIAL STATEMENTS

For the year ended 31 May 2013.

### STATEMENT OF TOTAL RETURN

	Note	2013		2012	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		127,478		(78,891)
Revenue	4	98,097		86,339	
Expenses	5	(18,084)		(15,729)	
Finance costs: Interest	12	(7)		(1)	
Net revenue before taxation		80,006		70,609	
Taxation	6	(4)		0	
Net revenue after taxation			80,002		70,609
<b>Total return before distributions</b>			<b>207,480</b>		<b>(8,282)</b>
Finance costs: Distributions	12		(80,024)		(70,603)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>127,456</b>		<b>(78,885)</b>

### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2013		2012	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>1,132,498</b>		<b>1,111,087</b>
Amounts received on issue of shares	166,798		170,631	
Amounts paid on cancellation of shares	(97,554)		(88,091)	
Stamp Duty Reserve Tax		69,244		82,540
Change in net assets attributable to shareholders from investment activities (see above)			127,456	(78,885)
Retained distributions on Accumulation shares		22,972		17,747
Unclaimed distributions		14		10
<b>Closing net assets attributable to shareholders</b>		<b>1,352,184</b>		<b>1,132,498</b>

# M&G High Yield Corporate Bond Fund

## FINANCIAL STATEMENTS

### BALANCE SHEET

	as at 31 May 2013		as at 31 May 2012	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		1,317,623		1,125,793
<b>Debtors</b>				
Amounts receivable on issues	1,689		1,145	
Currency deals outstanding	4,193		0	
Debt security interest receivable	23,592		20,709	
Distributions receivable	13		28	
Overseas tax recoverable	57		0	
Premium from credit default swaps receivable	1,349		1,273	
Prepaid expenses	3		0	
Sales awaiting settlement	4,283		8,452	
		35,179		31,607
Cash and bank balances				
Amounts held at futures clearing houses and brokers	0		7,919	
Cash held as bank balances	19,600		0	
		19,600		7,919
<b>Total other assets</b>		<b>54,779</b>		<b>39,526</b>
<b>Total assets</b>		<b>1,372,402</b>		<b>1,165,319</b>
<b>Liabilities</b>				
Investment liabilities		(521)		(11,714)
<b>Creditors</b>				
Amounts payable on cancellations	(6,324)		(448)	
Currency deals outstanding	(4,211)		0	
Expenses payable	(989)		(818)	
Income tax payable	(3,053)		(2,568)	
Net distributions payable on income shares	(3,291)		(3,636)	
Purchases awaiting settlement	(1,829)		(3,951)	
		(19,697)		(11,421)
Bank overdrafts	0		(9,686)	
<b>Total other liabilities</b>		<b>(19,697)</b>		<b>(21,107)</b>
<b>Total liabilities</b>		<b>(20,218)</b>		<b>(32,821)</b>
<b>Net assets attributable to shareholders</b>		<b>1,352,184</b>		<b>1,132,498</b>

### 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 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 31 May 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 forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. 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 31 May 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 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.

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 and share class hedging fees, which are 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 High Yield Corporate Bond Fund

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 1 Accounting policies (continued)

##### 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.

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 the majority of the non-sterling denominated 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. Revenue arising in foreign currencies is generally converted into sterling shortly after receipt and is not hedged in advance of receipt.

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.

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 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 holdings in different investment grades 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 96, 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 (31.05.12: same).

#### 3 Net capital gains / (losses)

	2013 £'000	2012 £'000
Non-derivative securities	163,766	(118,163)
Derivative contracts	18,276	(17,464)
Forward currency contracts	(61,818)	40,179
Currency gains	7,278	16,566
Transaction charges	(24)	(9)
<b>Net capital gains / (losses)</b>	<b>127,478</b>	<b>(78,891)</b>

#### 4 Revenue

	2013 £'000	2012 £'000
Bank interest	54	76
Derivative revenue	0	(14)
Interest distributions	103	122
Interest on debt securities	91,497	81,307
Premium from credit default swaps	6,443	4,848
<b>Total revenue</b>	<b>98,097</b>	<b>86,339</b>

# M&G High Yield Corporate Bond Fund

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 5 Expenses

	2013 £'000	2012 £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge	16,016	13,889
Administration fee	1,933	1,667
	17,949	15,556
<b>Payable to the Depositary or associate</b>		
Depositary's fee (including VAT)	63	57
Distribution fees	3	2
	66	59
<b>Other expenses</b>		
Audit fee (including VAT)	12	11
Regulatory fees	4	7
Safe custody charge	30	88
Share class hedging fees	4	0
Tax consultancy fees (including VAT) <sup>[a]</sup>	19	8
	69	114
<b>Total expenses</b>	<b>18,084</b>	<b>15,729</b>

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

#### 6 Taxation

	2013 £'000	2012 £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	0
Overseas tax	6	0
Income tax prior period adjustment	(2)	0
Current tax charge (note 6b)	4	0
Deferred tax (note 6c)	0	0
<b>Total taxation</b>	<b>4</b>	<b>0</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue before taxation	80,006	70,609
Corporation tax at 20%	16,001	14,122
Effects of:		
Prior period expenses utilised	(1,607)	0
Interest distributions	(14,394)	(14,122)
Overseas tax	6	0
Income tax prior period adjustment	(2)	0
<b>Current tax charge (note 6a)</b>	<b>4</b>	<b>0</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The sub-fund does not have an unrecognised deferred tax asset at the year end (31.05.12: £1,607,000).

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 (31.05.12: 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 periodic charge are disclosed in note 5. Amounts due at the year end to the Authorised Corporate Director of £938,000 (31.05.12: £746,000) 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 5.97% (31.05.12: 5.11%) 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 (31.05.12: 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 31.05.13 £'000	as at 31.05.12 £'000	as at 31.05.13 £'000	as at 31.05.12 £'000	as at 31.05.13 £'000	as at 31.05.12 £'000
Euro	(37,185)	(18,618)	34,473	19,712	(2,712)	1,094
Swiss franc	(763)	59	999	413	236	472
US dollar	(29,597)	(4,752)	8,538	3,530	(21,059)	(1,222)
	(67,545)	(23,311)	44,010	23,655	(23,535)	344
Sterling	1,384,647	1,137,390	(8,928)	(5,236)	1,375,719	1,132,154
<b>Total</b>	<b>1,317,102</b>	<b>1,114,079</b>	<b>35,082</b>	<b>18,419</b>	<b>1,352,184</b>	<b>1,132,498</b>

#### Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 31.05.13 £'000	as at 31.05.12 £'000	as at 31.05.13 £'000	as at 31.05.12 £'000	as at 31.05.13 £'000	as at 31.05.12 £'000
Euro	60,967	65,035	669,001	617,043	729,968	682,078
Sterling	68,276	49,711	202,154	202,792	270,430	252,503
Swiss franc	0	3,265	49,495	16,514	49,495	19,779
US dollar	43,296	527	164,591	169,139	207,887	169,666
<b>Total</b>	<b>172,539</b>	<b>118,538</b>	<b>1,085,241</b>	<b>1,005,488</b>	<b>1,257,780</b>	<b>1,124,026</b>

# M&G High Yield Corporate 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 <sup>[a]</sup>	
	as at 31.05.13	as at 31.05.12	as at 31.05.13	as at 31.05.12
	%	%	years	years
Euro	6.79	11.36	4.69	5.14
Sterling	7.21	9.79	6.29	8.18
Swiss franc	5.52	6.51	5.81	6.46
US dollar	4.82	8.31	4.38	15.77

<sup>[a]</sup> 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); and variable rate bonds (31.05.12: same).

##### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.05.12: 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 High Yield 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 High Yield 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 £19,666,089 over the next 30 days from the balance sheet date, 31 May 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
<b>a) Purchases</b>		
Total purchases excluding transaction costs	1,275,411	1,183,528
<b>b) Sales</b>		
Total sales excluding transaction costs	1,262,863	984,500

There were no significant transaction costs during the year (31.05.12: 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-H' (Gross Accumulation) shares and Euro Class 'C-H' (Gross Accumulation) shares.

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

The charging structure for each share class, as at 31 May 2013, is set out in the following table (31.05.12: same):

#### CHARGES AND EXPENSES

	Initial charge %	Withdrawal fee %	ACD's annual remuneration %
<b>Sterling</b>			
Class 'A'	3.00	n/a	1.25
Class 'I' <sup>[a]</sup>	1.00	n/a	0.65
Class 'R' <sup>[a]</sup>	1.00	n/a	1.00
Class 'X'	nil	4.50 <sup>[b]</sup>	1.25
<b>Euro</b>			
Class 'A-H'	4.00	n/a	1.25
Class 'C-H'	1.25	n/a	0.65
<b>US dollar</b>			
Class 'A-H'	4.00	n/a	1.25
Class 'C-H'	1.25	n/a	0.65

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

<sup>[b]</sup> 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 High Yield Corporate 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

	31.05.13		31.05.12	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
<b>Sterling</b>				
Class 'A'	182,328	342,973	150,023	260,805
Class 'I'	15,155	8,025	n/a	n/a
Class 'R'	1,702	69	n/a	n/a
Class 'X'	646,582	143,046	609,552	110,788
<b>Euro</b>				
Class 'A-H'	n/a	1,524	n/a	531
Class 'C-H'	n/a	1,878	n/a	773
<b>US dollar</b>				
Class 'A-H'	n/a	357	n/a	13
Class 'C-H'	n/a	8,545	n/a	13

The net asset value per share and the number of shares are given in the net assets table on page 36. The distribution per share is given in the distribution table on pages 46 to 50. Each share class has the same rights on winding-up.

#### 12 Finance costs

	2013 £'000	2012 £'000
<b>Income shares (sterling)</b>		
Class 'A'		
- First interim	693	573
- Second interim	651	524
- Third interim	625	567
- Fourth interim	692	590
- Fifth interim	789	622
- Sixth interim	744	579
- Seventh interim	764	567
- Eighth interim	828	577
- Ninth interim	735	623
- Tenth interim	726	637
- Eleventh interim	1,021	549
- Final	703	718
Class 'I'		
- First interim	n/a	n/a
- Second interim	n/a	n/a
- Third interim	0	n/a
- Fourth interim	2	n/a
- Fifth interim	3	n/a
- Sixth interim	4	n/a
- Seventh interim	6	n/a
- Eighth interim	20	n/a
- Ninth interim	23	n/a
- Tenth interim	57	n/a
- Eleventh interim	87	n/a
- Final	62	n/a

#### 12 Finance costs (continued)

	2013 £'000	2012 £'000
<b>Income shares (sterling) (continued)</b>		
Class 'R'		
- First interim	n/a	n/a
- Second interim	n/a	n/a
- Third interim	0	n/a
- Fourth interim	0	n/a
- Fifth interim	0	n/a
- Sixth interim	1	n/a
- Seventh interim	1	n/a
- Eighth interim	1	n/a
- Ninth interim	5	n/a
- Tenth interim	6	n/a
- Eleventh interim	9	n/a
- Final	7	n/a
Class 'X'		
- First interim	2,759	2,909
- Second interim	2,562	2,508
- Third interim	2,368	2,669
- Fourth interim	2,550	2,681
- Fifth interim	2,797	2,807
- Sixth interim	2,614	2,602
- Seventh interim	2,600	2,509
- Eighth interim	2,751	2,540
- Ninth interim	2,528	2,667
- Tenth interim	2,466	2,682
- Eleventh interim	3,564	2,284
- Final	2,519	2,918
<b>Accumulation shares (sterling)</b>		
Class 'A'		
- First interim	1,201	862
- Second interim	1,140	793
- Third interim	1,087	862
- Fourth interim	1,192	894
- Fifth interim	1,332	1,012
- Sixth interim	1,290	956
- Seventh interim	1,308	942
- Eighth interim	1,414	974
- Ninth interim	1,297	1,052
- Tenth interim	1,330	1,082
- Eleventh interim	1,885	951
- Final	1,311	1,245
Class 'I'		
- First interim	n/a	n/a
- Second interim	n/a	n/a
- Third interim	0	n/a
- Fourth interim	0	n/a
- Fifth interim	0	n/a
- Sixth interim	0	n/a
- Seventh interim	2	n/a
- Eighth interim	18	n/a
- Ninth interim	25	n/a
- Tenth interim	29	n/a
- Eleventh interim	45	n/a
- Final	32	n/a
Class 'R'		
- First interim	n/a	n/a
- Second interim	n/a	n/a
- Third interim <sup>[a]</sup>	0	n/a
- Fourth interim <sup>[a]</sup>	0	n/a
- Fifth interim <sup>[a]</sup>	0	n/a
- Sixth interim <sup>[a]</sup>	0	n/a
- Seventh interim <sup>[a]</sup>	0	n/a
- Eighth interim <sup>[a]</sup>	0	n/a
- Ninth interim <sup>[a]</sup>	0	n/a
- Tenth interim <sup>[a]</sup>	0	n/a
- Eleventh interim <sup>[a]</sup>	0	n/a
- Final <sup>[a]</sup>	0	n/a

# M&G High Yield Corporate Bond Fund

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 12 Finance costs (continued)

	2013 £'000	2012 £'000
<b>Accumulation shares (sterling) (continued)</b>		
Class 'X'		
- First interim	501	661
- Second interim	467	593
- Third interim	437	620
- Fourth interim	480	464
- Fifth interim	532	492
- Sixth interim	501	449
- Seventh interim	502	440
- Eighth interim	540	448
- Ninth interim	544	482
- Tenth interim	533	482
- Eleventh interim	781	410
- Final	546	529
<b>Accumulation shares (euro)</b>		
Class 'A-H'		
- First interim	3	3
- Second interim	2	3
- Third interim	2	3
- Fourth interim	3	3
- Fifth interim	4	3
- Sixth interim	5	3
- Seventh interim	5	3
- Eighth interim	9	3
- Ninth interim	8	3
- Tenth interim	7	3
- Eleventh interim	10	3
- Final	7	3
Class 'C-H'		
- First interim	5	n/a
- Second interim	5	n/a
- Third interim	5	n/a
- Fourth interim	8	n/a
- Fifth interim	10	n/a
- Sixth interim	10	n/a
- Seventh interim	13	n/a
- Eighth interim	14	1
- Ninth interim	11	1
- Tenth interim	12	5
- Eleventh interim	17	4
- Final	10	5
<b>Accumulation shares (US dollar)</b>		
Class 'A-H'		
- First interim	0	0
- Second interim	0	0
- Third interim	0	0
- Fourth interim	0	0
- Fifth interim	0	0
- Sixth interim	0	0
- Seventh interim	0	0
- Eighth interim	0	0
- Ninth interim	1	0
- Tenth interim	1	0
- Eleventh interim	2	0
- Final	2	0

#### 12 Finance costs (continued)

	2013 £'000	2012 £'000
<b>Accumulation shares (US dollar) (continued)</b>		
Class 'C-H'		
- First interim	0	0
- Second interim	0	0
- Third interim	0	0
- Fourth interim	0	0
- Fifth interim	0	0
- Sixth interim	57	0
- Seventh interim	44	0
- Eighth interim	94	0
- Ninth interim	79	0
- Tenth interim	66	0
- Eleventh interim	96	0
- Final	43	0
	64,315	56,649
Income tax deducted at source	15,874	14,111
Finance costs: Interest distributions	80,189	70,760
Income deducted on cancellation of shares	224	235
Income received on issue of shares	(389)	(392)
<b>Finance costs: Distributions</b>	<b>80,024</b>	<b>70,603</b>
Finance costs: Interest	7	1
<b>Total finance costs</b>	<b>80,031</b>	<b>70,604</b>
Net revenue per statement of total return	80,002	70,609
Undistributed income brought forward	24	18
Undistributed income carried forward	(2)	(24)
<b>Finance costs: Distributions</b>	<b>80,024</b>	<b>70,603</b>

[a] The total distributions for Sterling Class 'R' (Accumulation) shares in 2013 were £1,243.

# M&G High Yield Corporate Bond Fund

## FINANCIAL STATEMENTS

DISTRIBUTION TABLE						
Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equalisation	Distribution paid/payable	
	p	p	p	p	2012/13	2011/12
<b>Sterling</b>						
Class 'A' - First interim						
Group 1:	0.2585	0.0517	0.2068	-	0.2068	0.2080
Group 2:	0.0983	0.0197	0.0786	0.1282	0.2068	0.2080
- Second interim						
Group 1:	0.2400	0.0480	0.1920	-	0.1920	0.1860
Group 2:	0.1261	0.0252	0.1009	0.0911	0.1920	0.1860
- Third interim						
Group 1:	0.2225	0.0445	0.1780	-	0.1780	0.1920
Group 2:	0.1029	0.0206	0.0823	0.0957	0.1780	0.1920
- Fourth interim						
Group 1:	0.2400	0.0480	0.1920	-	0.1920	0.1960
Group 2:	0.1084	0.0217	0.0867	0.1053	0.1920	0.1960
- Fifth interim						
Group 1:	0.2640	0.0528	0.2112	-	0.2112	0.2060
Group 2:	0.1254	0.0251	0.1003	0.1109	0.2112	0.2060
- Sixth interim						
Group 1:	0.2450	0.0490	0.1960	-	0.1960	0.1900
Group 2:	0.1089	0.0218	0.0871	0.1089	0.1960	0.1900
- Seventh interim						
Group 1:	0.2465	0.0493	0.1972	-	0.1972	0.1856
Group 2:	0.1306	0.0261	0.1045	0.0927	0.1972	0.1856
- Eighth interim						
Group 1:	0.2665	0.0533	0.2132	-	0.2132	0.1880
Group 2:	0.1419	0.0284	0.1135	0.0997	0.2132	0.1880
- Ninth interim						
Group 1:	0.2400	0.0480	0.1920	-	0.1920	0.1992
Group 2:	0.1208	0.0242	0.0966	0.0954	0.1920	0.1992
- Tenth interim						
Group 1:	0.2420	0.0484	0.1936	-	0.1936	0.2000
Group 2:	0.1208	0.0242	0.0966	0.0970	0.1936	0.2000
- Eleventh interim						
Group 1:	0.3475	0.0695	0.2780	-	0.2780	0.1700
Group 2:	0.1525	0.0305	0.1220	0.1560	0.2780	0.1700
- Final						
Group 1:	0.2435	0.0487	0.1948	-	0.1948	0.2180
Group 2:	0.1236	0.0247	0.0989	0.0959	0.1948	0.2180
Class 'I' - First interim						
Group 1:	n/a	n/a	n/a	-	n/a	n/a
Group 2:	n/a	n/a	n/a	n/a	n/a	n/a
- Second interim						
Group 1:	n/a	n/a	n/a	-	n/a	n/a
Group 2:	n/a	n/a	n/a	n/a	n/a	n/a
- Third interim						
Group 1:	5.3090	1.0618	4.2472	-	4.2472	n/a
Group 2:	5.3090	1.0618	4.2472	-	4.2472	n/a
- Fourth interim						
Group 1:	5.5650	1.1130	4.4520	-	4.4520	n/a
Group 2:	3.6128	0.7226	2.8902	1.5618	4.4520	n/a

## DISTRIBUTION TABLE (continued)

Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equalisation	Distribution paid/payable	
	p	p	p	p	2012/13	2011/12
<b>Sterling</b>						
Class 'I' - Fifth interim						
Group 1:	6.1015	1.2203	4.8812	-	4.8812	n/a
Group 2:	1.4391	0.2878	1.1513	3.7299	4.8812	n/a
- Sixth interim						
Group 1:	5.5775	1.1155	4.4620	-	4.4620	n/a
Group 2:	0.1727	0.0345	0.1382	4.3238	4.4620	n/a
- Seventh interim						
Group 1:	5.7638	1.1528	4.6110	-	4.6110	n/a
Group 2:	2.5215	0.5043	2.0172	2.5938	4.6110	n/a
- Eighth interim						
Group 1:	6.4090	1.2818	5.1272	-	5.1272	n/a
Group 2:	2.1373	0.4275	1.7098	3.4174	5.1272	n/a
- Ninth interim						
Group 1:	5.5905	1.1181	4.4724	-	4.4724	n/a
Group 2:	2.7386	0.5477	2.1909	2.2815	4.4724	n/a
- Tenth interim						
Group 1:	5.5240	1.1048	4.4192	-	4.4192	n/a
Group 2:	2.5903	0.5181	2.0722	2.3470	4.4192	n/a
- Eleventh interim						
Group 1:	7.9255	1.5851	6.3404	-	6.3404	n/a
Group 2:	3.9321	0.7864	3.1457	3.1947	6.3404	n/a
- Final						
Group 1:	5.4425	1.0885	4.3540	-	4.3540	n/a
Group 2:	2.9909	0.5982	2.3927	1.9613	4.3540	n/a
Class 'R' - First interim						
Group 1:	n/a	n/a	n/a	-	n/a	n/a
Group 2:	n/a	n/a	n/a	n/a	n/a	n/a
- Second interim						
Group 1:	n/a	n/a	n/a	-	n/a	n/a
Group 2:	n/a	n/a	n/a	n/a	n/a	n/a
- Third interim						
Group 1:	0.5015	0.1003	0.4012	-	0.4012	n/a
Group 2:	0.5015	0.1003	0.4012	-	0.4012	n/a
- Fourth interim						
Group 1:	0.5275	0.1055	0.4220	-	0.4220	n/a
Group 2:	0.5275	0.1055	0.4220	-	0.4220	n/a
- Fifth interim						
Group 1:	0.5913	0.1183	0.4730	-	0.4730	n/a
Group 2:	0.5913	0.1183	0.4730	-	0.4730	n/a
- Sixth interim						
Group 1:	0.5350	0.1070	0.4280	-	0.4280	n/a
Group 2:	0.0007	0.0001	0.0006	0.4274	0.4280	n/a
- Seventh interim						
Group 1:	0.5525	0.1105	0.4420	-	0.4420	n/a
Group 2:	0.0481	0.0096	0.0385	0.4035	0.4420	n/a
- Eighth interim						
Group 1:	0.6015	0.1203	0.4812	-	0.4812	n/a
Group 2:	0.1096	0.0219	0.0877	0.3935	0.4812	n/a
- Ninth interim						
Group 1:	0.5295	0.1059	0.4236	-	0.4236	n/a
Group 2:	0.3903	0.0781	0.3122	0.1114	0.4236	n/a



# M&G High Yield Corporate Bond Fund

## FINANCIAL STATEMENTS

DISTRIBUTION TABLE (continued)						
Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equalisation	Distribution paid/payable	
	p	p	p	p	2012/13	2011/12
<b>Sterling</b>						
Class 'R' - Tenth interim						
Group 1:	0.5265	0.1053	0.4212	-	0.4212	n/a
Group 2:	0.1468	0.0294	0.1174	0.3038	0.4212	n/a
- Eleventh interim						
Group 1:	0.7585	0.1517	0.6068	-	0.6068	n/a
Group 2:	0.2078	0.0416	0.1662	0.4406	0.6068	n/a
- Final						
Group 1:	0.5100	0.1020	0.4080	-	0.4080	n/a
Group 2:	0.1534	0.0307	0.1227	0.2853	0.4080	n/a
Class 'X' - First interim						
Group 1:	0.2585	0.0517	0.2068	-	0.2068	0.2100
Group 2:	0.0985	0.0197	0.0788	0.1280	0.2068	0.2100
- Second interim						
Group 1:	0.2400	0.0480	0.1920	-	0.1920	0.1820
Group 2:	0.1158	0.0232	0.0926	0.0994	0.1920	0.1820
- Third interim						
Group 1:	0.2225	0.0445	0.1780	-	0.1780	0.1940
Group 2:	0.0639	0.0128	0.0511	0.1269	0.1780	0.1940
- Fourth interim						
Group 1:	0.2400	0.0480	0.1920	-	0.1920	0.1960
Group 2:	0.1239	0.0248	0.0991	0.0929	0.1920	0.1960
- Fifth interim						
Group 1:	0.2640	0.0528	0.2112	-	0.2112	0.2060
Group 2:	0.1315	0.0263	0.1052	0.1060	0.2112	0.2060
- Sixth interim						
Group 1:	0.2475	0.0495	0.1980	-	0.1980	0.1920
Group 2:	0.0878	0.0176	0.0702	0.1278	0.1980	0.1920
- Seventh interim						
Group 1:	0.2465	0.0493	0.1972	-	0.1972	0.1856
Group 2:	0.0756	0.0151	0.0605	0.1367	0.1972	0.1856
- Eighth interim						
Group 1:	0.2625	0.0525	0.2100	-	0.2100	0.1880
Group 2:	0.1043	0.0209	0.0834	0.1266	0.2100	0.1880
- Ninth interim						
Group 1:	0.2420	0.0484	0.1936	-	0.1936	0.1980
Group 2:	0.0653	0.0131	0.0522	0.1414	0.1936	0.1980
- Tenth interim						
Group 1:	0.2400	0.0480	0.1920	-	0.1920	0.2000
Group 2:	0.1156	0.0231	0.0925	0.0995	0.1920	0.2000
- Eleventh interim						
Group 1:	0.3475	0.0695	0.2780	-	0.2780	0.1700
Group 2:	0.1663	0.0333	0.1330	0.1450	0.2780	0.1700
- Final						
Group 1:	0.2460	0.0492	0.1968	-	0.1968	0.2180
Group 2:	0.0763	0.0153	0.0610	0.1358	0.1968	0.2180

## DISTRIBUTION TABLE (continued)

Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
	p	p	p	p	2012/13	2011/12
<b>Sterling</b>						
Class 'A' - First interim						
Group 1:	0.5305	0.1061	0.4244	-	0.4244	0.4080
Group 2:	0.2303	0.0461	0.1842	0.2402	0.4244	0.4080
- Second interim						
Group 1:	0.4945	0.0989	0.3956	-	0.3956	0.3612
Group 2:	0.2428	0.0486	0.1942	0.2014	0.3956	0.3612
- Third interim						
Group 1:	0.4630	0.0926	0.3704	-	0.3704	0.3820
Group 2:	0.1969	0.0394	0.1575	0.2129	0.3704	0.3820
- Fourth interim						
Group 1:	0.4980	0.0996	0.3984	-	0.3984	0.3868
Group 2:	0.2254	0.0451	0.1803	0.2181	0.3984	0.3868
- Fifth interim						
Group 1:	0.5505	0.1101	0.4404	-	0.4404	0.4080
Group 2:	0.2581	0.0516	0.2065	0.2339	0.4404	0.4080
- Sixth interim						
Group 1:	0.5175	0.1035	0.4140	-	0.4140	0.3812
Group 2:	0.2539	0.0508	0.2031	0.2109	0.4140	0.3812
- Seventh interim						
Group 1:	0.5185	0.1037	0.4148	-	0.4148	0.3708
Group 2:	0.2846	0.0569	0.2277	0.1871	0.4148	0.3708
- Eighth interim						
Group 1:	0.5605	0.1121	0.4484	-	0.4484	0.3784
Group 2:	0.3820	0.0764	0.3056	0.1428	0.4484	0.3784
- Ninth interim						
Group 1:	0.5045	0.1009	0.4036	-	0.4036	0.4024
Group 2:	0.3973	0.0795	0.3178	0.0858	0.4036	0.4024
- Tenth interim						
Group 1:	0.5205	0.1041	0.4164	-	0.4164	0.4056
Group 2:	0.2544	0.0509	0.2035	0.2129	0.4164	0.4056
- Eleventh interim						
Group 1:	0.7435	0.1487	0.5948	-	0.5948	0.3464
Group 2:	0.3071	0.0614	0.2457	0.3491	0.5948	0.3464
- Final						
Group 1:	0.5210	0.1042	0.4168	-	0.4168	0.4468
Group 2:	0.2889	0.0578	0.2311	0.1857	0.4168	0.4468
Class 'I' - First interim						
Group 1:	n/a	n/a	n/a	-	n/a	n/a
Group 2:	n/a	n/a	n/a	n/a	n/a	n/a
- Second interim						
Group 1:	n/a	n/a	n/a	-	n/a	n/a
Group 2:	n/a	n/a	n/a	n/a	n/a	n/a
- Third interim						
Group 1:	5.3115	1.0623	4.2492	-	4.2492	n/a
Group 2:	5.3115	1.0623	4.2492	-	4.2492	n/a
- Fourth interim						
Group 1:	5.6390	1.1278	4.5112	-	4.5112	n/a
Group 2:	5.6390	1.1278	4.5112	-	4.5112	n/a
- Fifth interim						
Group 1:	6.2640	1.2528	5.0112	-	5.0112	n/a
Group 2:	6.2640	1.2528	5.0112	-	5.0112	n/a

# M&G High Yield Corporate 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			2012/13	2011/12
<b>Sterling</b>						
Class 'I' - Sixth interim						
Group 1:	5.6515	1.1303	4.5212	-	4.5212	n/a
Group 2:	4.9506	0.9901	3.9605	0.5607	4.5212	n/a
- Seventh interim						
Group 1:	5.8440	1.1688	4.6752	-	4.6752	n/a
Group 2:	2.1029	0.4206	1.6823	2.9929	4.6752	n/a
- Eighth interim						
Group 1:	6.5745	1.3149	5.2596	-	5.2596	n/a
Group 2:	2.1828	0.4366	1.7462	3.5134	5.2596	n/a
- Ninth interim						
Group 1:	5.7475	1.1495	4.5980	-	4.5980	n/a
Group 2:	3.7068	0.7414	2.9654	1.6326	4.5980	n/a
- Tenth interim						
Group 1:	5.7345	1.1469	4.5876	-	4.5876	n/a
Group 2:	2.4970	0.4994	1.9976	2.5900	4.5876	n/a
- Eleventh interim						
Group 1:	8.2050	1.6410	6.5640	-	6.5640	n/a
Group 2:	4.8514	0.9703	3.8811	2.6829	6.5640	n/a
- Final						
Group 1:	5.6405	1.1281	4.5124	-	4.5124	n/a
Group 2:	2.8751	0.5750	2.3001	2.2123	4.5124	n/a
Class 'R' - First interim						
Group 1:	n/a	n/a	n/a	-	n/a	n/a
Group 2:	n/a	n/a	n/a	n/a	n/a	n/a
- Second interim						
Group 1:	n/a	n/a	n/a	-	n/a	n/a
Group 2:	n/a	n/a	n/a	n/a	n/a	n/a
- Third interim						
Group 1:	0.5020	0.1004	0.4016	-	0.4016	n/a
Group 2:	0.5020	0.1004	0.4016	-	0.4016	n/a
- Fourth interim						
Group 1:	0.5335	0.1067	0.4268	-	0.4268	n/a
Group 2:	0.5335	0.1067	0.4268	-	0.4268	n/a
- Fifth interim						
Group 1:	0.5940	0.1188	0.4752	-	0.4752	n/a
Group 2:	0.5940	0.1188	0.4752	-	0.4752	n/a
- Sixth interim						
Group 1:	0.5430	0.1086	0.4344	-	0.4344	n/a
Group 2:	0.5430	0.1086	0.4344	-	0.4344	n/a
- Seventh interim						
Group 1:	0.5510	0.1102	0.4408	-	0.4408	n/a
Group 2:	0.5510	0.1102	0.4408	-	0.4408	n/a
- Eighth interim						
Group 1:	0.6230	0.1246	0.4984	-	0.4984	n/a
Group 2:	0.6230	0.1246	0.4984	-	0.4984	n/a
- Ninth interim						
Group 1:	0.5465	0.1093	0.4372	-	0.4372	n/a
Group 2:	0.5465	0.1093	0.4372	-	0.4372	n/a
- Tenth interim						
Group 1:	0.5420	0.1084	0.4336	-	0.4336	n/a
Group 2:	0.5420	0.1084	0.4336	-	0.4336	n/a

### DISTRIBUTION TABLE (continued)

Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
	2012/13	2011/12			2012/13	2011/12
<b>Sterling</b>						
Class 'R' - Eleventh interim						
Group 1:	0.7840	0.1568	0.6272	-	0.6272	n/a
Group 2:	0.7840	0.1568	0.6272	-	0.6272	n/a
- Final						
Group 1:	0.5315	0.1063	0.4252	-	0.4252	n/a
Group 2:	0.5315	0.1063	0.4252	-	0.4252	n/a
Class 'X' - First interim						
Group 1:	0.5305	0.1061	0.4244	-	0.4244	0.4084
Group 2:	0.2050	0.0410	0.1640	0.2604	0.4244	0.4084
- Second interim						
Group 1:	0.4950	0.0990	0.3960	-	0.3960	0.3640
Group 2:	0.2871	0.0574	0.2297	0.1663	0.3960	0.3640
- Third interim						
Group 1:	0.4615	0.0923	0.3692	-	0.3692	0.3820
Group 2:	0.2280	0.0456	0.1824	0.1868	0.3692	0.3820
- Fourth interim						
Group 1:	0.4985	0.0997	0.3988	-	0.3988	0.3872
Group 2:	0.1159	0.0232	0.0927	0.3061	0.3988	0.3872
- Fifth interim						
Group 1:	0.5510	0.1102	0.4408	-	0.4408	0.4084
Group 2:	0.2498	0.0500	0.1998	0.2410	0.4408	0.4084
- Sixth interim						
Group 1:	0.5180	0.1036	0.4144	-	0.4144	0.3780
Group 2:	0.1781	0.0356	0.1425	0.2719	0.4144	0.3780
- Seventh interim						
Group 1:	0.5195	0.1039	0.4156	-	0.4156	0.3708
Group 2:	0.2565	0.0513	0.2052	0.2104	0.4156	0.3708
- Eighth interim						
Group 1:	0.5585	0.1117	0.4468	-	0.4468	0.3788
Group 2:	0.2159	0.0432	0.1727	0.2741	0.4468	0.3788
- Ninth interim						
Group 1:	0.5140	0.1028	0.4112	-	0.4112	0.4064
Group 2:	0.3245	0.0649	0.2596	0.1516	0.4112	0.4064
- Tenth interim						
Group 1:	0.5110	0.1022	0.4088	-	0.4088	0.4060
Group 2:	0.2598	0.0520	0.2078	0.2010	0.4088	0.4060
- Eleventh interim						
Group 1:	0.7440	0.1488	0.5952	-	0.5952	0.3468
Group 2:	0.2105	0.0421	0.1684	0.4268	0.5952	0.3468
- Final						
Group 1:	0.5210	0.1042	0.4168	-	0.4168	0.4464
Group 2:	0.2248	0.0450	0.1798	0.2370	0.4168	0.4464
<b>Euro</b>						
Class 'A-H' - First interim						
Group 1:	5.7388	-	5.7388	-	5.7388	5.3445
Group 2:	5.7388	-	5.7388	-	5.7388	5.3445
- Second interim						
Group 1:	5.5207	-	5.5207	-	5.5207	4.9462
Group 2:	4.4965	-	4.4965	1.0242	5.5207	4.9462
- Third interim						
Group 1:	5.0927	-	5.0927	-	5.0927	5.1359
Group 2:	5.0066	-	5.0066	0.0861	5.0927	5.1359
- Fourth interim						
Group 1:	5.3577	-	5.3577	-	5.3577	5.2712
Group 2:	1.9101	-	1.9101	3.4476	5.3577	5.2712

# M&G High Yield Corporate Bond Fund

## FINANCIAL STATEMENTS

DISTRIBUTION TABLE (continued)						
Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
Euro	€	€	€	€	2012/13	2011/12
Class 'A-H' - Fifth interim						
Group 1:	6.0168	-	6.0168	-	6.0168	5.5344
Group 2:	2.0632	-	2.0632	3.9536	6.0168	5.5344
- Sixth interim						
Group 1:	5.5018	-	5.5018	-	5.5018	5.2811
Group 2:	2.2573	-	2.2573	3.2445	5.5018	5.2811
- Seventh interim						
Group 1:	5.5847	-	5.5847	-	5.5847	5.1393
Group 2:	2.5554	-	2.5554	3.0293	5.5847	5.1393
- Eighth interim						
Group 1:	6.1278	-	6.1278	-	6.1278	5.1440
Group 2:	1.2165	-	1.2165	4.9113	6.1278	5.1440
- Ninth interim						
Group 1:	5.4604	-	5.4604	-	5.4604	5.4831
Group 2:	3.0303	-	3.0303	2.4301	5.4604	5.4831
- Tenth interim						
Group 1:	5.6884	-	5.6884	-	5.6884	5.5590
Group 2:	5.3171	-	5.3171	0.3713	5.6884	5.5590
- Eleventh interim						
Group 1:	8.4387	-	8.4387	-	8.4387	4.8089
Group 2:	3.0530	-	3.0530	5.3857	8.4387	4.8089
- Final						
Group 1:	5.4593	-	5.4593	-	5.4593	6.2122
Group 2:	3.2944	-	3.2944	2.1649	5.4593	6.2122
Class 'C-H' - First interim						
Group 1:	6.2158	-	6.2158	-	6.2158	5.7812
Group 2:	6.2158	-	6.2158	-	6.2158	5.7812
- Second interim						
Group 1:	6.0177	-	6.0177	-	6.0177	5.3704
Group 2:	3.0364	-	3.0364	2.9813	6.0177	5.3704
- Third interim						
Group 1:	5.8127	-	5.8127	-	5.8127	5.5736
Group 2:	5.8127	-	5.8127	-	5.8127	5.5736
- Fourth interim						
Group 1:	5.9787	-	5.9787	-	5.9787	5.7012
Group 2:	4.8329	-	4.8329	1.1458	5.9787	5.7012
- Fifth interim						
Group 1:	6.6638	-	6.6638	-	6.6638	5.9821
Group 2:	4.0929	-	4.0929	2.5709	6.6638	5.9821
- Sixth interim						
Group 1:	6.2550	-	6.2550	-	6.2550	5.6817
Group 2:	5.4784	-	5.4784	0.7766	6.2550	5.6817
- Seventh interim						
Group 1:	6.2497	-	6.2497	-	6.2497	5.5908
Group 2:	5.3728	-	5.3728	0.8769	6.2497	5.5908
- Eighth interim						
Group 1:	6.6808	-	6.6808	-	6.6808	5.6035
Group 2:	0.6082	-	0.6082	6.0726	6.6808	5.6035
- Ninth interim						
Group 1:	6.0390	-	6.0390	-	6.0390	5.7714
Group 2:	1.5569	-	1.5569	4.4821	6.0390	5.7714

## DISTRIBUTION TABLE (continued)

Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
Euro	€	€	€	€	2012/13	2011/12
Class 'C-H' - Tenth interim						
Group 1:	6.3160	-	6.3160	-	6.3160	6.0253
Group 2:	5.0397	-	5.0397	1.2763	6.3160	6.0253
- Eleventh interim						
Group 1:	9.1692	-	9.1692	-	9.1692	5.2857
Group 2:	3.8979	-	3.8979	5.2713	9.1692	5.2857
- Final						
Group 1:	6.1649	-	6.1649	-	6.1649	6.7053
Group 2:	0.0291	-	0.0291	6.1358	6.1649	6.7053
US dollar						
Class 'A-H' - First interim						
Group 1:	5.8054	-	5.8054	-	5.8054	5.4535
Group 2:	4.5173	-	4.5173	1.2881	5.8054	5.4535
- Second interim						
Group 1:	5.6134	-	5.6134	-	5.6134	4.9095
Group 2:	5.6134	-	5.6134	-	5.6134	4.9095
- Third interim						
Group 1:	5.1424	-	5.1424	-	5.1424	5.1690
Group 2:	3.8431	-	3.8431	1.2993	5.1424	5.1690
- Fourth interim						
Group 1:	5.6284	-	5.6284	-	5.6284	4.9095
Group 2:	5.6284	-	5.6284	-	5.6284	4.9095
- Fifth interim						
Group 1:	5.8594	-	5.8594	-	5.8594	5.6103
Group 2:	5.8594	-	5.8594	-	5.8594	5.6103
- Sixth interim						
Group 1:	5.5161	-	5.5161	-	5.5161	5.0865
Group 2:	1.3533	-	1.3533	4.1628	5.5161	5.0865
- Seventh interim						
Group 1:	5.7913	-	5.7913	-	5.7913	4.8739
Group 2:	5.7913	-	5.7913	-	5.7913	4.8739
- Eighth interim						
Group 1:	6.2614	-	6.2614	-	6.2614	5.2228
Group 2:	6.2614	-	6.2614	-	6.2614	5.2228
- Ninth interim						
Group 1:	5.4364	-	5.4364	-	5.4364	5.6566
Group 2:	2.2118	-	2.2118	3.2246	5.4364	5.6566
- Tenth interim						
Group 1:	5.5696	-	5.5696	-	5.5696	5.6117
Group 2:	2.9522	-	2.9522	2.6174	5.5696	5.6117
- Eleventh interim						
Group 1:	8.5564	-	8.5564	-	8.5564	4.8024
Group 2:	3.1406	-	3.1406	5.4158	8.5564	4.8024
- Final						
Group 1:	5.4765	-	5.4765	-	5.4765	6.0030
Group 2:	2.5039	-	2.5039	2.9726	5.4765	6.0030
Class 'C-H' - First interim						
Group 1:	6.2024	-	6.2024	-	6.2024	5.8890
Group 2:	6.2024	-	6.2024	-	6.2024	5.8890
- Second interim						
Group 1:	5.9684	-	5.9684	-	5.9684	5.3595
Group 2:	5.9684	-	5.9684	-	5.9684	5.3595
- Third interim						
Group 1:	6.0184	-	6.0184	-	6.0184	5.6550
Group 2:	6.0184	-	6.0184	-	6.0184	5.6550

# M&G High Yield Corporate 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
US dollar						
Class 'C-H' - Fourth interim						
Group 1:	6.2814	-	6.2814	-	6.2814	5.3585
Group 2:	6.2814	-	6.2814	-	6.2814	5.3585
- Fifth interim						
Group 1:	6.6664	-	6.6664	-	6.6664	6.1123
Group 2:	6.6664	-	6.6664	-	6.6664	6.1123
- Sixth interim						
Group 1:	6.1318	-	6.1318	-	6.1318	5.5515
Group 2:	2.1759	-	2.1759	3.9559	6.1318	5.5515
- Seventh interim						
Group 1:	5.7824	-	5.7824	-	5.7824	5.3555
Group 2:	4.3000	-	4.3000	1.4824	5.7824	5.3555
- Eighth interim						
Group 1:	7.4984	-	7.4984	-	7.4984	5.6736
Group 2:	2.3379	-	2.3379	5.1605	7.4984	5.6736
- Ninth interim						
Group 1:	6.0143	-	6.0143	-	6.0143	6.1620
Group 2:	2.8081	-	2.8081	3.2062	6.0143	6.1620
- Tenth interim						
Group 1:	6.1520	-	6.1520	-	6.1520	6.1128
Group 2:	3.9250	-	3.9250	2.2270	6.1520	6.1128
- Eleventh interim						
Group 1:	9.3525	-	9.3525	-	9.3525	5.3089
Group 2:	4.2694	-	4.2694	5.0831	9.3525	5.3089
- Final						
Group 1:	6.1807	-	6.1807	-	6.1807	6.4205
Group 2:	2.1983	-	2.1983	3.9824	6.1807	6.4205

First interim period	01.06.12 - 30.06.12
Second interim period	01.07.12 - 31.07.12
Third interim period	01.08.12 - 31.08.12
Fourth interim period	01.09.12 - 30.09.12
Fifth interim period	01.10.12 - 31.10.12
Sixth interim period	01.11.12 - 30.11.12
Seventh interim period	01.12.12 - 31.12.12
Eighth interim period	01.01.13 - 31.01.13
Ninth interim period	01.02.13 - 28.02.13
Tenth interim period	01.03.13 - 31.03.13
Eleventh interim period	01.04.13 - 30.04.13
Final period	01.05.13 - 31.05.13

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

# M&G Index-Linked Bond Fund

## AUTHORISED CORPORATE DIRECTOR'S REPORT

### Investment objective of the M&G Index-Linked Bond Fund

The Fund aims to secure the value of capital and income from the effects of inflation with a long-term total return consistent with investment in index-linked bonds.

### Investment policy of the M&G Index-Linked Bond Fund

The portfolio will focus mainly on index-linked debt instruments which may be government and public securities or corporate debt instruments. Non-sterling denominated securities may be held and, if deemed appropriate by the investment manager, the associated currency risks hedged. The Fund's exposure to index-linked, government and public securities or corporate debt 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.

### Investment approach

The M&G Index-Linked Bond Fund aims to secure the value of capital and income from the effects of inflation using a long-term total return approach consistent with investment in index-linked bonds. In order to increase the fund's yield, the manager may, where appropriate, invest in index-linked corporate bonds and in index-linked overseas bonds, in addition to index-linked UK sterling government bonds. Foreign currency exposure is at least 95% hedged to sterling.

### 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 3 June 2013, for the year ended 31 May 2013

In the first half of the review period, we shortened the portfolio's duration (its sensitivity to changes in yields<sup>[a]</sup>) in expectation of a rise in core interest rates due to improving market sentiment. We achieved this by reducing our holdings in longer dated index-linked UK government bonds<sup>[b]</sup> (gilts) such as those maturing, or due to be repaid in full, in 2062 and by establishing a short position in gilt and US Treasury futures<sup>[c]</sup>. In January 2013, the fund lengthened its duration ahead of an official decision over the computation of the Retail Prices Index (RPI), after which we moved to a more neutral position relative to the peer group. Since the beginning of 2013, we have been investing in index-linked gilts with a medium-term maturity.

A significant portion of the portfolio is currently invested in bonds with a medium-term maturity, between 15 and 20 years, where we believe yields appear attractively valued. In contrast, we are trying to avoid bonds with ultra-long maturity as new issuance is expected in the coming months, which may put pressure on this area of the market.

While the majority of the fund is invested in UK index-linked government bonds, we have also taken advantage of attractive valuations to invest in inflation-linked bonds issued by companies. In this vein, we invested in bonds issued by bridge operator Severn River Crossing as well as Network Rail, the authority responsible for the UK's railway network. We believe these are good quality bonds issued by companies linked to the government, offering an appealing return over government bonds with little additional risk involved.

### Mike Riddell Fund manager

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

<sup>[a]</sup> Yield is the bond's prospective rate of return and has an inverse relationship to price. If a bond's price goes down, its yield goes up, and vice versa.

<sup>[b]</sup> Bonds are interest-bearing loans extended by an investor to governments or companies. Index-linked bonds have both the value of the loan and the interest payments adjusted according to inflation until the final payment date. Long-dated bonds refer to bonds with a long time to their maturity, or final payment date.

<sup>[c]</sup> Futures are financial contracts between two parties to buy or sell a particular commodity or financial instrument at a pre-determined price at a future date. Futures are traded on a regulated exchange. A short position is a strategy for a fund manager to express his or her view that the market might fall in value.

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 Index-Linked Bond Fund

## FUND STATISTICS

### DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.12.13	31.01.14
Final	02.06.14	31.07.14

	Final distribution		Ongoing Charges Figure <sup>[b]</sup>	
	Inc 31.07.13 <sup>[a]</sup>	Acc 03.06.13 <sup>[a]</sup>	31.05.13	31.05.12
<b>Sterling</b>	p	p	%	%
Class 'A'	nil	nil	0.66	0.66
Class 'I'	0.1360	0.0100	0.56 <sup>[c]</sup>	n/a

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

<sup>[b]</sup> 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.

<sup>[c]</sup> 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 a coupon basis.

### FUND PERFORMANCE

Performance of share classes	Net asset value per share as at 31.05.13		Net asset value per share as at 31.05.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
	p	p	p	p	%	%
<b>Sterling</b>						
Class 'A'	101.25	116.32	94.94	108.90	+6.65	+6.81
Class 'I'	1,079.23	1,080.62	n/a	n/a	n/a	n/a

### PERFORMANCE SINCE LAUNCH

	six months 03.12.12 %	one year 01.06.12 %	five years 03.06.08 % p.a. <sup>[a]</sup>	since launch % p.a. <sup>[a]</sup>
<b>Sterling <sup>[b]</sup></b>				
Class 'A'	+7.1	+4.4	+8.6	+6.3 <sup>[c]</sup>
Class 'I'	+7.1	n/a	n/a	+7.6 <sup>[d]</sup>

<sup>[a]</sup> Shows the compound rate of return, per annum, over the period.

<sup>[b]</sup> Bid to bid with net income reinvested.

<sup>[c]</sup> 4 October 1999, the end of the initial offer period of the predecessor unit trust.

<sup>[d]</sup> 3 August 2012, the launch date of the share class. Not annualised.

### SINGLE YEAR PERFORMANCE (5 YEARS ENDING MAY)

From	31.05.12	31.05.11	31.05.10	29.05.09	30.05.08
To	31.05.13	31.05.12	31.05.11	31.05.10	29.05.09
	%	%	%	%	%
<b>Sterling</b>					
Class 'A'	+6.8	+18.1	+8.9	+9.1	+1.4

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

## PRICES

Calendar year	Income shares		Accumulation shares		
	Highest	Lowest	Highest	Lowest	
<b>Sterling (net)</b>	p	p	p	p	
Class 'A'	2008 <sup>[a]</sup>	73.48	62.51	81.54	70.12
	2009	75.03	66.23	84.32	73.99
	2010	79.24	71.60	89.83	80.81
	2011	95.86	75.89	109.74	86.38
	2012	97.07	90.12	111.12	103.38
	2013 <sup>[b]</sup>	106.08	92.49	121.86	106.31
Class 'I'	2012 <sup>[c]</sup>	1,017.59	960.50	1,019.13	960.40
	2013 <sup>[b]</sup>	1,130.67	986.29	1,132.32	987.76

<sup>[a]</sup> On 1 September 2008, the fund's name and objective were changed.

<sup>[b]</sup> To 3 June 2013.

<sup>[c]</sup> 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

Calendar year	Interest income per share		Distributed Final	Total	Reinvested
	Interim	p			
<b>Sterling (net)</b>	p	p	p	p	p
Class 'A'	2008	0.3660	0.3420	0.7080	0.8499
	2009	0.4256	0.3756	0.8012	0.8264
	2010	0.3600	0.3340	0.6940	0.7184
	2011	0.3020	0.2860	0.5880	0.5764
	2012	0.2180	0.1920	0.4100	0.2192
	2013 <sup>[a]</sup>	0.1460	nil	0.1460	0.1656
Class 'I'	2012	n/a	n/a	n/a	1.6920
	2013 <sup>[a]</sup>	1.6020	0.1360	1.7380	1.7020

<sup>[a]</sup> Up to final: ex-distribution date 3 June 2013;  
payment date 31 July 2013.

## NET ASSETS

Year ended	Value per share		Number of shares		
	Inc	Acc	Inc	Acc	
<b>Sterling</b>	p	p			
Class 'A'	May 2011	80.77	92.25	76,257,202	167,522,828
	May 2012	94.94	108.90	106,748,202	248,799,828
	May 2013	101.25	116.32	89,177,202	226,139,828
Class 'I'	May 2013	1,079.23	1,080.62	1,454,700	781,000

Year ended	Total net asset value of sub-fund	
	£	€ <sup>[a]</sup>
May 2011	216,126,000	247,610,000
May 2012	372,275,000	465,345,000
May 2013	377,464,000	441,961,000

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

# M&G Index-Linked Bond Fund

## PORTFOLIO

### PORTFOLIO STATEMENT

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>'AAA' credit rated bonds</b>		<b>95.97</b>	<b>96.58</b>
£1,269,000 European Investment Bank 2.6% IL 2013	1,787	0.47	
£10,000,000 Network Rail Infrastructure Finance 1.125% IL 2047	15,647	4.15	
£4,000,000 Network Rail Infrastructure Finance 1.375% IL 2037	6,378	1.69	
£1,000,000 Network Rail Infrastructure Finance 1.9618% IL 2025	1,728	0.46	
£2,500,000 Treasury 0.125% IL 2024	2,837	0.75	
£90,250,000 Treasury 0.125% IL 2029	102,734	27.22	
£79,500,000 Treasury 0.125% IL 2044	87,292	23.12	
£14,800,000 Treasury 0.25% IL 2052	17,055	4.52	
£300,000 Treasury 0.375% IL 2062	391	0.10	
£82,000 Treasury 0.5% IL 2050	117	0.03	
£793,000 Treasury 0.625% IL 2040	1,108	0.29	
£500,000 Treasury 0.625% IL 2042	725	0.19	
£11,000,000 Treasury 0.75% IL 2034	14,345	3.80	
£110,000 Treasury 0.75% IL 2047	171	0.05	
£300,000 Treasury 1.125% IL 2037	495	0.13	
£10,232,000 Treasury 1.25% IL 2017	15,154	4.01	
£5,793,000 Treasury 1.25% IL 2027	9,473	2.51	
£850,000 Treasury 1.25% IL 2032	1,292	0.34	
£1,000,000 Treasury 1.25% IL 2055	2,052	0.54	
£14,622,000 Treasury 1.875% IL 2022	22,955	6.08	
£1,334,000 Treasury 2.5% IL 2016	4,624	1.23	
£13,950,000 Treasury 2.5% IL 2020	53,222	14.10	
£63,000 Treasury 2.5% IL 2024	219	0.06	
£150,000 Treasury 4.125% IL 2030	495	0.13	
<b>'AA' credit rated bonds</b>		<b>0.70</b>	<b>0.67</b>
£1,900,000 Toyota Motor Credit 2.413% IL 2017	2,646	0.70	
<b>'A' credit rated bonds</b>		<b>1.25</b>	<b>2.00</b>
£450,000 DWR Cymru Financing 1.859% IL 2048	602	0.16	
£1,750,000 Heathrow Funding (formerly BAA Funding) 3.334% IL 2041	2,862	0.76	
£200,000 National Grid Electricity 2.817% IL 2032	377	0.10	
£200,000 Southern Water Services Finance 3.816% IL 2023	349	0.09	
£319,000 Yorkshire Water Services 3.30666% IL 2033	516	0.14	
<b>'BBB' credit rated bonds</b>		<b>0.71</b>	<b>0.30</b>
£400,000 EDF Energy Networks 3.125% IL 2032	754	0.20	
£400,000 South East Water Finance 2.5329% IL 2041	568	0.15	
£400,000 Tesco 4% IL 2016	675	0.18	
£500,000 Tesco Var. Rate 1.982% IL 2036	691	0.18	
<b>Bonds with no credit rating</b>		<b>0.49</b>	<b>0.00</b>
£1,000,000 Severn River Crossing 6.125% IL 2013	1,832	0.49	
<b>Forward currency contracts</b>		<b>0.06</b>	<b>0.02</b>
\$11,500,000 Bought for £7,368,111 (expires 05.06.13) - State Street Bank	192	0.05	
€(2,500,000) Sold for £2,155,575 (expires 05.06.13) - State Street Bank	20	0.01	
<b>'AAA' rated money market funds [a]</b>		<b>0.70</b>	<b>0.35</b>
2,624,000 Northern Trust Global Fund - Sterling	2,624	0.70	
<b>Portfolio of investments (notes 1b &amp; 1d on pages 54 &amp; 55)</b>	<b>377,004</b>	<b>99.88</b>	<b>99.92</b>
<b>Net other assets</b>	<b>460</b>	<b>0.12</b>	<b>0.08</b>
<b>Net assets attributable to shareholders</b>	<b>377,464</b>	<b>100.00</b>	<b>100.00</b>

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

At the balance sheet date, futures and forward currency contracts were executed with the counterparties disclosed above, for the purpose of efficient portfolio management. Collateral obligations on losses for each transaction would be met using cash held at the futures clearing house or custodian respectively.

### PORTFOLIO TRANSACTIONS

For the year ended 31 May 2013

Largest purchases	£'000
UK Long Gilt Bond Jun 2013 [a]	135,697
Treasury 0.125% IL 2029 (£)	107,554
UK Long Gilt Bond Mar 2013 [a]	99,136
Treasury 0.125% IL 2044 (£)	94,566
Treasury 1.25% IL 2027 (£)	67,563
Treasury 0.5% IL 2050 (£)	65,491
UK Long Gilt Bond Dec 2012 [a]	59,710
Treasury 0.25% IL 2052 (£)	48,203
10 Year US Treasury Note Mar 2013 [a]	44,757
10 Year US Treasury Note Dec 2012 [a]	44,157
Treasury 0.75% IL 2034 (£)	43,758
Treasury 2.5% IL 2016 (£)	36,807
Treasury 1.25% IL 2032 (£)	30,289
Treasury 1.875% IL 2022 (£)	24,397
10 Year US Treasury Note Jun 2013 [a]	24,292
Germany (Federal Republic of) 2.25% IL 2013 (€)	19,333
Treasury 0.625 IL 2040 (£)	17,105
Treasury 2.5% IL 2024 (£)	16,855
Treasury 1.25% IL 2017 (£)	14,371
10 Year US Treasury Note Sep 2013 [a]	12,883
Northern Trust Global Fund - Sterling [b]	75,799
Other purchases	38,337
<b>Total purchases</b>	<b>1,121,060</b>
Largest sales	£'000
UK Long Gilt Bond Jun 2013 [a]	133,765
UK Long Gilt Bond Mar 2013 [a]	100,261
Treasury 0.75% IL 2034 (£)	85,514
Treasury 0.5% IL 2050 (£)	81,056
Treasury 0.375% IL 2062 (£)	79,973
UK Long Gilt Bond Dec 2012 [a]	59,637
Treasury 1.25% IL 2027 (£)	58,949
Treasury 2.5% IL 2016 (£)	52,321
Treasury 0.125% IL 2029 (£)	44,585
10 Year US Treasury Note Mar 2013 [a]	43,995
10 Year US Treasury Note Dec 2012 [a]	43,931
Treasury 2.5% IL 2024 (£)	41,897
Treasury 0.25% IL 2052 (£)	38,182
Treasury 1.25% IL 2032 (£)	31,490
Treasury 1.875% IL 2022 (£)	26,067
10 Year US Treasury Note Jun 2013 [a]	24,197
10 Year US Treasury Note Sep 2013 [a]	24,115
Treasury 0.625% IL 2040 (£)	20,090
Germany (Federal Republic of) 2.25% IL 2013 (€)	19,230
Treasury 0.125% IL 2044 (£)	15,245
Northern Trust Global Fund - Sterling [b]	74,486
Other sales	48,145
<b>Total sales</b>	<b>1,147,131</b>

[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 Index-Linked Bond Fund

## FINANCIAL STATEMENTS

For the year ended 31 May 2013.

### STATEMENT OF TOTAL RETURN

	Note	2013		2012	
		£'000	£'000	£'000	£'000
Income					
Net capital gains	3		15,427		41,783
Revenue	4	9,587		10,647	
Expenses	5	(2,394)		(2,195)	
Finance costs: Interest	12	(3)		(2)	
Net revenue before taxation		7,190		8,450	
Taxation	6	0		0	
Net revenue after taxation			7,190		8,450
<b>Total return before distributions</b>			<b>22,617</b>		<b>50,233</b>
Finance costs: Distributions	12		(709)		(1,835)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>21,908</b>		<b>48,398</b>

### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2013		2012	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		372,275		216,126
Amounts received on issue of shares	53,266		161,368	
Amounts paid on cancellation of shares	(70,368)		(54,797)	
		(17,102)		106,571
Stamp Duty Reserve Tax		0		(1)
Change in net assets attributable to shareholders from investment activities (see above)		21,908		48,398
Retained distributions on Accumulation shares		383		1,181
<b>Closing net assets attributable to shareholders</b>		<b>377,464</b>		<b>372,275</b>

## BALANCE SHEET

	as at 31 May 2013		as at 31 May 2012	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		377,004		371,982
Debtors				
Amounts receivable on issues	258		76	
Debt security interest receivable	400		812	
		658		888
Cash and bank balances				
Amounts held at futures clearing houses and brokers	139		0	
Cash held as bank balances	0		1	
		139		1
<b>Total other assets</b>		<b>797</b>		<b>889</b>
<b>Total assets</b>		<b>377,801</b>		<b>372,871</b>
<b>Liabilities</b>				
Investment liabilities		0		(7)
Creditors				
Amounts payable on cancellations	(200)		(60)	
Expenses payable	(135)		(129)	
Income tax payable	0		(194)	
Net distributions payable on Income shares	(2)		(205)	
		(337)		(588)
Bank overdrafts	0		(1)	
<b>Total other liabilities</b>		<b>(337)</b>		<b>(589)</b>
<b>Total liabilities</b>		<b>(337)</b>		<b>(596)</b>
<b>Net assets attributable to shareholders</b>		<b>377,464</b>		<b>372,275</b>

## 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 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 31 May 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.

#### 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 Index-Linked Bond 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 31 May 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 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.

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 Authorised Corporate Director's (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; the adjustment in respect of the effective yield on UK government index-linked bonds; and after deduction of expenses properly chargeable against revenue. For index-linked bonds, effective yield includes an element of capital indexation which is non distributable as permitted in the waiver provided by the FCA.

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. Generally, the ACD will not seek to hedge these exposures since the ACD believes that, in the long term, such hedging would be detrimental to total return.

The ACD considers the credit risk when selecting securities and generally holds bonds with a credit rating of AAA.

The capital value of investments within the sub-fund may be affected by interest rate fluctuations such that when interest rates rise the capital value 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 absolute revenue and capital gain will be affected by the prevailing rate of inflation and expectations as to future rates of inflation.

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 the majority of the non-sterling denominated 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. Revenue arising in foreign currencies is generally converted into sterling shortly after receipt and is not hedged in advance of receipt.

# M&G Index-Linked Bond Fund

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 2 Risk management policies (continued)

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 96, 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 (31.05.12: same).

#### 3 Net capital gains

	2013 £'000	2012 £'000
Non-derivative securities	15,041	41,683
Derivative contracts	363	0
Forward currency contracts	143	41
Currency (losses) / gains	(116)	60
Transaction charges	(4)	(1)
<b>Net capital gains</b>	<b>15,427</b>	<b>41,783</b>

#### 4 Revenue

	2013 £'000	2012 £'000
Bank interest	1	1
Derivative revenue	(1,003)	0
Interest distributions	5	4
Interest on debt securities	10,584	10,642
<b>Total revenue</b>	<b>9,587</b>	<b>10,647</b>

#### 5 Expenses

	2013 £'000	2012 £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge	1,811	1,657
Administration fee	546	497
	2,357	2,154
<b>Payable to the Depositary or associate</b>		
Depositary's fee (including VAT)	26	24
<b>Other expenses</b>		
Audit fee (including VAT)	12	11
Regulatory fees	0	1
Safe custody charge	(1)	5
	11	17
<b>Total expenses</b>	<b>2,394</b>	<b>2,195</b>

#### 6 Taxation

	2013 £'000	2012 £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	0
Current tax charge (note 6b)	0	0
Deferred tax (note 6c)	0	0
<b>Total taxation</b>	<b>0</b>	<b>0</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue before taxation	7,190	8,450
Corporation tax at 20%	1,438	1,690
Effects of:		
Retail Prices Index adjustment to gilts	(1,831)	(1,825)
Interest distributions	0	(367)
Current period expenses not utilised	393	502
<b>Current tax charge (note 6a)</b>	<b>0</b>	<b>0</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The sub-fund has not recognised a deferred tax asset of £1,180,000 (31.05.12: £1,180,000) arising as a result of having unutilised management expenses. We do not expect this asset to be utilised in the foreseeable future.

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 (31.05.12: 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 periodic charge are disclosed in note 5. Amounts due at the year end to the Authorised Corporate Director of £121,000 (31.05.12: £113,000) 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 0.87% (31.05.12: 0.88%) of the sub-fund's shares.

# M&G Index-Linked Bond 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 (31.05.12: 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 31.05.13	as at 31.05.12	as at 31.05.13	as at 31.05.12	as at 31.05.13	as at 31.05.12
	£'000	£'000	£'000	£'000	£'000	£'000
Euro	(2,135)	0	0	(1)	(2,135)	(1)
Japanese yen	0	1,285	0	0	0	1,285
Norwegian krone	0	1,169	0	0	0	1,169
Swedish krona	0	1,151	0	91	0	1,242
US dollar	7,560	2,580	865	0	8,425	2,580
	5,425	6,185	865	90	6,290	6,275
Sterling	371,579	365,790	(405)	210	371,174	366,000
<b>Total</b>	<b>377,004</b>	<b>371,975</b>	<b>460</b>	<b>300</b>	<b>377,464</b>	<b>372,275</b>

#### Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 31.05.13	as at 31.05.12	as at 31.05.13	as at 31.05.12	as at 31.05.13	as at 31.05.12
	£'000	£'000	£'000	£'000	£'000	£'000
Euro	0	(1)	0	0	0	(1)
Sterling	(727)	1,922	373,277	363,890	372,550	365,812
Swedish krona	0	0	0	6,115	0	6,115
US dollar	864	0	0	0	864	0
<b>Total</b>	<b>137</b>	<b>1,921</b>	<b>373,277</b>	<b>370,005</b>	<b>373,414</b>	<b>371,926</b>

	Weighted average gross interest rate of fixed interest-bearing assets		Weighted average period for which interest rates are fixed <sup>[a]</sup>	
	as at 31.05.13	as at 31.05.12	as at 31.05.13	as at 31.05.12
	%	%	years	years
Sterling	(0.29)	(0.21)	21.38	26.21
Swedish krona	n/a	0.03	n/a	8.51

[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); and variable rate bonds (31.05.12: same).

#### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.05.12: 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 Index-Linked 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 Index-Linked 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 £28,793,908 over the next 30 days from the balance sheet date, 31 May 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
<b>a) Purchases</b>		
Purchases excluding transaction costs	1,121,060	683,129
<b>b) Sales</b>		
Sales excluding transaction costs	1,147,131	575,510

There were no significant transaction costs during the year (31.05.12: same).

# M&G Index-Linked 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 and Sterling Class 'I' (Net Income and Net Accumulation) shares.

The charging structure for each share class, as at 31 May 2013, is set out in the following table (31.05.12: same):

#### CHARGES AND EXPENSES

	Initial charge %	Withdrawal fee %	ACD's annual remuneration %
<b>Sterling</b>			
Class 'A'	nil	n/a	0.50
Class 'I' <sup>[a]</sup>	1.00	n/a	0.40

<sup>[a]</sup> With effect from 3 August 2012, the launch date of the Sterling Class 'I' share class.

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

	31.05.13		31.05.12	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
<b>Sterling</b>				
Class 'A'	90,290	263,035	101,345	270,930
Class 'I'	15,699	8,440	n/a	n/a

The net asset value per share and the number of shares are given in the net assets table on page 52. The distribution per share is given in the distribution table on page 59. Each share class has the same rights on winding-up.

#### 12 Finance costs

	2013 £'000	2012 £'000
<b>Income shares (sterling)</b>		
Class 'A' - Interim	147	220
- Final	0	205
Class 'I' - Interim	0	n/a
- Final	2	n/a
<b>Accumulation shares (sterling)</b>		
Class 'A' - Interim	383	636
- Final	0	545
Class 'I' - Interim <sup>[a]</sup>	0	n/a
- Final <sup>[a]</sup>	0	n/a
	532	1,606
Income tax deducted at source	143	367
Finance costs: Interest distributions	675	1,973
Income deducted on cancellation of shares	54	68
Income received on issue of shares	(20)	(206)
<b>Finance costs: Distributions</b>	<b>709</b>	<b>1,835</b>
Finance costs: Interest	3	2
<b>Total finance costs</b>	<b>712</b>	<b>1,837</b>
Net revenue per statement of total return	7,190	8,450
Effective yield adjustments not distributed	(6,627)	(6,614)
Undistributed income brought forward	2	1
Undistributed income carried forward	(1)	(2)
Income deficit transferred to capital	145	0
<b>Finance costs: Distributions</b>	<b>709</b>	<b>1,835</b>

<sup>[a]</sup> The total distributions for Sterling Class 'I' (Accumulation) shares in 2013 were £156.

# M&G Index-Linked Bond Fund

## FINANCIAL STATEMENTS

### DISTRIBUTION TABLE

Interest distributions on Income shares	Gross income	Income tax deducted	Net income	Equalisation	Distribution paid/payable	
	p	p	p	p	2012/13	2011/12
<b>Sterling</b>						
Class 'A' - Interim						
Group 1:	0.1825	0.0365	0.1460	-	0.1460	0.2180
Group 2:	0.0758	0.0152	0.0606	0.0854	0.1460	0.2180
- Final						
Group 1:	-	-	-	-	-	0.1920
Group 2:	-	-	-	-	-	0.1920
Class 'I' - Interim						
Group 1:	2.0025	0.4005	1.6020	-	1.6020	n/a
Group 2:	0.1314	0.0263	0.1051	1.4969	1.6020	n/a
- Final						
Group 1:	0.1700	0.0340	0.1360	-	0.1360	n/a
Group 2:	0.0000	0.0000	0.0000	0.1360	0.1360	n/a
Interest distributions on Accumulation shares	Gross income	Income tax deducted	Net income	Equalisation	Amount reinvested	
	p	p	p	p	2012/13	2011/12
<b>Sterling</b>						
Class 'A' - Interim						
Group 1:	0.2070	0.0414	0.1656	-	0.1656	0.2500
Group 2:	0.0875	0.0175	0.0700	0.0956	0.1656	0.2500
- Final						
Group 1:	-	-	-	-	-	0.2192
Group 2:	-	-	-	-	-	0.2192
Class 'I' - Interim						
Group 1:	2.1150	0.4230	1.6920	-	1.6920	n/a
Group 2:	0.3551	0.0710	0.2841	1.4079	1.6920	n/a
- Final						
Group 1:	0.0125	0.0025	0.0100	-	0.0100	n/a
Group 2:	0.0000	0.0000	0.0000	0.0100	0.0100	n/a

Interim period 01.06.12 - 30.11.12

Final period 01.12.12 - 31.05.13

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

# M&G Index-Linked Bond Fund

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# M&G Index Tracker Fund

## AUTHORISED CORPORATE DIRECTOR'S REPORT

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

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

### Investment approach

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

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

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### Risk and reward profile\*



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

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

## INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

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

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

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

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

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

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

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

**Richard O'Connor**  
Fund manager

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

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

# M&G Index Tracker Fund

## FUND STATISTICS

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

## DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.12.13	31.01.14
Final	02.06.14	31.07.14

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

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

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

## FUND PERFORMANCE

Performance of share classes

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

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

## PERFORMANCE SINCE LAUNCH

	six months 03.12.12	one year 01.06.12	five years 03.06.08	since launch
	%	%	% p.a. <sup>[a]</sup>	% p.a. <sup>[a]</sup>
Sterling <sup>[b]</sup>				
Class 'A'	+12.8	+25.5	+2.7	+1.7 <sup>[c]</sup>
Class 'C'	+12.8	+25.5	n/a	+11.2 <sup>[d]</sup>

<sup>[a]</sup> Shows the compound rate of return, per annum, over the period.

<sup>[b]</sup> Bid to bid excluding reinvested income.

<sup>[c]</sup> 27 February 1998, the launch date of the predecessor unit trust.

<sup>[d]</sup> 16 February 2012, the launch date of the share class.

## SINGLE YEAR PERFORMANCE (5 YEARS ENDING MAY)

From	31.05.12	31.05.11	31.05.10	29.05.09	30.05.08
To	31.05.13	31.05.12	31.05.11	31.05.10	29.05.09
	%	%	%	%	%
Sterling					
Class 'A'	+28.0	-8.0	+19.2	+22.3	-22.8

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	61.34	35.64	77.66	45.92
	2009	52.11	33.21	70.86	43.82
	2010	57.75	46.98	80.91	64.97
	2011	59.77	48.47	83.78	68.84
	2012 <sup>[a]</sup>	58.30	51.35	86.99	75.22
	2013 <sup>[b]</sup>	67.56	58.86	100.95	87.96
Class 'C'	2012 <sup>[a]</sup> <sup>[c]</sup>	58.67	51.55	n/a	n/a
	2013 <sup>[b]</sup>	67.93	59.12	n/a	n/a

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

<sup>[b]</sup> To 3 June 2013.

<sup>[c]</sup> From 16 February 2012 (the launch date of the share class).

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

The 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	0.8230	1.0110	1.8340	2.4744
	2009	0.9270	0.7710	1.6980	1.9955
	2010	0.7280	0.7160	1.4440	1.9441
	2011	0.7000	0.7920	1.4920	2.4569
	2012	0.9470	0.9140	1.8610	2.6390
	2013 <sup>[a]</sup>	0.8960	1.0258	1.9218	1.5304
Class 'C'	2012	n/a	0.7490	0.7490	n/a
	2013 <sup>[a]</sup>	0.9850	1.1241	2.1091	n/a

<sup>[a]</sup> Up to final: ex-distribution date 3 June 2013; payment date 31 July 2013.

## NET ASSETS

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
Sterling		p	p		
Class 'A'	May 2011	58.18	82.61	491,523,591	144,626,701
	May 2012	51.68	76.02	503,557,268	143,309,230
	May 2013	64.70	98.21	465,941,268	133,203,230
Class 'C'	May 2012	51.88	n/a	87,339,952	n/a
	May 2013	64.97	n/a	83,512,952	n/a

Total net asset value of sub-fund

Year ended	£	€ <sup>[a]</sup>
May 2011	405,438,000	464,526,000
May 2012	414,474,000	518,093,000
May 2013	486,534,000	569,666,000

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



# M&G Index Tracker Fund

## PORTFOLIO

### PORTFOLIO STATEMENT

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Oil &amp; gas producers</b>			
260,346 Afren	351	0.07	
825,666 BG Group	10,065	2.07	
4,661,991 BP	22,091	4.54	
138,592 Cairn Energy	382	0.08	
150,288 EnQuest	193	0.04	
78,477 Essar Energy	116	0.02	
25,869 Exillon Energy	38	0.01	
342,096 Fortune Oil	27	0.01	
16,178 Hardy Oil & Gas	18	0.00	
48,176 Heritage Oil	69	0.01	
26,260 JKC Oil & Gas	16	0.00	
109,482 Ophir Energy	439	0.09	
131,922 Premier Oil	482	0.10	
914,963 Royal Dutch Shell 'A'	20,244	4.16	
640,749 Royal Dutch Shell 'B'	14,699	3.02	
15,000 RusPetro	6	0.00	
63,858 Salamander Energy	110	0.02	
57,952 Soco International	222	0.05	
221,119 Tullow Oil	2,328	0.48	
		<b>14.77</b>	<b>16.33</b>
<b>Oil equipment, services &amp; distribution</b>			
74,603 AMEC	765	0.15	
28,743 Cape	76	0.02	
36,317 Hunting	317	0.07	
83,401 John Wood Group	711	0.14	
20,000 Kentz	80	0.02	
47,192 Lamprell	76	0.02	
64,147 Petrofac	876	0.18	
		<b>0.60</b>	<b>0.73</b>
<b>Chemicals</b>			
89,009 AZ Electronic Materials	281	0.06	
15,087 Carclo	55	0.01	
33,012 Croda International	813	0.17	
106,296 Elementis	252	0.05	
50,699 Johnson Matthey	1,304	0.26	
60,858 Synthomer (formerly Yule Catto)	123	0.03	
19,080 Victrex	329	0.07	
		<b>0.65</b>	<b>0.70</b>
<b>Forestry &amp; paper</b>			
89,932 Mondi	788	0.16	
		<b>0.16</b>	<b>0.11</b>
<b>Industrial metals &amp; mining</b>			
82,188 Evraz	114	0.02	
42,743 Ferrexpo	74	0.02	
80,909 International Ferro Metals	8	0.00	
314,482 Talvivaara Mining Company	45	0.01	
		<b>0.05</b>	<b>0.11</b>
<b>Mining</b>			
29,524 African Barrick Gold	42	0.01	
320,358 Anglo American	4,993	1.03	
26,938 Anglo Pacific Group	63	0.01	
87,791 Antofagasta	841	0.17	
114,924 Aquarius Platinum	48	0.01	
47,904 Avocet Mining	6	0.00	
517,009 BHP Billiton	10,033	2.06	
22,036 Bumi	57	0.01	
260,758 Centamin	102	0.02	
60,791 Eurasian Natural Resources	153	0.03	
41,000 Fresnillo	477	0.10	
29,397 Gem Diamonds	41	0.01	
2,101,539 Glencore International	6,904	1.41	
40,344 Hochschild Mining	103	0.02	
52,315 Kazakhmys	176	0.04	
		<b>7.29</b>	<b>9.32</b>

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Mining (continued)</b>			
570,109 Kenmare Resources	174	0.04	
105,644 Lonmin	318	0.07	
25,869 New World Resources	26	0.01	
75,780 Petra Diamonds	87	0.02	
41,496 Petropavlovsk	58	0.01	
48,508 Polymetal International	332	0.07	
22,592 Randgold Resources	1,195	0.25	
306,089 Rio Tinto	8,903	1.82	
24,914 Vedanta Resources	318	0.07	
		<b>0.73</b>	<b>0.71</b>
<b>Construction &amp; materials</b>			
167,163 Balfour Beatty	392	0.08	
10,366 Costain Group	27	0.01	
176,650 CRH	2,473	0.51	
20,213 Galliford Try	194	0.04	
28,988 Henry Boot	54	0.01	
16,852 Keller Group	160	0.03	
8,589 Kier Group	106	0.02	
63,763 Low & Bonar	42	0.01	
39,545 Marshalls	55	0.01	
7,462 Morgan Sindall	42	0.01	
143,713 Norcross	24	0.00	
		<b>2.37</b>	<b>2.03</b>
<b>Aerospace &amp; defence</b>			
6,707 Avon Rubber	30	0.01	
797,246 BAE Systems	3,218	0.66	
48,122 Chemring Group	135	0.03	
264,959 Cobham	764	0.16	
194,073 Meggitt	1,031	0.21	
154,528 QinetiQ Group	287	0.06	
459,408 Rolls-Royce Holdings	5,485	1.13	
97,236 Senior	264	0.05	
16,288 Ultra Electronics Holdings	288	0.06	
		<b>0.69</b>	<b>0.68</b>
<b>General industrials</b>			
6,871 British Polythene Industries	38	0.01	
219,536 DS Smith	537	0.11	
194,112 Rexam	1,029	0.22	
40,579 RPC Group	163	0.03	
96,927 Smiths Group	1,330	0.27	
68,463 Vesuvius	257	0.05	
		<b>0.46</b>	<b>0.44</b>
<b>Electronic &amp; electrical equipment</b>			
7,665 Dialight	98	0.03	
26,420 Domino Printing Sciences	178	0.04	
49,560 e2v Technologies	63	0.01	
90,210 Halma	471	0.10	
69,363 Morgan Advanced Materials	202	0.04	
13,436 Oxford Instruments	216	0.04	
8,968 Renishaw	157	0.03	
29,052 Spectris	607	0.13	
35,780 TT electronics	62	0.01	
14,936 Volex	16	0.00	
17,246 Xaar	113	0.02	
3,641 XP Power	43	0.01	
		<b>0.99</b>	<b>0.81</b>
<b>Industrial engineering</b>			
47,344 Bodycote	260	0.05	
46,004 Fenner	159	0.03	
152 Goodwin	3	0.00	
15,645 Hill & Smith Holdings	66	0.01	
79,254 IMI	1,025	0.22	
313,354 Melrose	810	0.17	
67,066 Renold	15	0.00	
21,373 Rotork	611	0.13	
69,710 Severfield-Rowen	35	0.01	
18,812 Spirax-Sarco Engineering	538	0.11	
11,460 Vitec Group	69	0.01	
52,097 Weir Group	1,212	0.25	

# M&G Index Tracker Fund

## PORTFOLIO

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Industrial transportation</b>			
116,605 BBA Aviation	323	0.07	
3,455 Braemar Shipping Services	15	0.00	
4,179 Clarkson	68	0.01	
6,805 Goldenport Holdings	2	0.00	
10,291 James Fisher & Sons	99	0.03	
74,400 Stobart Group	67	0.01	
4,535 UK Mail Group	23	0.00	
30,574 Wincanton	21	0.00	
		<b>4.23</b>	<b>3.87</b>
<b>Support services</b>			
62,393 Aggreko	1,126	0.23	
124,910 Ashtead Group	783	0.16	
88,623 Babcock International Group	1,024	0.21	
40,840 Berendsen	313	0.06	
28,641 Brammer	99	0.02	
81,947 Bunzl	1,055	0.22	
161,732 Capita Group	1,591	0.33	
102,056 Carillion	262	0.05	
23,266 De La Rue	224	0.05	
26,590 Diploma	143	0.03	
103,045 Electrocomponents	279	0.06	
247,665 Experian	3,014	0.62	
47,904 Fiberweb	36	0.01	
54,781 Filtrona	381	0.08	
346,287 G4S	849	0.17	
330,116 Hays	312	0.06	
67,066 Hogg Robinson	38	0.01	
76,673 Homeserve	204	0.04	
152,249 Howden Joinery Group	357	0.07	
9,981 Hyder Consulting	42	0.01	
29,356 Interserve	144	0.03	
39,772 Intertek Group	1,278	0.27	
11,593 John Menzies	83	0.02	
39,138 Lavendon Group	64	0.01	
392,816 Lonrho	39	0.01	
86,408 Management Consulting Group	26	0.01	
21,982 Mears Group	81	0.02	
77,484 Michael Page International	298	0.06	
85,169 Mitie Group	222	0.05	
31,624 Northgate	106	0.02	
15,904 PayPoint	153	0.03	
84,583 Premier Farnell	183	0.04	
170,031 Regus	287	0.06	
449,203 Rentokil Initial	405	0.08	
13,784 Ricardo	56	0.01	
16,475 Robert Walters	37	0.01	
52,457 RPS Group	110	0.02	
124,071 Serco Group	770	0.16	
93,455 Shanks Group	80	0.02	
151,576 SIG	267	0.05	
45,441 Smiths News	78	0.02	
121,687 Speedy Hire	69	0.01	
21,448 St. Ives	34	0.01	
20,211 SThree	70	0.01	
59,930 Travis Perkins	939	0.19	
3,773 Vp	13	0.00	
24,330 W.S. Atkins	214	0.04	
67,614 Wolseley	2,264	0.47	
51,002 Xchanging	68	0.01	

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Automobiles &amp; parts</b>			
382,165 GKN	1,139	0.23	
47,904 Torotrak	14	0.00	
		<b>4.10</b>	<b>4.13</b>
<b>Beverages</b>			
23,514 A.G. Barr	131	0.03	
57,482 Britvic	304	0.06	
617,015 Diageo	11,979	2.46	
229,034 SABMiller	7,565	1.55	
		<b>2.34</b>	<b>2.19</b>
<b>Food producers</b>			
6,813 Anglo-Eastern Plantations	49	0.01	
85,931 Associated British Foods	1,573	0.32	
9,967 Cranswick	110	0.02	
31,306 Dairy Crest Group	151	0.03	
37,445 Devro	122	0.03	
100,033 Greencore	131	0.03	
11,578 Hilton Food Group	41	0.01	
54,084 Premier Foods	39	0.01	
116,505 Tate & Lyle	962	0.20	
295,654 Unilever	8,190	1.68	
		<b>2.34</b>	<b>1.98</b>
<b>Household goods &amp; home construction</b>			
16,201 Aga Rangemaster Group	13	0.00	
241,203 Barratt Developments	767	0.16	
29,001 Bellway	367	0.08	
30,122 Berkeley Group Holdings	633	0.13	
30,490 Bovis Homes Group	226	0.05	
16,709 Headlam Group	62	0.01	
38,304 McBride	38	0.01	
74,205 Persimmon	879	0.18	
158,496 Reckitt Benckiser	7,489	1.54	
64,091 Redrow	144	0.03	
752,914 Taylor Wimpey	739	0.15	
		<b>0.01</b>	<b>0.01</b>
<b>Leisure goods</b>			
51,632 Photo-Me International	42	0.01	
		<b>0.39</b>	<b>0.42</b>
<b>Personal goods</b>			
107,829 Burberry Group	1,567	0.32	
73,618 PZ Cussons	273	0.06	
6,686 SuperGroup	51	0.01	
		<b>4.76</b>	<b>5.05</b>
<b>Tobacco</b>			
476,136 British American Tobacco	17,355	3.57	
241,713 Imperial Tobacco	5,770	1.19	
		<b>0.39</b>	<b>0.37</b>
<b>Healthcare equipment &amp; services</b>			
7,947 Consort Medical	63	0.01	
17,657 Optos	22	0.00	
221,097 Smith & Nephew	1,695	0.35	
13,306 Synergy Health	141	0.03	
		<b>7.17</b>	<b>7.24</b>
<b>Pharmaceuticals &amp; biotechnology</b>			
305,911 AstraZeneca	10,369	2.13	
84,736 BTG	299	0.06	
20,081 Dechra Pharmaceuticals	137	0.03	
12,797 Genus	181	0.04	
1,207,772 GlaxoSmithKline	20,550	4.22	
33,979 Hikma Pharmaceuticals	327	0.07	
136,972 Shire	2,953	0.61	
67,883 Vectura Group	59	0.01	
		<b>2.23</b>	<b>2.35</b>
<b>Food &amp; drug retailers</b>			
362,128 Booker Group	458	0.09	
21,966 Greggs	89	0.02	
341,948 J Sainsbury	1,284	0.26	
87,300 Ocado Group	236	0.05	
1,976,541 Tesco	7,205	1.48	
45,952 United Drug	149	0.03	
536,951 WM Morrison Supermarkets	1,471	0.30	

# M&G Index Tracker Fund

## PORTFOLIO

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>General retailers</b>			
9,782 Carpetright	60	0.01	
116,804 Darty (formerly Kesa Electricals)	84	0.02	
308,835 Debenhams	290	0.06	
13,853 Dignity	185	0.04	
866,350 Dixons Retail	359	0.07	
19,683 Dunelm Group	175	0.04	
10,973 Findel	17	0.00	
48,578 Halfords Group	159	0.03	
196,887 Home Retail Group	309	0.06	
109,535 Inchcape	601	0.12	
4,789 JD Sports Fashion	43	0.01	
584,272 Kingfisher	2,018	0.41	
61,504 Laura Ashley Holdings	18	0.00	
48,391 Lookers	50	0.01	
396,267 Marks & Spencer Group	1,862	0.38	
18,498 Mothercare	64	0.01	
49,319 N Brown Group	227	0.05	
38,725 NEXT	1,784	0.37	
302,638 Pendragon	74	0.02	
42,502 Sports Direct International	218	0.04	
7,563 Ted Baker	107	0.02	
23,713 Topps Tiles	16	0.00	
32,431 WH Smith	245	0.05	
		<b>2.81</b>	<b>2.86</b>
<b>Media</b>			
9,581 4imprint Group	48	0.01	
11,581 Bloomsbury Publishing	15	0.00	
245,143 British Sky Broadcasting Group	1,917	0.39	
34,934 Centaur Media	12	0.00	
17,209 Chime Communications	44	0.01	
10,593 Euromoney Institutional Investor	98	0.02	
50,490 Huntsworth	31	0.01	
148,637 Informa	758	0.16	
64,604 ITE Group	189	0.04	
888,966 ITV	1,166	0.24	
28,178 Mecom Group	9	0.00	
74,134 Moneysupermarket.com	153	0.03	
199,294 Pearson	2,453	0.50	
19,162 Perform Group	107	0.02	
295,699 Reed Elsevier	2,197	0.45	
25,433 Rightmove	521	0.11	
58,726 Trinity Mirror	75	0.02	
56,872 UBM	409	0.08	
19,037 UTV Media	29	0.01	
10,474 Wilmington Group	17	0.00	
307,908 WPP Group	3,473	0.71	
		<b>3.14</b>	<b>2.69</b>
<b>Travel &amp; leisure</b>			
19,456 888 Holdings	30	0.01	
68,463 Alent	250	0.05	
24,629 Betfair Group	201	0.04	
147,257 bwin.party digital entertainment	189	0.04	
45,205 Carnival	1,012	0.21	
38,013 Cineworld	122	0.03	
453,449 Compass Group	3,891	0.80	
28,616 Dominos Pizza	201	0.04	
64,124 easyJet	805	0.17	
104,369 Enterprise Inns	119	0.02	
114,409 FirstGroup	148	0.03	
8,404 Fuller Smith & Turner 'A'	70	0.01	

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Travel &amp; leisure (continued)</b>			
9,796 Go-Ahead Group	149	0.03	
50,300 Greene King	383	0.08	
67,532 Intercontinental Hotels Group	1,289	0.26	
403,084 International Consolidated Airlines Group	1,133	0.23	
29,673 J.D.Wetherspoon	195	0.04	
215,293 Ladbrokes	444	0.09	
130,101 Marston's	185	0.04	
38,526 Millennium & Copthorne Hotels	213	0.04	
64,080 Mitchells & Butlers	242	0.05	
120,780 National Express	243	0.05	
22,733 Playtech	153	0.03	
136,182 Punch Taverns	18	0.00	
29,036 Rank Group	44	0.01	
47,854 Restaurant Group	246	0.05	
134,639 Spirit Publishing	89	0.02	
104,706 Stagecoach Group	312	0.06	
183,638 Thomas Cook Group	270	0.06	
132,895 TUI Travel	477	0.10	
7,071 Wembley	0	0.00	
44,281 Whitbread	1,267	0.26	
213,787 William Hill	930	0.19	
		<b>1.39</b>	<b>1.18</b>
<b>Fixed line telecommunications</b>			
1,933,741 BT Group	5,880	1.21	
590,303 Cable & Wireless Communications	259	0.05	
81,402 Colt Group	89	0.02	
132,444 KCOM Group	112	0.02	
127,493 TalkTalk Telecom	291	0.06	
11,631 Telecom Plus	153	0.03	
		<b>4.86</b>	<b>5.35</b>
<b>Mobile telecommunications</b>			
103,874 Inmarsat	641	0.13	
12,078,400 Vodafone Group	23,015	4.73	
		<b>0.88</b>	<b>0.89</b>
<b>Electricity</b>			
99,388 Drax Group	562	0.12	
236,280 SSE	3,676	0.76	
		<b>3.06</b>	<b>3.43</b>
<b>Gas, water &amp; multi-utilities</b>			
1,263,800 Centrica	4,818	0.99	
891,218 National Grid	7,036	1.45	
88,277 Pennon Group	603	0.12	
57,890 Severn Trent	1,188	0.24	
168,039 United Utilities	1,270	0.26	
		<b>12.06</b>	<b>9.62</b>
<b>Banks</b>			
2,815 Bank of Georgia Holdings	52	0.01	
3,149,769 Barclays	10,103	2.08	
4,556,232 HSBC Holdings	33,055	6.79	
10,214,033 Lloyds Banking Group	6,305	1.30	
497,062 Royal Bank of Scotland Group	1,652	0.34	
484,388 Standard Chartered	7,498	1.54	
		<b>0.91</b>	<b>0.81</b>
<b>Non-life insurance</b>			
48,968 Admiral Group	636	0.13	
120,924 Amlin	505	0.10	
119,065 Beazley	284	0.06	
83,071 Catlin Group	417	0.09	
193,250 Direct Line Insurance Group	407	0.08	
86,355 Hiscox	475	0.10	
35,148 Jardine Lloyd Thompson Group	312	0.06	
37,262 Lancashire Holdings	291	0.06	
13,566 Novae Group	68	0.01	
915,422 RSA Insurance Group	1,051	0.22	

# M&G Index Tracker Fund

## PORTFOLIO

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Life insurance</b>			
714,431 Aviva	2,386	0.49	
22,584 Chesnara	57	0.01	
1,447,832 Legal & General Group	2,639	0.54	
1,181,622 Old Mutual	2,401	0.49	
40,932 Phoenix Group	265	0.05	
628,003 Prudential	7,084	1.46	
334,951 Resolution	970	0.20	
97,465 St. James's Place	575	0.12	
583,383 Standard Life	2,312	0.48	
<b>Real estate investment &amp; services</b>			
173,371 Capital & Counties Properties	571	0.12	
92,191 Capital & Regional	32	0.01	
5,802 CLS Holdings	57	0.01	
983 Daejan Holdings	38	0.01	
28,502 Development Securities	57	0.01	
123,795 F&C Commercial Property Trust	134	0.03	
49,503 F&C UK Real Estate (formerly IRP Property Investments)	36	0.01	
73,935 Grainger Trust	113	0.02	
29,362 Helical Bar	78	0.02	
23,460 LSL Property Services	88	0.02	
65,542 Medix Fund	52	0.01	
72,327 Picton Property Income	33	0.01	
101,504 Quintain Estates & Development	77	0.02	
131,295 Raven Russia	102	0.02	
43,076 Safestore	58	0.01	
31,357 Savills	183	0.04	
85,961 Schroder Real Estate Investment Trust	37	0.01	
36,718 St. Modwen Properties	105	0.02	
25,908 Standard Life Investment Property Income Trust	15	0.00	
86,019 UK Commercial Property Trust	63	0.01	
35,140 UNITE Group	125	0.03	
<b>Real estate investment trusts</b>			
6,335 A&J Mucklow Group	25	0.01	
28,198 Big Yellow Group	117	0.02	
244,616 British Land	1,490	0.31	
22,160 Derwent London	528	0.11	
81,463 Great Portland Estates	447	0.09	
178,448 Hammerson	907	0.19	
129,329 Hansteen Holdings	115	0.02	
144,234 Intu Properties (formerly Capital Shopping Centres Group)	484	0.10	
192,014 Land Securities Group	1,776	0.37	
170,963 LondonMetric Property (formerly London & Stamford Property)	197	0.04	
9,136 McKay Securities Group	14	0.00	
15,880 Primary Health Properties	50	0.01	
1,588 Primary Health Properties (nil paid rights)	0	0.00	
176,316 Segro	488	0.10	
59,043 Shaftesbury	363	0.07	
7,700 Town Centre Securities	16	0.00	
31,907 Workspace Group	129	0.03	
<b>Financial services</b>			
229,541 3i Group	779	0.16	
223,154 Aberdeen Asset Management	1,036	0.21	
87,510 Ashmore Group	350	0.07	
59,960 Brewin Dolphin Holdings	144	0.03	
306 Camellia	30	0.01	

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Financial services (continued)</b>			
6,472 Charles Taylor Consulting	12	0.00	
34,451 Close Brothers Group	341	0.07	
128,393 F&C Asset Management	123	0.03	
55,828 Hargreaves Lansdown	533	0.11	
265,040 Henderson Group	447	0.09	
132,376 ICAP	488	0.10	
85,323 IG Group Holdings	498	0.10	
94,195 Intermediate Capital Group	443	0.09	
62,135 International Personal Finance	318	0.07	
121,595 Investec	552	0.11	
87,689 IP Group	121	0.02	
82,254 Jupiter Fund Management	270	0.06	
39,576 LMS Capital	29	0.01	
43,417 London Stock Exchange	613	0.13	
431,070 Man Group	500	0.10	
72,188 Paragon Group of Companies	219	0.05	
32,601 Provident Financial	501	0.10	
10,371 Rathbone Brothers	159	0.03	
27,996 Schroders	665	0.14	
69,076 SVG Capital	275	0.06	
52,033 Tullett Prebon	153	0.03	
<b>Equity investment instruments</b>			
153,559 3i Infrastructure	202	0.04	
49,232 Aberdeen Asian Income Fund	113	0.02	
8,544 Aberdeen Asian Smaller Companies Investment Trust	94	0.02	
5,993 Aberdeen New Dawn Investment Trust	59	0.01	
27,450 Aberdeen UK Tracker Trust (formerly Edinburgh UK Tracker Trust)	83	0.02	
23,204 Aberforth Smaller Companies Trust	195	0.04	
4,075 Absolute Return Trust	5	0.00	
28,743 Acencia Debt Strategies	28	0.01	
16,705 Advance Developing Markets Trust	77	0.02	
141,740 Alliance Trust	635	0.13	
23,365 Alternative Investment Strategies	31	0.01	
11,508 Artemis Alpha Trust	31	0.01	
1,001 Artemis Alpha Trust (Subscription shares)	0	0.00	
2,284 Asian TR (formerly Henderson TR Pacific Trust)	5	0.00	
47,904 Bacit	57	0.01	
16,767 Baillie Gifford Japan Trust	49	0.01	
26,893 Bankers Investment Trust	147	0.03	
5,733 Baring Emerging Europe	45	0.01	
7,516 BH Global (Sterling shares)	92	0.02	
3,604 BH Global (US Dollar shares)	29	0.01	
3,734 BH Macro (Euro shares)	72	0.01	
10,152 BH Macro (Sterling shares)	237	0.05	
8,015 BH Macro (US Dollar shares)	117	0.02	
14,371 Biotech Growth Trust	59	0.01	
19,051 BlackRock Commodities Income Investment Trust	22	0.00	
19,162 BlackRock Frontier Investment Trust	20	0.00	
27,050 BlackRock Greater Europe Investment Trust	60	0.01	
5,410 BlackRock Greater Europe Investment Trust (Subscription shares)	1	0.00	
9,332 BlackRock Latin American Investment Trust	50	0.01	
42,172 BlackRock New Energy Technology	17	0.00	
15,746 BlackRock Smaller Companies Investment Trust	102	0.02	
44,057 BlackRock World Mining Trust	216	0.04	
119,052 Bluecrest Allblue Investment Trust	219	0.05	

# M&G Index Tracker Fund

## PORTFOLIO

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Equity investment instruments (continued)</b>			
70,554 British Assets Trust	94	0.02	
37,724 British Empire Securities & General Trust	190	0.04	
7,952 Brunner Investment Trust	39	0.01	
10,566 Caledonia Investments	196	0.04	
4,644 Candover Investments	18	0.00	
646 Capital Gearing Trust	23	0.00	
15,860 City Merchants High Yield Trust	27	0.01	
14,302 City Natural Resources	22	0.00	
5,749 City of London Investment Group	15	0.00	
62,393 City of London Investment Trust	225	0.05	
97,561 Dexion Absolute	145	0.03	
21,000 Dexion Equity Alternative	0	0.00	
24,535 Dexion Trading	33	0.01	
5,951 Dunedin Enterprise Investment Trust	24	0.00	
36,288 Dunedin Income Growth Investment Trust	99	0.02	
19,162 Dunedin Smaller Companies Investment Trust	36	0.01	
10,158 Eastern European Trust	27	0.01	
2,287 Eastern European Trust (Subscription shares)	0	0.00	
52,621 Ecofin Water & Power Opportunities	68	0.01	
48,418 Edinburgh Dragon Trust	143	0.03	
46,263 Edinburgh Investment Trust	270	0.06	
12,019 Edinburgh Worldwide Investment Trust	40	0.01	
9,776 Electra Private Equity	222	0.05	
14,371 EP Global Opportunities	30	0.01	
21,354 F&C Capital & Income Investment Trust	55	0.01	
9,560 F&C Global Smaller Companies	75	0.02	
26,956 F&C Private Equity Trust	55	0.01	
4,455 F&C US Smaller Companies	30	0.01	
12,948 Fidelity Asian Values	27	0.01	
156,951 Fidelity China Special Situations	148	0.03	
10,589 Fidelity European Values	156	0.03	
12,903 Fidelity Special Values	98	0.02	
18,655 Finsbury Growth & Income Trust	88	0.02	
140,720 Foreign & Colonial Investment Trust	519	0.11	
31,754 Genesis Emerging Markets	177	0.04	
5,355 Goldman Sachs Dynamic Opportunities	4	0.00	
18,845 Graphite Enterprise Trust	93	0.02	
1,000 Hansa Trust	8	0.00	
19,162 Henderson Diversified Income	17	0.00	
7,185 Henderson European Focus Trust	57	0.01	
4,288 Henderson EuroTrust	30	0.01	
22,794 Henderson Far East Income	81	0.02	
14,784 Henderson Global Trust	53	0.01	
28,474 Henderson High Income Trust	47	0.01	
20,599 Henderson Smaller Companies Investment Trust	93	0.02	
15,416 Henderson Value Trust (formerly SVM Global Fund)	37	0.01	
20,371 Herald Investment Trust	112	0.02	
7,684 HG Capital Trust	86	0.02	
276,457 HICL Infrastructure	353	0.07	
47,904 Impax Asian Environmental Markets	49	0.01	
64,010 Impax Environmental Markets	82	0.02	
20,096 ING Global Real Estate Income Securities	25	0.01	
183,780 International Public Partnerships	237	0.05	
23,310 INVESCO Asia Trust	39	0.01	

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Equity investment instruments (continued)</b>			
13,876 INVESCO Income Growth Trust	35	0.01	
11,694 INVESCO Perpetual UK Smaller Companies Investment Trust	31	0.01	
113,411 John Laing Infrastructure Fund	128	0.03	
12,893 JPMorgan American Investment Trust	144	0.03	
24,047 JPMorgan Asian Investment Trust	52	0.01	
19,298 JPMorgan Chinese Investment Trust (Bonus issue)	29	0.01	
14,381 JPMorgan Claverhouse Investment Trust	78	0.02	
27,028 JPMorgan Emerging Markets Investment Trust	166	0.03	
30,134 JPMorgan European Investment Trust	60	0.01	
9,162 JPMorgan European Smaller Companies Investment Trust	79	0.02	
38,324 JPMorgan Global Emerging Market	51	0.01	
27,674 JPMorgan Indian Investment Trust	106	0.02	
37,340 JPMorgan Japanese Investment Trust	78	0.02	
7,856 JPMorgan Japanese Smaller Companies Investment Trust	14	0.00	
5,749 JPMorgan Mid Cap Investment Trust	36	0.01	
7,275 JPMorgan Overseas Investment Trust	66	0.01	
1,518 JPMorgan Overseas Investment Trust (Subscription shares)	1	0.00	
13,206 JPMorgan Russian Securities	69	0.01	
4,461 JPMorgan Smaller Companies Investment Trust	29	0.01	
16,917 Jupiter European Opportunities Trust	69	0.01	
4,407 Keystone Investment Trust	71	0.01	
28,440 Law Debenture	141	0.03	
9,558 Lowland Investment	118	0.02	
6,893 Majedie Investments	11	0.00	
7,503 Martin Currie Pacific Trust	23	0.00	
30,524 Martin Currie Portfolio Investment Trust	49	0.01	
23,436 Mercantile Investment Trust	303	0.06	
22,619 Merchants Trust	107	0.02	
19,162 Middlefield Canadian Income Trusts	21	0.00	
4,000 Milton Opportunities Trust (formerly Henderson Fledgling Trust)	18	0.00	
62,629 Monks Investment Trust	225	0.05	
9,072 Montanaro UK Smaller Companies Investment Trust	40	0.01	
15,376 Murray Income Trust	121	0.02	
29,804 Murray International Trust	357	0.07	
101,081 NB Global Floating Rate Income Fund	105	0.02	
11,497 New India Investment Trust	27	0.01	
8,548 North American Income Trust (formerly Edinburgh US Tracker Trust)	75	0.02	
2,919 North Atlantic Smaller Companies Investment Trust	41	0.01	
28,753 Pacific Assets Trust	47	0.01	
10,603 Pacific Horizon Investment Trust	18	0.00	
13,513 Pantheon International Participations	141	0.03	
50,734 Perpetual Income & Growth Investment Trust	175	0.04	
511 Personal Assets Trust	182	0.04	
23,952 Polar Capital Global Healthcare Growth and Income Trust	35	0.01	
32,466 Polar Capital Technology Trust	134	0.03	
35,272 RIT Capital Partners	439	0.09	
28,743 Ruffer Investment Company Red. Pref. shares	64	0.01	
36,469 Schroder Asia Pacific Fund	97	0.02	
18,236 Schroder Income Growth Fund	44	0.01	
19,162 Schroder Japan Growth Fund	22	0.00	
38,321 Schroder Oriental Income Fund	79	0.02	

# M&G Index Tracker Fund

## PORTFOLIO

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Equity investment instruments (continued)</b>			
32,730 Schroder UK Growth Fund	54	0.01	
7,670 Schroder UK Mid & Small Cap Fund	28	0.01	
31,306 Scottish American Investment	78	0.02	
28,095 Scottish Investment Trust	163	0.03	
63,205 Scottish Mortgage Investment Trust	543	0.11	
6,754 Scottish Oriental Small Companies Trust	60	0.01	
20,541 Securities Trust of Scotland	31	0.01	
3,800 Shires Income	9	0.00	
10,964 Standard Life Equity Income Trust	39	0.01	
2,288 Standard Life Equity Income Trust (Subscription shares)	1	0.00	
15,391 Standard Life European Private Equity Trust	28	0.01	
14,371 Standard Life UK Smaller	39	0.01	
22 Tapestry Investment	0	0.00	
14,154 Temple Bar Investment Trust	164	0.03	
81,657 Templeton Emerging Markets Investment Trust	496	0.10	
4,708 Thames River Multi Hedge	6	0.00	
13,277 The European Investment Trust	80	0.02	
19,967 Throgmorton Trust	48	0.01	
12,510 TR European Growth Trust	52	0.01	
90,729 TR Property Investment Trust	186	0.04	
45,234 Troy Income & Growth Trust	28	0.01	
53,319 Utilico Emerging Markets	102	0.02	
17,183 Value & Income Trust	38	0.01	
45,465 Witan Investment Trust	279	0.06	
17,102 Witan Pacific Investment Trust	43	0.01	
12,710 Worldwide Healthcare Trust	138	0.03	
<b>Non-equity investment instruments</b>		<b>0.01</b>	<b>0.01</b>
47,904 Biffinger Berger Global Infrastructure Fund	54	0.01	
<b>Software &amp; computer services</b>		<b>0.73</b>	<b>0.85</b>
68,193 Anite	87	0.02	
16,099 AVEVA Group	386	0.08	
26,823 Computacenter	124	0.03	
8,733 Fidessa Group	168	0.03	
239,522 Innovation Group	65	0.01	
189,015 Invensys	752	0.15	
19,097 Kofax	62	0.01	
34,651 Micro Focus	238	0.05	
53,898 NCC Group	58	0.01	
18,715 Phoenix IT	28	0.01	
17,458 RM	12	0.00	
302,003 Sage Group	1,099	0.23	
19,087 SDL	72	0.01	
46,874 Teletcity Group	455	0.09	
<b>Technology hardware &amp; equipment</b>		<b>0.88</b>	<b>0.67</b>
332,002 ARM Holdings	3,282	0.68	
52,964 BATM Advanced Communications	11	0.00	
38,127 CSR	210	0.04	
54,671 Imagination Technologies Group	194	0.04	
84,419 Laird	178	0.04	
64,003 Pace	159	0.03	
22,083 Promethian World	3	0.00	
6,198 Sepura	7	0.00	
162,534 Spirent Communications	217	0.04	
24,145 Wolfson Microelectronics	51	0.01	

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Unquoted / unlisted</b>			
10,204 Bioscience Investment Trust <sup>[a]</sup>	0	0.00	
12,707 Electric & General Investment Trust <sup>[b]</sup>	0	0.00	
3,374 Gartmore Irish Growth Fund <sup>[c]</sup>	0	0.00	
13,100 Sfi Litigation Entitlement	0	0.00	
<b>Futures contracts</b>		<b>0.02</b>	<b>(0.10)</b>
40 FTSE 100 June 2013 - RBS	103	0.02	
<b>'AAA' rated money market funds <sup>[d]</sup></b>		<b>0.15</b>	<b>1.16</b>
712,000 Northern Trust Global Fund - Sterling	712	0.15	
<b>Portfolio of investments (notes 1b &amp; 1d on page 70)</b>	<b>490,133</b>	<b>100.74</b>	<b>100.26</b>
<b>Net other liabilities</b>	<b>(3,599)</b>	<b>(0.74)</b>	<b>(0.26)</b>
<b>Net assets attributable to shareholders</b>	<b>486,534</b>	<b>100.00</b>	<b>100.00</b>

<sup>[a]</sup> Delisted on 29 April 2005.

<sup>[b]</sup> Delisted on 1 November 2011.

<sup>[c]</sup> Delisted on 20 April 2011.

<sup>[d]</sup> Uncommitted surplus cash is placed into 'AAA' rated money market funds with the aim of reducing counterparty risk.

At the balance sheet date, futures and forward currency contracts were executed with the counterparties disclosed above, for the purpose of efficient portfolio management. Collateral obligations on losses for each transaction would be met using cash held at the futures clearing house or custodian respectively.

# M&G Index Tracker Fund

## PORTFOLIO

### PORTFOLIO TRANSACTIONS

for the year ended 31 May 2013

	£'000
<b>Largest purchases</b>	<b>£'000</b>
HSBC Holdings	2,497
Royal Dutch Shell 'A'	2,043
Glencore Xstrata	2,003
BP	1,018
National Grid	756
Barclays	717
Vodafone Group	664
British American Tobacco	640
GlaxoSmithKline	532
Royal Dutch Shell 'B'	447
Melrose	437
Diageo	431
BG Group	428
Direct Line Insurance Group	417
BHP Billiton	403
SSE	346
Lonmin	334
Tesco	328
Standard Chartered	296
St. James's Place	295
Northern Trust Global Fund - Sterling <sup>[a]</sup>	31,369
Other purchases	8,656
<b>Total purchases</b>	<b>55,057</b>
<b>Largest sales</b>	<b>£'000</b>
HSBC Holdings	2,627
Royal Dutch Shell 'A'	1,996
SABMiller	1,935
Standard Chartered	1,883
Rio Tinto	1,823
Xstrata	1,717
International Power	1,607
GlaxoSmithKline	1,380
Vodafone Group	1,316
BP	1,307
British American Tobacco	1,166
Royal Dutch Shell 'B'	1,151
Reckitt Benckiser	1,020
Unilever	790
National Grid	773
AstraZeneca	751
Diageo	720
BHP Billiton	678
British Sky Broadcasting Group	632
Aegis Group	611
Northern Trust Global Fund - Sterling <sup>[a]</sup>	35,449
Other sales	19,886
<b>Total sales</b>	<b>81,218</b>

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

## FINANCIAL STATEMENTS

For the year ended 31 May 2013.

### STATEMENT OF TOTAL RETURN

	Note	2013		2012	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		101,929		(50,287)
Revenue	4	17,045		15,642	
Expenses	5	(1,959)		(1,780)	
Net revenue before taxation		15,086		13,862	
Taxation	6	(17)		(128)	
Net revenue after taxation			15,069		13,734
<b>Total return before distributions</b>			<b>116,998</b>		<b>(36,553)</b>
Finance costs: Distributions	12		(15,085)		(13,751)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>101,913</b>		<b>(50,304)</b>

### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2013		2012	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>414,474</b>		<b>405,438</b>
Amounts received on issue of shares	14,998		19,285	
Transfer of assets from the Prudential UK Index Tracker Trust to the M&G Index Tracker Fund	0		58,240	
Amounts paid on cancellation of shares	(48,610)		(21,945)	
Stamp Duty Reserve Tax		(33,612)		55,580
Change in net assets attributable to shareholders from investment activities (see above)		101,913		(50,304)
Retained distributions on Accumulation shares		3,887		3,865
Unclaimed distributions		1		3
<b>Closing net assets attributable to shareholders</b>		<b>486,534</b>		<b>414,474</b>

# M&G Index Tracker Fund

## FINANCIAL STATEMENTS

### BALANCE SHEET

	as at 31 May 2013		as at 31 May 2012	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		490,133		415,966
<b>Debtors</b>				
Amounts receivable on issues	56		211	
Deposit interest receivable	1		1	
Dividends receivable	2,562		2,980	
Overseas tax recoverable	49		62	
Prepaid expenses	0		44	
Sales awaiting settlement	0		20	
Tax recoverable	0		3	
Transfer of assets receivable from the Prudential UK Index Tracker Trust	6		0	
		2,674		3,321
Cash and bank balances				
Amounts held at futures clearing houses and brokers	51		989	
Cash held as bank balances	39		53	
		90		1,042
<b>Total other assets</b>		<b>2,764</b>		<b>4,363</b>
<b>Total assets</b>		<b>492,897</b>		<b>420,329</b>
<b>Liabilities</b>				
Investment liabilities		0		(425)
<b>Creditors</b>				
Amounts payable on cancellations	(519)		(76)	
Expenses payable	(115)		(97)	
Net distributions payable on Income shares	(5,719)		(5,257)	
SDRT payable	(10)		0	
<b>Total other liabilities</b>		<b>(6,363)</b>		<b>(5,430)</b>
<b>Total liabilities</b>		<b>(6,363)</b>		<b>(5,855)</b>
<b>Net assets attributable to shareholders</b>		<b>486,534</b>		<b>414,474</b>

### 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 31 May 2013, being the last business day of the financial year. The fair value of non-derivative securities is bid price and the fair value of exchange traded futures is the cost of closing out the contract at the balance sheet date. 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 31 May 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 / (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) 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.

##### i) 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 Index Tracker Fund

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 1 Accounting policies (continued)

##### j) 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.

##### k) 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.

##### l) 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.

##### m) 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 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 capital value of investments within the sub-fund depends on the performance of the FTSE All-Share Index and the success of the sub-fund in tracking that index.

Since the objective of the sub-fund is to track the FTSE All-Share Index 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 which can be readily realised to meet obligations that may arise on the redemption of shares. As noted on page 96 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 (31.05.12: same).

#### 3 Net capital gains / (losses)

	2013 £'000	2012 £'000
Non-derivative securities	100,223	(50,514)
Derivative contracts	1,435	(481)
Currency gains	3	5
Special dividends taken to capital	274	715
Transaction charges	(6)	(12)
<b>Net capital gains / (losses)</b>	<b>101,929</b>	<b>(50,287)</b>

#### 4 Revenue

	2013 £'000	2012 £'000
Bank interest	0	1
Interest distributions	16	15
Overseas dividends	1,165	1,062
Property income dividends	86	141
Stock dividends	2,762	966
UK dividends	13,007	13,455
Underwriting commission	9	2
<b>Total revenue</b>	<b>17,045</b>	<b>15,642</b>

#### 5 Expenses

	2013 £'000	2012 £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge	1,228	1,147
Administration fee	690	594
	1,918	1,741
<b>Payable to the Depositary or associate</b>		
Depositary's fee (including VAT)	32	28
<b>Other expenses</b>		
Audit fee (including VAT)	9	9
Regulatory fees	0	1
Safe custody charge	0	1
	9	11
<b>Total expenses</b>	<b>1,959</b>	<b>1,780</b>

# M&G Index Tracker Fund

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 6 Taxation

	2013 £'000	2012 £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	0
Overseas tax	15	129
Overseas tax recoverable: exchange rate movements	2	(1)
Current tax charge (note 6b)	17	128
Deferred tax (note 6c)	0	0
<b>Total taxation</b>	<b>17</b>	<b>128</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue before taxation	15,086	13,862
Corporation tax at 20%	3,017	2,772
Effects of:		
UK dividends not taxable	(2,602)	(2,691)
Stock dividends not taxable	(552)	(193)
Overseas dividends not taxable	(225)	(207)
Current period expenses not utilised	362	319
Overseas tax	15	129
Overseas tax recoverable: exchange rate movements	2	(1)
<b>Current tax charge (note 6a)</b>	<b>17</b>	<b>128</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The sub-fund has not recognised a deferred tax asset of £2,806,000 (31.05.12: £2,444,000) 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

##### Rights issues

At the balance sheet date, the sub-fund had a contingent liability of £5,002 (31.05.12: £nil) in respect of Primary Health Properties (nil paid rights) 1,588 nil paid shares resulting from a rights issue whereby one nil paid share was issued for every ten ordinary shares held. The nil paid shares may be exercised on 11 June 2013 at £3.15 per share.

##### Warrants

There were no outstanding commitments at the balance sheet date (31.05.12: 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 periodic charge are disclosed in note 5. Amounts due at the year end to the Authorised Corporate Director of £103,000 (31.05.12: £81,000) 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 £598,700 (2012: £771,000).

At the balance sheet date, the sub-fund held shares in related parties of M&G Securities Limited with a value of £7,084,000 (31.05.12: £4,302,000).

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 6.40% (31.05.12: 6.32%) 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 (31.05.12: same).

##### Currency exposure

There was no significant foreign currency exposure within the sub-fund at the balance sheet date (31.05.12: same).

##### Interest rate profile

The majority of the sub-fund's assets comprise equity shares which neither pay interest nor have a maturity date (31.05.12: same).

##### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.05.12: same).

#### 10 Portfolio transaction costs

	2013 £'000	2012 £'000
<b>a) Purchases</b>		
Purchases excluding transaction costs	55,056	116,626
Commissions	1	11
Taxes	0	76
Total transaction costs	1	87
<b>Total purchases including transaction costs</b>	<b>55,057</b>	<b>116,713</b>
<b>b) Sales</b>		
Sales excluding transaction costs	81,219	57,324
Commissions	(1)	(5)
<b>Total sales net of transaction costs</b>	<b>81,218</b>	<b>57,319</b>

# M&G Index Tracker Fund

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 11 Shareholder funds

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

The charging structure for each share class, as at 31 May 2013, is set out in the following table (31.05.12: same):

#### CHARGES AND EXPENSES

	Initial charge %	Withdrawal fee %	ACD's annual remuneration %
<b>Sterling</b>			
Class 'A'	nil	n/a	0.30
Class 'C'	nil	n/a	0.00

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

	31.05.13		31.05.12	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
<b>Sterling</b>				
Class 'A'	301,453	130,825	260,221	108,938
Class 'C'	54,256	n/a	45,315	n/a

The net asset value per share and the number of shares are given in the net assets table on page 62. The distribution per share is given in the distribution table opposite. Each share class has the same rights on winding-up.

#### 12 Finance costs

	2013 £'000	2012 £'000
<b>Income shares (sterling)</b>		
Class 'A' - Interim	4,483	4,655
- Final	4,780	4,603
Class 'C' - Interim	840	0
- Final	939	654
<b>Accumulation shares (sterling)</b>		
Class 'A' - Interim	1,848	1,973
- Final	2,039	1,892
Finance costs: Dividend distributions	14,929	13,777
Income deducted on cancellation of shares	223	130
Income received on issue of shares	(67)	(156)
<b>Total finance costs</b>	<b>15,085</b>	<b>13,751</b>
Net revenue per statement of total return	15,069	13,734
Undistributed income brought forward	16	33
Undistributed income carried forward	0	(16)
<b>Finance costs: Distributions</b>	<b>15,085</b>	<b>13,751</b>

## DISTRIBUTION TABLE

Dividend distributions on Income shares	Net income	Equalisation	Distribution paid/payable	
			2012/13	2011/12
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
Class 'A' - Interim				
Group 1:	0.8960	-	0.8960	0.9470
Group 2:	0.5413	0.3547	0.8960	0.9470
- Final				
Group 1:	1.0258	-	1.0258	0.9140
Group 2:	0.6798	0.3460	1.0258	0.9140
Class 'C' - Interim				
Group 1:	0.9850	-	0.9850	n/a
Group 2:	0.7637	0.2213	0.9850	n/a
- Final				
Group 1:	1.1241	-	1.1241	0.7490
Group 2:	1.0310	0.0931	1.1241	0.7490

Dividend distributions on Accumulation shares	Net income	Equalisation	Amount reinvested	
			2012/13	2011/12
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
Class 'A' - Interim				
Group 1:	1.3184	-	1.3184	1.3473
Group 2:	0.5268	0.7916	1.3184	1.3473
- Final				
Group 1:	1.5304	-	1.5304	1.3206
Group 2:	1.0023	0.5281	1.5304	1.3206

Interim period 01.06.12 - 30.11.12

Final period 01.12.12 - 31.05.13

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

# M&G Index Tracker Fund

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# M&G Short Dated Corporate Bond Fund

## AUTHORISED CORPORATE DIRECTOR'S REPORT

### Investment objective of the M&G Short Dated Corporate Bond Fund

The Fund aims to provide income with stability of capital.

### Investment policy of the M&G Short Dated Corporate Bond Fund

The Fund invests mainly in debt instruments (which include, but are not limited to: variable rate securities, fixed interest securities, gilts and corporate debt). The Fund's exposure to debt instruments may be gained through the use of derivatives. In certain market conditions the fund may have a high proportion of its portfolio in liquid assets such as cash and near cash, deposits, warrants and money market instruments. The Fund may also invest in other assets including collective investment schemes, other transferable securities and other derivative instruments.

### Investment approach

The M&G Short Dated Corporate Bond Fund invests predominantly in investment grade floating rate notes (FRNs) and short-dated corporate bonds. The fund maintains a short duration profile, typically lower than three years, in order to minimise the effect of yield/interest rate movements on its capital value. Proprietary fundamental credit research is at the heart of the investment process. The fund is managed with the aim of maintaining stability of capital and providing a steady flow of income.

### 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 3 June 2013, for the year ended 31 May 2013

The name of the fund was changed from the M&G High Interest Fund to the M&G Short Dated Corporate Bond Fund on 9 November 2012. The new name reflects an adjustment of the fund's investment approach that we believe will enable it to deliver better risk-adjusted returns to investors. The fund remains conservatively managed and its investment objective and policy are unchanged.

Investment activity over the review period was therefore mainly a reflection of this change, which broadened the range of financial instruments in which the fund is able to invest. By removing the existing internal guidelines requiring us to hold at least 95% of total assets in money market instruments, we then have greater flexibility to invest in the broader market of short-dated fixed rate corporate bonds<sup>[a]</sup>. Over time, we believe these measures will help us to diversify the sources of credit risk, or the risk of non-repayment, in the fund as we will be less reliant on the financial sector firms that issue the majority of money market instruments. As a consequence, the fund's average maturity profile rose as we began to take advantage of the more flexible approach. Nevertheless, given its conservative stance, the fund's average maturity remains shorter than that of our peer group.

In terms of current asset allocation, we prefer to hold a higher weighting in short-dated fixed rate corporate bonds than money market investments as the returns of the latter are likely to remain more muted. Within the corporate bond sector, our exposure is focused on A and BBB rated issuers, paying particular attention to the selection of BBB rated bonds as they currently provide, in our view, the best risk/reward opportunities.

### Ben Lord

Fund manager

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

<sup>[a]</sup> Short-dated fixed rate corporate bonds are interest-bearing loans issued by companies with a short time to maturity, that is, their final payment date. Bonds with maturities of less than one year at issue are often considered to be 'money market instruments'.

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 Short Dated Corporate Bond Fund

## FUND STATISTICS

### DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
First interim	02.09.13	31.10.13
Second interim	02.12.13	31.01.14
Third interim	03.03.14	30.04.14
Final	02.06.14	31.07.14

	Final distribution		Ongoing Charges Figure <sup>[b]</sup>	
	Inc 31.07.13 <sup>[a]</sup>	Acc 03.06.13 <sup>[a]</sup>	31.05.13	31.05.12
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>%</b>	<b>%</b>
Class 'A'	0.0536	n/a	0.65	0.66
Class 'I'	2.2372	n/a	0.56 <sup>[c]</sup>	n/a

<sup>[a]</sup> The date on which the final distribution will be paid to Income shareholders.

<sup>[b]</sup> 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.

<sup>[c]</sup> 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 31.05.13		Net asset value per share as at 31.05.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
	p	p	p	p	%	%
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>%</b>	<b>%</b>
Class 'A'	25.06	n/a	24.46	n/a	+2.45	n/a
Class 'I'	1,004.55	n/a	n/a	n/a	n/a	n/a

Please note that Accumulation shares are not available in this fund.

### PERFORMANCE SINCE LAUNCH

	six months 03.12.12 %	one year 01.06.12 %	five years 03.06.08 % p.a. <sup>[a]</sup>	since launch % p.a. <sup>[a]</sup>
<b>Sterling <sup>[b]</sup></b>				
Class 'A'	+1.2	+3.0	+1.5	+3.5 <sup>[c]</sup>
Class 'I'	+1.2	n/a	n/a	+0.9 <sup>[d]</sup>

<sup>[a]</sup> Shows the compound rate of return, per annum, over the period.

<sup>[b]</sup> Bid to bid with net income reinvested.

<sup>[c]</sup> 29 January 1993, the end of the initial offer period of the predecessor unit trust.

<sup>[d]</sup> 9 November 2012, the launch date of the share class. Not annualised.

### SINGLE YEAR PERFORMANCE (5 YEARS ENDING MAY)

From	31.05.12	31.05.11	31.05.10	29.05.09	30.05.08
To	31.05.13	31.05.12	31.05.11	31.05.10	29.05.09
	%	%	%	%	%
<b>Sterling</b>					
Class 'A'	+3.4	+0.4	+1.8	+7.0	-4.0

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

## PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
<b>Sterling (net)</b>		<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
Class 'A'	2008 <sup>[a]</sup>	25.42	23.17	n/a	n/a
	2009	24.49	22.22	n/a	n/a
	2010 <sup>[b]</sup>	24.74	24.27	n/a	n/a
	2011	24.75	24.28	n/a	n/a
	2012	24.99	24.38	n/a	n/a
	2013 <sup>[c]</sup>	25.22	24.88	n/a	n/a
Class 'I'	2012 <sup>[d]</sup>	1,000.71	996.91	n/a	n/a
	2013 <sup>[c]</sup>	1,011.33	997.55	n/a	n/a

<sup>[a]</sup> On 1 September 2008, the fund's objective was changed.

<sup>[b]</sup> The Prudential Cash Haven Trust merged into the M&G Short Dated Corporate Bond Fund (formerly known as the M&G High Interest Fund) immediately after 29 January 2010.

<sup>[c]</sup> To 3 June 2013.

<sup>[d]</sup> From 9 November 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	
<b>Sterling (net)</b>		<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
Class 'A'	2008	0.5168	0.3844	0.2388	1.1400	n/a
	2009	0.5144	0.1172	0.0756	0.7072	n/a
	2010	0.0980	0.0420	0.0420	0.1820	n/a
	2011	0.0960	0.0640	0.0620	0.2220	n/a
	2012	0.1160	0.0680	0.0520	0.2360	n/a
	2013 <sup>[a]</sup>	0.1068	0.0536	-	0.1604	n/a
Class 'I'	2013 <sup>[a]</sup>	2.9712	2.2372	-	5.2084	n/a

<sup>[a]</sup> Up to final: ex-distribution date 3 June 2013; payment date 31 July 2013.

## NET ASSETS

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
<b>Sterling</b>		<b>p</b>	<b>p</b>		
Class 'A'	May 2011	24.62	n/a	1,050,577,623	n/a
	May 2012	24.46	n/a	1,326,520,623	n/a
	May 2013	25.06	n/a	1,451,594,623	n/a
Class 'I'	May 2013	1,004.55	n/a	1,017,200	n/a

### Total net asset value of sub-fund

Year ended	£	€ <sup>[a]</sup>
May 2011	258,691,000	296,377,000
May 2012	324,429,000	405,536,000
May 2013	373,934,000	437,828,000

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

# M&G Short Dated Corporate Bond Fund

## PORTFOLIO

### PORTFOLIO STATEMENT

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>'AAA' credit rated bonds</b>			
		<b>28.06</b>	<b>48.51</b>
£1,012,326 Alba FRN 2042 '1A'	1,022	0.27	
£2,697,039 Alba FRN 2042 '1A3'	2,452	0.66	
£2,820,000 Arran Residential Mortgages Funding FRN 2047	2,881	0.77	
£3,103,701 Brass FRN 2048	3,161	0.85	
£1,818,178 Brass FRN 2050	1,823	0.49	
£2,960,000 Broadgate Financing FRN 2030 <sup>[a]</sup>	2,719	0.73	
£3,815,600 CITADEL FRN 2042	3,282	0.88	
£2,005,348 Darrowby FRN 2043	2,037	0.54	
£1,373,165 Darrowby FRN 2044	1,411	0.38	
£6,283,834 Gosforth Funding FRN 2047	6,390	1.71	
£1,462,190 Gosforth Funding FRN 2049	1,463	0.39	
£3,000,000 Gracechurch Mortgage Financing FRN 2056	3,106	0.83	
£734,000 Kenrick FRN 2049	735	0.20	
£2,241,000 Lanark Master Issuer FRN 2054	2,332	0.62	
\$1,376,537 Paragon Mortgages FRN 2039	804	0.22	
£1,943,973 Residential Mortgage Securities FRN 2041	2,027	0.54	
£3,000,000 Silverstone Master Issuer FRN 2055	3,122	0.83	
£4,500,000 Storm FRN 2050	3,853	1.03	
£3,000,000 Taurus FRN 2024	2,578	0.69	
£1,935,251 Tenterden Funding FRN 2044	1,961	0.52	
£16,085,000 Treasury 2.5% IL 2016	55,760	14.91	
<b>'AA' credit rated bonds</b>			
		<b>3.67</b>	<b>9.53</b>
£4,000,000 CaixaBank 3.375% 2014	3,488	0.93	
\$2,000,000 CNOOC Finance 1.125% 2016	1,310	0.35	
\$5,000,000 General Electric Capital FRN 2015	3,329	0.89	
\$2,000,000 General Electric Capital FRN 2016	1,309	0.35	
£71,149 Lambda Finance FRN 2031	71	0.02	
\$5,000,000 Total Capital Canada FRN 2016	3,304	0.88	
£900,000 Yorkshire Building Society FRN 2016	927	0.25	
<b>'A' credit rated bonds</b>			
		<b>29.68</b>	<b>23.83</b>
£3,000,000 AIB Mortgage Bank 3.125% 2015	2,652	0.71	
£4,890,000 Anglian Water Services Financing 5.25% 2015	5,343	1.43	
£1,600,000 Bankinter 2.75% 2016	1,388	0.37	
\$6,667,000 BAT International Finance 1.125% 2016	4,393	1.17	
£1,000,000 Caisse Centrale du Crédit Immobilier de France FRN 2013	858	0.23	
£1,000,000 Centrica 5.125% 2014	1,059	0.28	
£1,800,000 Centrica 5.5% 2016	2,041	0.55	
£6,109,000 Compass Group 7% 2014	6,646	1.78	
£156,000 Credit Suisse FRN 2014	132	0.04	
\$2,143,000 Daimler Finance North America FRN 2015	1,413	0.38	
£3,300,000 Daimler International Finance 2.125% 2013	3,321	0.89	
£9,000,000 Experian Finance 5.625% 2013	9,213	2.46	
£3,000,000 Export-Import Bank of Korea FRN 2016	2,963	0.79	
\$1,840,000 Goldman Sachs FRN 2018	1,215	0.32	
£460,577 Granite Master Issuer FRN 2044	455	0.12	
\$1,520,025 Granite Master Issuer FRN 2054 '2A1'	982	0.26	
£500,000 Granite Master Issuer FRN 2054 '3M3'	458	0.12	
£2,462,440 Granite Master Issuer FRN 2054 '6A1'	2,416	0.65	
\$1,298,410 Granite Master Issuer FRN 2054 'A5'	839	0.22	
£1,520,025 Granite Master Issuer FRN 2054 'A6'	1,491	0.40	
£1,824,030 Granite Master Issuer FRN 2054 'A7'	1,789	0.48	

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>'A' credit rated bonds (continued)</b>			
£200,000 Granite Master Issuer FRN 2054 'M4'	183	0.05	
£3,083,185 Great Hall Mortgages FRN 2038	2,815	0.75	
\$3,631,950 Great Hall Mortgages FRN 2039	2,143	0.57	
£7,000,000 Heathrow Funding 5.85% 2015	7,162	1.92	
£3,500,000 JPMorgan Chase 5.375% 2016	3,903	1.04	
\$4,167,000 JPMorgan Chase FRN 2018	2,755	0.74	
€3,000,000 JPMorgan Chase Var. Rate 2017	2,511	0.67	
£2,800,000 Lloyds TSB Bank 5.5% 2016	3,111	0.83	
£2,000,000 Merrill Lynch 5.75% 2014	2,133	0.57	
£2,189,064 Mitchells & Butlers Finance FRN 2028	1,937	0.52	
\$1,824,220 Mitchells & Butlers Finance FRN 2030	1,031	0.28	
£850,000 Mitchells & Butlers Finance FRN 2033	595	0.16	
\$7,500,000 Morgan Stanley FRN 2015	4,871	1.30	
\$3,750,000 NBCUniversal Enterprise FRN 2018	2,487	0.67	
£1,753,006 Newgate Funding FRN 2050	1,680	0.45	
£2,200,000 Pacific Life FRN 2021	1,649	0.44	
£111,338 Sandwell Commercial Finance FRN 2039	108	0.03	
£4,360,000 SSE 5.75% 2014	4,495	1.20	
£2,500,000 Sumitomo Mitsui Banking FRN 2016	2,494	0.67	
£550,000 Thames Water Utilities Finance 4.9% 2015	593	0.16	
£220,455 Trafford Centre Finance FRN 2015 <sup>[a]</sup>	217	0.06	
\$17,000,000 Wells Fargo Bank FRN 2016	11,049	2.95	
<b>'BBB' credit rated bonds</b>			
		<b>26.06</b>	<b>13.06</b>
\$8,000,000 Bank of America FRN 2016	5,095	1.36	
£5,000,000 Channel Link Enterprises Finance FRN 2050	4,035	1.08	
£2,035,000 Deutsche Telekom International Finance 4.875% 2014	2,137	0.57	
£500,000 Deutsche Telekom International Finance 5.625% 2013	503	0.13	
£2,650,000 FCE Bank 5.125% 2015	2,866	0.77	
\$6,415,000 Hewlett-Packard FRN 2014	4,253	1.14	
£4,450,000 Imperial Tobacco Finance 5.5% 2016	5,027	1.34	
£4,950,000 Kingfisher 5.625% 2014	5,229	1.40	
£5,000,000 Koninklijke 5.75% 2016	5,550	1.48	
€5,000,000 Linde Finance Var. Rate Perp.	4,288	1.15	
£3,882,000 Mondelez International 5.375% 2014	4,115	1.10	
£8,588,000 National Grid 6.125% 2014	8,963	2.40	
£5,855,000 Pemex Project Funding Master Trust 7.5% 2013	6,050	1.62	
£9,213,000 RWE Finance 6.375% 2013	9,217	2.47	
£200,000 Santander International Debt 3.16% 2015	201	0.05	
£4,900,000 Southern Gas Networks FRN 2015	4,731	1.27	
\$500,000 SSE Var. Rate Perp.	341	0.09	
€4,000,000 Telefónica Emisiones FRN 2015	3,474	0.93	
£4,600,000 Tesco 4% IL 2016	7,768	2.08	
£20,000 Tesco 5% 2014	21	0.01	
£5,532,000 United Utilities Water 6.125% 2015	6,188	1.65	
£7,000,000 Virgin Media Secured Finance 7% 2018	7,350	1.97	
<b>'BB' credit rated bonds</b>			
		<b>3.48</b>	<b>0.00</b>
£4,000,000 ArcelorMittal 8.25% 2013	3,419	0.91	
\$1,125,000 Bank of America Var. Rate Perp.	843	0.23	
€3,000,000 Finmeccanica Finance 8.125% 2013	2,648	0.71	
€2,000,000 Koninklijke Var. Rate Perp.	1,712	0.46	
\$3,930,000 Lloyds TSB Bank FRN Perp.	1,384	0.37	
\$3,000,000 National Westminster Bank FRN Perp.	1,043	0.28	
€3,000,000 National Westminster Bank Var. Rate Perp.	1,956	0.52	

# M&G Short Dated Corporate Bond Fund

## PORTFOLIO

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Bonds with no credit rating</b>			
€2,000,000 Bank of Ireland Mortgage Bank 3.125% 2015	1,765	0.47	
€4,000,000 Bank of Ireland Mortgage Bank 3.25% 2016	3,526	0.94	
€1,000,000 Bavarian Sky FRN 2020	854	0.23	
£2,200,000 GE Capital UK Funding FRN 2017	2,140	0.57	
\$8,030,000 Hongkong & Shanghai Banking FRN Perp.	3,123	0.84	
€1,101,000 Indesit 4.5% 2018	948	0.25	
£4,020,000 John Lewis 10.5% 2014	4,240	1.13	
£590,000 Places for People Capital Markets 5% 2016	634	0.17	
£2,441,000 Severn River Crossing 6.125% IL 2013	4,472	1.20	
<b>Credit default swaps</b>			
€(2,500,000) Alstom Jun 2018 - HSBC	(72)	(0.02)	
\$(20,000,000) CDX North American Investment Grade Series 19 Dec 2017 - Credit Suisse/ Deutsche Bank/Goldman Sachs	174	0.05	
\$(12,500,000) CDX North American Investment Grade Series 20 Dec 2018 - Credit Suisse	82	0.02	
€(5,000,000) E.ON International Finance Jun 2018 - Credit Suisse	75	0.03	
€(7,500,000) Électricité de France Jun 2023 - Credit Suisse	(96)	(0.03)	
€(4,000,000) Heathrow Funding Jun 2018 - Barclays	(8)	0.00	
\$(5,000,000) MetLife Jun 2018 - Barclays	(29)	(0.01)	
€(2,500,000) Vivendi Jun 2018 - Deutsche Bank	(22)	(0.01)	
€(5,000,000) Volkswagen Jun 2018 - Credit Suisse	54	0.01	
<b>Forward currency contracts</b>			
€3,036,634 Bought for £2,602,691 (expires 05.06.13) - State Street Bank	(9)	0.00	
€(63,320,536) Sold for £57,206,104 (expires 05.06.13) - State Street Bank	125	0.03	
\$(86,564,113) Sold for £56,824,676 (expires 05.06.13) - State Street Bank	(79)	(0.02)	
<b>'AAA' rated money market funds <sup>[b]</sup></b>			
8,645,000 Northern Trust Global Fund - Sterling	8,645	2.31	2.81
<b>Portfolio of investments</b> (notes 1b & 1d on pages 79 & 80)	<b>370,595</b>	<b>99.11</b>	<b>99.63</b>
<b>Net other assets</b>	<b>3,339</b>	<b>0.89</b>	<b>0.37</b>
<b>Net assets attributable to shareholders</b>	<b>373,934</b>	<b>100.00</b>	<b>100.00</b>

<sup>[a]</sup> Unquoted/unlisted.

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

At the balance sheet date, futures and forward currency contracts were executed with the counterparties disclosed above, for the purpose of efficient portfolio management. Collateral obligations on losses for each transaction would be met using cash held at the futures clearing house or custodian respectively.

## PORTFOLIO TRANSACTIONS

for the year ended 31 May 2013

	£'000
<b>Largest purchases</b>	
Treasury 2.5% IL 2016 (£)	56,109
Virgin Media Secured Finance 7% 2018 (£)	14,987
Wells Fargo Bank FRN 2016 (\$)	10,498
Treasury 0% 2012 (13 Aug) (£)	9,999
Treasury 0% 2012 (24 Sep) (£)	9,998
Treasury 0% 2012 (5 Nov) (£)	9,998
National Grid 6.125% 2014 (£)	9,086
US Bank Var. 2017 (€)	8,215
Tesco 4% 2016 (£)	7,838
RWE Finance 6.375% 2013 (£)	7,814
Heathrow Funding 5.85% 2015 (£)	7,266
Compass Group 7% 2014 (£)	6,812
United Utilities Water 6.125% 2015 (£)	6,316
Pemex Project Funding Master Trust 7.5% 2013 (£)	6,118
Deutsche Telekom 7.125% 2012 (£)	6,021
Treasury 0% 2012 (17 Dec) (£)	5,999
Koninklijke KPN 5.75% 2016 (£)	5,603
Tesco 5% 2014 (£)	5,472
Anglian Water Services Financing 5.25% 2015 (£)	5,437
Kingfisher 5.625% 2014 (£)	5,294
Northern Trust Global Fund - Sterling <sup>[a]</sup>	213,872
Other purchases	247,424
<b>Total purchases</b>	<b>666,176</b>
<b>Largest sales</b>	
Treasury 0% 2012 (23 Jul) (£)	17,500
KfW FRN 2015 (£)	15,370
Yorkshire Building Society FRN 2023	13,408
Abbey National Treasury Service FRN 2016 (£)	11,234
Barclays Bank FRN 2020 (£)	10,257
Treasury 0% 2012 (13 Aug) (£)	10,000
Treasury 0% 2012 (24 Sep) (£)	10,000
Treasury 0% 2012 (5 Nov) (£)	10,000
US Bank Var. 2017 (€)	9,009
Nationwide Building Society FRN 2020 (£)	8,741
New York Life Global Funding FRN 2020 (€)	8,608
Permanent Master Issuer FRN 2020 (£)	8,598
Imperial Tobacco Finance 6.875% 2012 (£)	8,575
Virgin Media Secured Finance 7% 2018 (£)	7,500
Coventry Building Society FRN 2015 (£)	7,272
Arkle Master Issuer FRN 2060 (£)	7,207
Ericsson FRN 2014 (€)	6,856
Vodafone Group FRN 2014 (€)	6,789
Deutsche Telekom International Finance 7.125% 2012 (£)	6,255
Treasury 0% 2012 (17 Dec) (£)	6,000
Northern Trust Global Fund - Sterling <sup>[a]</sup>	214,330
Other sales	224,213
<b>Total sales</b>	<b>627,722</b>

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



# M&G Short Dated Corporate Bond Fund

## FINANCIAL STATEMENTS

For the year ended 31 May 2013.

### STATEMENT OF TOTAL RETURN

	Note	2013		2012	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		7,694		(2,103)
Revenue	4	5,745		5,771	
Expenses	5	(2,192)		(1,974)	
Finance costs: Interest	12	(3)		0	
Net revenue before taxation		3,550		3,797	
Taxation	6	6		0	
Net revenue after taxation			3,556		3,797
<b>Total return before distributions</b>			<b>11,250</b>		<b>1,694</b>
Finance costs: Distributions	12		(3,573)		(3,782)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>7,677</b>		<b>(2,088)</b>

### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2013		2012	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>324,442</b>		<b>258,691</b>
Amounts received on issue of shares	88,983		136,927	
Amounts paid on cancellation of shares	(47,171)		(69,091)	
		41,812		67,836
Change in net assets attributable to shareholders from investment activities (see above)		7,677		(2,088)
Unclaimed distributions		3		3
<b>Closing net assets attributable to shareholders</b>		<b>373,934</b>		<b>324,442</b>

## BALANCE SHEET

	as at 31 May 2013		as at 31 May 2012	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		370,910		323,306
<b>Debtors</b>				
Amounts receivable on issues	1,141		1,008	
Debt security interest receivable	5,028		1,596	
Distributions receivable	1		8	
Currency deals outstanding	796		0	
Premium from credit default swaps receivable	95		0	
Sales awaiting settlement	912		0	
		7,973		2,612
<b>Cash and bank balances</b>				
Cash held as bank balances	172		8	
		172		8
<b>Total other assets</b>		<b>8,145</b>		<b>2,620</b>
<b>Total assets</b>		<b>379,055</b>		<b>325,926</b>
<b>Liabilities</b>				
Investment liabilities		(315)		(69)
<b>Creditors</b>				
Amounts payable on cancellations	(76)		0	
Currency deals outstanding	(796)		0	
Expenses payable	(131)		(109)	
Income tax payable	(330)		(404)	
Net distributions payable on income shares	(801)		(902)	
Purchases awaiting settlement	(2,672)		0	
		(4,806)		(1,415)
<b>Total other liabilities</b>		<b>(4,806)</b>		<b>(1,415)</b>
<b>Total liabilities</b>		<b>(5,121)</b>		<b>(1,484)</b>
<b>Net assets attributable to shareholders</b>		<b>373,934</b>		<b>324,442</b>

## 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 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 31 May 2013, being the last business day of the financial year. The fair value of non-equity shares is bid price, excluding any accrued interest; in the case of shares in open-ended investment companies, fair value is their single price; 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 Short Dated Corporate 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 31 May 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 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.

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 Authorised Corporate Director's (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.

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.

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 majority of holdings in this sub-fund are floating rate notes (FRNs) and whilst the sub-fund is managed with a view to ensuring capital stability, the capital value of investments may be affected by interest rate fluctuations. These fluctuations are likely to have a greater effect on the capital value of fixed rate bonds than FRNs, such that when interest rates rise the capital value of fixed rate bonds is likely to fall by more than that of FRNs, and vice versa.

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 the majority of the non-sterling denominated investment portfolio against currency movements through the use of forward currency contracts.

# M&G Short Dated Corporate Bond Fund

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 2 Risk management policies (continued)

Short-term foreign currency exposures are generally covered by short-dated currency contracts. Revenue 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 96, 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 (31.05.12: same).

#### 3 Net capital gains / (losses)

	2013 £'000	2012 £'000
Non-derivative securities	11,146	(11,784)
Derivative contracts	187	0
Forward currency contracts	(3,856)	5,568
Currency gains	217	4,113
<b>Net capital gains / (losses)</b>	<b>7,694</b>	<b>(2,103)</b>

The following fees are borne by the Authorised Corporate Director:

Transaction charges	(2)	(2)
---------------------	-----	-----

#### 4 Revenue

	2013 £'000	2012 £'000
Bank interest	2	23
Interest distributions	39	112
Interest on debt securities	5,589	5,636
Premium from credit default swaps	115	0
<b>Total revenue</b>	<b>5,745</b>	<b>5,771</b>

#### 5 Expenses

	2013 £'000	2012 £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge	1,677	1,506
Administration fee	504	452
	2,181	1,958
<b>Payable to the Depository or associate</b>		
Distribution fees	1	1
<b>Other expenses</b>		
Audit fee (including VAT)	12	11
Regulatory fees	(2)	4
	10	15
<b>Total expenses</b>	<b>2,192</b>	<b>1,974</b>

The following fees are borne by the Authorised Corporate Director:

<b>Payable to the Depository or associate</b>		
Depository's fee (including VAT)	25	22
<b>Other expenses</b>		
Safe custody charge	11	15
	36	37

#### 6 Taxation

	2013 £'000	2012 £'000
<b>a) Analysis of charge in the year</b>		
Income tax prior period adjustment	(1)	0
Prior period adjustment	(5)	0
	(6)	0
Current tax charge (note 6b)	(6)	0
Deferred tax (note 6c)	0	0
<b>Total taxation</b>	<b>(6)</b>	<b>0</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue before taxation	3,550	3,797
Corporation tax at 20%	710	759
Effects of:		
Income tax prior period adjustment	(1)	0
Interest distributions	(707)	(759)
Prior period expenses utilised	(3)	0
Prior period adjustment	(5)	0
<b>Current tax charge (note 6a)</b>	<b>(6)</b>	<b>0</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The sub-fund does not have an unrecognised deferred tax asset at the year end (31.05.12: £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 (31.05.12: 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 periodic charge are disclosed in note 5. Amounts due at the year end to the Authorised Corporate Director of £119,000 (31.05.12: £96,000) 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 20.05% (31.05.12: 14.16%) of the sub-fund's shares.

# M&G Short Dated Corporate Bond 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 (31.05.12: 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 31.05.13 £'000	as at 31.05.12 £'000	as at 31.05.13 £'000	as at 31.05.12 £'000	as at 31.05.13 £'000	as at 31.05.12 £'000
Euro	(542)	(242)	379	233	(163)	(9)
US dollar	1,846	0	(1,662)	0	184	0
	1,304	(242)	(1,283)	233	21	(9)
Sterling	369,291	323,479	4,622	972	373,913	324,451
<b>Total</b>	<b>370,595</b>	<b>323,237</b>	<b>3,339</b>	<b>1,205</b>	<b>373,934</b>	<b>324,442</b>

#### Interest rate profile

	Floating rate financial assets		Fixed rate financial assets		Total	
	as at 31.05.13 £'000	as at 31.05.12 £'000	as at 31.05.13 £'000	as at 31.05.12 £'000	as at 31.05.13 £'000	as at 31.05.12 £'000
Euro	22,345	97,794	28,826	0	51,171	97,794
Sterling	185,311	183,589	74,758	41,931	260,069	225,520
US dollar	5,703	0	53,629	0	59,332	0
<b>Total</b>	<b>213,359</b>	<b>281,383</b>	<b>157,213</b>	<b>41,931</b>	<b>370,572</b>	<b>323,314</b>

	Weighted average gross interest rate of fixed interest-bearing assets		Weighted average period for which interest rates are fixed <sup>[a]</sup>	
	as at 31.05.13 %	as at 31.05.12 %	as at 31.05.13 years	as at 31.05.12 years
Euro	2.10	n/a	2.07	n/a
Sterling	2.31	2.23	1.96	0.43
US dollar	1.13	n/a	2.86	n/a

[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); and variable rate bonds (31.05.12: same).

#### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.05.12: 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 Short Dated 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 Short Dated 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 £2,395,882 over the next 30 days from the balance sheet date, 31 May 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
<b>a) Purchases</b>		
Purchases excluding transaction costs	666,176	547,886
<b>b) Sales</b>		
Sales excluding transaction costs	627,722	478,289

There were no significant transaction costs during the year (31.05.12: same).

# M&G Short Dated Corporate Bond Fund

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 11 Shareholder funds

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

The charging structure for each share class, as at 31 May 2013, is set out in the following table (31.05.12: same):

#### CHARGES AND EXPENSES

	Initial charge %	Withdrawal fee %	ACD's annual remuneration %
<b>Sterling</b>			
Class 'A'	nil	n/a	0.50
Class 'I' [a]	1.00	n/a	0.40

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

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

	31.05.13		31.05.12	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
<b>Sterling</b>				
Class 'A'	363,716	n/a	324,442	na
Class 'I'	10,218	n/a	n/a	n/a

The net asset value per share and the number of shares are given in the net assets table on page 76. The distribution per share is given in the distribution table on page 84. Each share class has the same rights on winding-up.

#### 12 Finance costs

	2013 £'000	2012 £'000
<b>Income shares (sterling)</b>		
Class 'A' - First interim	713	758
- Second interim	673	683
- Third interim	717	784
- Final	778	902
Class 'I' - First interim	0	n/a
- Second interim	0	n/a
- Third interim	7	n/a
- Final	23	n/a
	2,911	3,127
Income tax deducted at source	711	759
Finance costs: Interest distributions	3,622	3,886
Income deducted on cancellation of shares	46	89
Income received on issue of shares	(95)	(193)
<b>Finance costs: Distributions</b>	<b>3,573</b>	<b>3,782</b>
Finance costs: Interest	3	0
<b>Total finance costs</b>	<b>3,576</b>	<b>3,782</b>
Net revenue per statement of total return	3,556	3,797
Undistributed income brought forward	19	4
Undistributed income carried forward	(2)	(19)
<b>Finance costs: Distributions</b>	<b>3,573</b>	<b>3,782</b>

# M&G Short Dated 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	p	p	p	p	p	p
Class 'A' - First interim						
Group 1:	0.0650	0.0130	0.0520	-	0.0520	0.0620
Group 2:	0.0294	0.0059	0.0235	0.0285	0.0520	0.0620
- Second interim						
Group 1:	0.0650	0.0130	0.0520	-	0.0520	0.0560
Group 2:	0.0290	0.0058	0.0232	0.0288	0.0520	0.0560
- Third interim						
Group 1:	0.0685	0.0137	0.0548	-	0.0548	0.0600
Group 2:	0.0293	0.0059	0.0234	0.0314	0.0548	0.0600
- Final						
Group 1:	0.0670	0.0134	0.0536	-	0.0536	0.0680
Group 2:	0.0340	0.0068	0.0272	0.0264	0.0536	0.0680
Class 'I' - First interim						
Group 1:	n/a	n/a	n/a	-	n/a	n/a
Group 2:	n/a	n/a	n/a	n/a	n/a	n/a
- Second interim						
Group 1:	0.5875	0.1175	0.4700	-	0.4700	n/a
Group 2:	0.5875	0.1175	0.4700	-	0.4700	n/a
- Third interim						
Group 1:	3.1265	0.6253	2.5012	-	2.5012	n/a
Group 2:	0.4586	0.0917	0.3669	2.1343	2.5012	n/a
- Final						
Group 1:	2.7965	0.5593	2.2372	-	2.2372	n/a
Group 2:	1.1173	0.2235	0.8938	1.3434	2.2372	n/a

First interim period 01.06.12 - 31.08.12

Second interim period 01.09.12 - 30.11.12

Third interim period 01.12.12 - 28.02.13

Final period 01.03.13 - 31.05.13

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

# M&G UK Growth Fund

## AUTHORISED CORPORATE DIRECTOR'S REPORT

### Investment objective and policy of the M&G UK Growth Fund

The Fund invests principally in the equities of UK companies with high growth potential with the sole objective of capital growth. Income considerations are ignored.

### Investment approach

The M&G UK Growth Fund seeks capital growth through investment primarily in a portfolio of shares in UK listed companies. A long-term view is taken, with the emphasis on finding undervalued companies with attractive growth prospects.

The fund is a stockpicking fund, driven always by valuation. While the fund manager is responsible for every investment decision taken, the research undertaken by M&G's team of equity analysts often informs his stock selection.

The portfolio targets a total number of stock holdings of around 50. The relatively concentrated nature of the fund requires the manager to have strong conviction in each and every holding.

A team of risk specialists monitors the fund and ensures that the manager is aware of all intended and unintended biases.

### 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 3 June 2013, for the year ended 31 May 2013

The 12 months under review included the merger with the M&G UK Select Fund on 15 March 2013, which resulted in an increase in the assets under management by approximately £77 million.

Outside the activity associated with the merger, the fund's exposure to more economically sensitive shares was selectively increased, with examples including a consumer stock, holiday firm Tui Travel, Lloyds Banking Group and Royal Bank of Scotland.

Tui Travel operates pan-Europe and has been gaining market share through a long process of restructuring. Both the part-taxpayer-owned banks, Lloyds and RBS, offered considerable upside from very low market valuations, especially given the slight improvement in the economic backdrop and the arrival of a new governor of the Bank of England this July with a remit to kick-start a recovery.

A number of holdings left the portfolio during the period, including the UK's largest contract caterer, Compass, after sustained outperformance had left it looking overvalued. Good performance was also used as an opportunity to take some profits in Pearson in the media sector, along with Aberdeen Asset Management, Prudential and Legal & General in the financials sector.

The disposal of Anglo American, on the other hand, reflected concerns about the acutely difficult situation with the unions in South Africa. Elsewhere, two of the UK's largest insurers announced dividend cuts early in 2013, surprising the market. The fund held one of these at the time, RSA Insurance, which it subsequently exited. However, the fund avoided the same fate over Aviva, as the stock had been sold on balance sheet concerns before the announcement.

### Mike Felton

Fund manager

Mike Felton is an employee of M&G Limited which is an associate of M&G Securities Limited. At the start of the review period Garfield Kiff was the fund manager.

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 UK Growth Fund

## FUND STATISTICS

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

### DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Interim	02.12.13	31.01.14
Final	02.06.14	31.07.14

	Final distribution		Ongoing Charges Figure <sup>[b]</sup>	
	Inc 31.07.13 <sup>[a]</sup>	Acc 03.06.13 <sup>[a]</sup>	31.05.13	31.05.12
<b>Sterling</b>	p	p	%	%
Class 'A'	22.4512	31.9573	1.67	1.68
Class 'C'	30.1954	n/a	0.17 <sup>[c]</sup>	n/a
Class 'I'	15.2926	15.3992	0.92 <sup>[c]</sup>	n/a
Class 'R'	1.4221	1.4249	1.17 <sup>[c]</sup>	n/a
Class 'X'	22.7122	31.6013	1.67	1.68
<b>Euro</b>	¢	¢	%	%
Class 'A'	n/a	9.8741	1.66	1.71
Class 'C'	n/a	14.2212	0.92	0.87

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

<sup>[b]</sup> 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.

<sup>[c]</sup> 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 31.05.13		Net asset value per share as at 31.05.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
	p	p	p	p	%	%
<b>Sterling</b>						
Class 'A'	2,421.55	3,472.16	1,935.06	2,728.17	+25.14	+27.27
Class 'C'	2,421.75	n/a	n/a	n/a	n/a	n/a
Class 'I'	1,179.47	1,205.31	n/a	n/a	n/a	n/a
Class 'R'	117.92	120.25	n/a	n/a	n/a	n/a
Class 'X'	2,438.12	3,434.92	1,948.49	2,698.90	+25.13	+27.27
<b>Euro</b>	€	€	€	€	%	%
Class 'A'	n/a	10.7536	n/a	9.0204	n/a	+19.21
Class 'C'	n/a	11.2158	n/a	9.3383	n/a	+20.11

### PERFORMANCE SINCE LAUNCH

	six months 03.12.12 %	one year 01.06.12 %	five years 03.06.08 % p.a. <sup>[a]</sup>	since launch % p.a. <sup>[a]</sup>
<b>Sterling <sup>[b]</sup></b>				
Class 'A'	+14.6	+28.4	+4.1	+8.0 <sup>[c]</sup>
Class 'C'	n/a	n/a	n/a	+3.6 <sup>[d]</sup>
Class 'I'	+14.4	n/a	n/a	+18.6 <sup>[e]</sup>
Class 'R'	+14.4	n/a	n/a	+18.6 <sup>[e]</sup>
Class 'X'	+14.6	+28.4	+4.1	+8.9 <sup>[f]</sup>
<b>Euro <sup>[g]</sup></b>				
Class 'A'	+9.8	+22.9	+4.6	+1.4 <sup>[h]</sup>
Class 'C'	+10.2	+23.9	+5.4	+2.1 <sup>[h]</sup>

<sup>[a]</sup> Shows the compound rate of return, per annum, over the period.

<sup>[b]</sup> Bid to bid excluding reinvested income.

<sup>[c]</sup> 17 December 1968, the end of the initial offer period of the predecessor unit trust.

<sup>[d]</sup> 13 March 2013, the launch date of the share class. Not annualised.

<sup>[e]</sup> 3 August 2012, the launch date of the share class. Not annualised.

<sup>[f]</sup> 1 October 2002, the launch date of the share class.

<sup>[g]</sup> Bid to bid with net income reinvested.

<sup>[h]</sup> 31 August 2007, the launch date of the share class.

### SINGLE YEAR PERFORMANCE (5 YEARS ENDING MAY)

From	31.05.12	31.05.11	31.05.10	29.05.09	30.05.08
To	31.05.13	31.05.12	31.05.11	31.05.10	29.05.09
	%	%	%	%	%
<b>Sterling</b>					
Class 'A'	+28.4	-7.3	+20.6	+17.5	-20.7

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



# M&G UK Growth Fund

## FUND STATISTICS

PRICES					
	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
<b>Sterling (net)</b>		p	p	p	p
Class 'A'	2008	2,092.83	1,299.41	2,694.88	1,690.41
	2009	1,861.36	1,309.54	2,508.64	1,729.77
	2010	2,108.87	1,672.10	2,882.01	2,274.33
	2011 <sup>[a]</sup>	2,160.88	1,727.48	2,983.50	2,385.12
	2012	2,187.72	1,895.76	3,108.07	2,677.65
	2013 <sup>[b]</sup> <sup>[c]</sup>	2,501.42	2,194.86	3,553.74	3,118.22
Class 'C'	2013 <sup>[b]</sup> <sup>[c]</sup> <sup>[d]</sup>	2,508.63	2,277.79	n/a	n/a
Class 'I'	2012 <sup>[e]</sup>	1,066.09	997.51	1,075.51	997.57
	2013 <sup>[b]</sup> <sup>[c]</sup>	1,222.61	1,069.72	1,233.41	1,079.17
Class 'R'	2012 <sup>[e]</sup>	106.59	99.73	107.40	99.73
	2013 <sup>[b]</sup> <sup>[c]</sup>	122.13	106.95	123.06	107.76
Class 'X'	2008	2,108.17	1,308.67	2,665.82	1,672.22
	2009	1,874.39	1,318.83	2,481.75	1,711.22
	2010	2,123.48	1,683.73	2,851.10	2,249.94
	2011 <sup>[a]</sup>	2,175.84	1,739.44	2,951.50	2,359.53
	2012	2,202.78	1,908.91	3,074.74	2,648.94
	2013 <sup>[b]</sup> <sup>[c]</sup>	2,518.65	2,209.97	3,515.63	3,084.78
<b>Euro (net)</b>		€	€	€	€
Class 'A'	2008	n/a	n/a	9.5955	5.4266
	2009	n/a	n/a	7.4299	5.0414
	2010	n/a	n/a	8.9435	7.0499
	2011 <sup>[a]</sup>	n/a	n/a	9.2540	7.2707
	2012	n/a	n/a	10.0661	8.6786
	2013 <sup>[b]</sup> <sup>[c]</sup>	n/a	n/a	11.0203	9.9133
Class 'C'	2008	n/a	n/a	9.6154	5.4751
	2009	n/a	n/a	7.5532	5.0938
	2010	n/a	n/a	9.1602	7.1726
	2011 <sup>[a]</sup>	n/a	n/a	9.4881	7.4882
	2012	n/a	n/a	10.4645	8.9570
	2013 <sup>[b]</sup> <sup>[c]</sup>	n/a	n/a	11.4918	10.3158

<sup>[a]</sup> The Prudential UK Growth Trust merged into the M&G UK Growth Fund immediately after 14 October 2011.

<sup>[b]</sup> The M&G UK Select Fund (a sub-fund of M&G Investment Funds (3)) merged into the M&G UK Growth Fund immediately after 15 March 2013.

<sup>[c]</sup> To 3 June 2013.

<sup>[d]</sup> From 13 March 2013 (the launch date of the share class).

<sup>[e]</sup> 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 Final	Total	Reinvested
<b>Sterling (net)</b>		p	p	p	p
Class 'A'	2008	12.7280	20.5340	33.2620	55.4057
	2009	22.2650	18.8960	41.1610	44.0499
	2010	14.2780	16.0820	30.3600	34.2682
	2011	9.2590	21.7380	30.9970	55.9792
	2012	19.0700	21.7470	40.8170	52.4264
	2013 <sup>[a]</sup>	15.6410	22.4512	38.0922	31.9573
Class 'C'	2013 <sup>[a]</sup>	n/a	30.1954	30.1954	n/a
Class 'I'	2012	n/a	n/a	n/a	9.1150
	2013 <sup>[a]</sup>	8.7070	15.2926	23.9996	15.3992
Class 'R'	2012	n/a	n/a	n/a	0.7870
	2013 <sup>[a]</sup>	0.7870	1.4221	2.2091	1.4249
Class 'X'	2008	12.8970	21.1530	34.0500	55.5245
	2009	22.5200	19.1800	41.7000	43.7711
	2010	14.3770	16.2570	30.6340	34.0617
	2011	9.3820	21.8920	31.2740	55.3689
	2012	19.1480	21.8630	41.0110	51.8383
	2013 <sup>[a]</sup>	15.7450	22.7122	38.4572	31.6013
<b>Euro (net)</b>		€	€	€	€
Class 'A'	2008	n/a	n/a	n/a	19.1400
	2009	n/a	n/a	n/a	13.2850
	2010	n/a	n/a	n/a	10.2300
	2011	n/a	n/a	n/a	16.0993
	2012	n/a	n/a	n/a	17.2503
	2013 <sup>[a]</sup>	n/a	n/a	n/a	9.8741
Class 'C'	2008	n/a	n/a	n/a	24.2510
	2009	n/a	n/a	n/a	18.0670
	2010	n/a	n/a	n/a	16.9890
	2011	n/a	n/a	n/a	24.1730
	2012	n/a	n/a	n/a	25.2402
	2013 <sup>[a]</sup>	n/a	n/a	n/a	14.2212

<sup>[a]</sup> Up to final: ex-distribution date 3 June 2013; payment date 31 July 2013.

# M&G UK Growth Fund

## FUND STATISTICS

### NET ASSETS

	Year ended	Value per share		Number of shares	
		Inc	Acc	Inc	Acc
<b>Sterling</b>					
Class 'A'	May 2011	2,113.90	2,918.64	12,290,167	7,950,901
	May 2012	1,935.06	2,728.17	15,395,207	7,369,709
	May 2013	2,421.55	3,472.16	13,884,484	7,753,824
Class 'C'	May 2013	2,421.75	n/a	564,422	n/a
Class 'I'	May 2013	1,179.47	1,205.31	473,169	614,054
Class 'R'	May 2013	117.92	120.25	244,286	135,504
Class 'X'	May 2011	2,128.53	2,887.32	186,167	153,021
	May 2012	1,948.49	2,698.90	190,567	152,971
	May 2013	2,438.12	3,434.92	363,442	276,754
<b>Euro</b>					
		€	€		
Class 'A'	May 2011	n/a	8.8451	n/a	283,400
	May 2012	n/a	9.0204	n/a	159,000
	May 2013	n/a	10.7536	n/a	48,100
Class 'C'	May 2011	n/a	9.0880	n/a	2,200
	May 2012	n/a	9.3383	n/a	1,700
	May 2013	n/a	11.2158	n/a	1,700

### Total net asset value of sub-fund

Year ended	£	€ [a]
May 2011	502,446,000	575,652,000
May 2012	507,967,000	634,959,000
May 2013	651,372,000	762,671,000

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

## PORTFOLIO

### PORTFOLIO STATEMENT

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Oil &amp; gas producers</b>			
871,093 BG Group	10,619	1.63	
12,179,909 Borders & Southern Petroleum	1,857	0.29	
6,769,865 BP	32,079	4.92	
1,679,086 Cairn Energy	4,631	0.71	
1,096,051 Ophir Energy	4,393	0.67	
868,767 Royal Dutch Shell 'B'	19,930	3.06	
1,530,424 Salamander Energy	2,638	0.40	
475,417 Tullow Oil	5,006	0.77	
<b>Oil equipment, services &amp; distribution</b>			
1,051,167 Kentz	4,186	0.64	
516,343 Petrofac	7,048	1.08	
<b>Chemicals</b>			
2,957,902 Elementis	7,016	1.08	
<b>Industrial metals &amp; mining</b>			
377,185 First Quantum Minerals	4,543	0.70	
<b>Mining</b>			
863,471 BHP Billiton	16,756	2.57	
2,397,447 Glencore Xstrata	7,876	1.21	
634,277 Rio Tinto	18,448	2.83	

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Construction &amp; materials</b>			
2,148,625 Balfour Beatty	5,043	0.77	
<b>Aerospace &amp; defence</b>			
6,386,297 Cobham	18,405	2.83	
380,257 Ultra Electronics Holdings	6,727	1.03	
<b>General industrials</b>			
5,960,607 DS Smith	14,580	2.24	
<b>Electronic &amp; electrical equipment</b>			
<b>Industrial engineering</b>			
1,763,077 Fenner	6,076	0.93	
292,265 Weir Group	6,801	1.04	
<b>Industrial transportation</b>			
2,883,310 BBA Aviation	7,990	1.23	
<b>Support services</b>			
180,458 Aggreko	3,257	0.50	
952,046 Babcock International Group	11,006	1.69	
6,814,146 Hays	6,433	0.99	
<b>Food producers</b>			
1,538,334 Tate & Lyle	12,699	1.95	
<b>Household goods &amp; home construction</b>			
971,602 Bovis Homes Group	7,199	1.11	
<b>Tobacco</b>			
448,866 British American Tobacco	16,361	2.51	
371,718 Imperial Tobacco	8,873	1.36	
<b>Healthcare equipment &amp; services</b>			
2,097,491 Smith & Nephew	16,077	2.47	
<b>Pharmaceuticals &amp; biotechnology</b>			
68,352 AstraZeneca	2,317	0.36	
1,863,605 GlaxoSmithKline	31,709	4.87	
647,618 Shire	13,963	2.14	
<b>Food &amp; drug retailers</b>			
884,732 Booker Group	1,120	0.17	
915,640 Tesco	3,338	0.51	
<b>General retailers</b>			
4,769,694 Carphone Warehouse	11,829	1.82	
2,274,179 Kingfisher	7,855	1.21	
<b>Media</b>			
1,252,327 Informa	6,387	0.98	
7,168,586 ITV	9,405	1.44	
1,081,515 UBM	7,787	1.20	
801,989 WPP Group	9,046	1.39	
<b>Travel &amp; leisure</b>			
2,122,833 TUI Travel	7,617	1.17	
<b>Fixed line telecommunications</b>			
2,689,184 TalkTalk Telecom	6,134	0.94	
<b>Mobile telecommunications</b>			
671,544 Inmarsat	4,143	0.64	
13,588,520 Vodafone Group	25,893	3.98	
<b>Gas, water &amp; multi-utilities</b>			
2,156,036 Centrica	8,219	1.26	
<b>Banks</b>			
3,217,119 Barclays	10,319	1.58	
4,065,688 HSBC Holdings	29,496	4.53	
29,812,726 Lloyds Banking Group	18,403	2.83	
4,085,214 Royal Bank of Scotland Group	13,575	2.08	
<b>Non-life insurance</b>			
<b>Life insurance</b>			
5,030,645 Legal & General Group	9,171	1.41	
1,743,425 Prudential	19,666	3.02	
4,901,179 Resolution	14,189	2.18	

# M&G UK Growth Fund

## PORTFOLIO

### PORTFOLIO STATEMENT (continued)

as at 31 May 2013

Holding	Value £'000	31.05.13 %	31.05.12 %
<b>Financial services</b>			
1,752,298 Aberdeen Asset Management	8,141	1.25	
2,572,274 Ashmore Group	10,284	1.58	
1,166,382 IG Group Holdings	6,806	1.04	
<b>Software &amp; computer services</b>			
4,857,439 Anite	6,193	0.95	
1,349,650 Micro Focus	9,279	1.42	
1,989,037 Sage Group	7,236	1.11	
<b>Technology hardware &amp; equipment</b>			
4,010,000 Spirent Communications	5,357	0.82	
<b>Unquoted / unlisted</b>			
770,825 Izodia <sup>[a]</sup>	0	0.00	
<b>'AAA' rated money market funds <sup>[b]</sup></b>			
26,299,000 Northern Trust Global Fund - Sterling	26,299	4.04	
<b>Portfolio of investments (notes 1b &amp; 1d on pages 90 &amp; 91)</b>	<b>645,729</b>	<b>99.13</b>	<b>100.25</b>
<b>Net other assets / (liabilities)</b>	<b>5,643</b>	<b>0.87</b>	<b>(0.25)</b>
<b>Net assets attributable to shareholders</b>	<b>651,372</b>	<b>100.00</b>	<b>100.00</b>

<sup>[a]</sup> Suspended on 16 December 2002.

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

## PORTFOLIO TRANSACTIONS

for the year ended 31 May 2013

Largest purchases	£'000
Lloyds Banking Group	15,631
Resolution	12,195
Royal Bank of Scotland Group	11,809
BHP Billiton	10,743
Carphone Warehouse	10,300
Ashmore Group	9,319
Imperial Tobacco	9,079
Glencore Xstrata	8,275
Fenner	8,221
Centrica	7,710
Barclays	7,323
Balfour Beatty	7,056
BP	7,029
Smith & Nephew	6,675
Bovis Homes Group	6,517
Ultra Electronics Holdings	6,482
Aggreko	6,352
Rio Tinto	6,329
Anite	5,822
DS Smith	5,470
Northern Trust Global Fund - Sterling <sup>[a]</sup>	77,434
Other purchases	118,790
<b>Total purchases</b>	<b>364,561</b>

Largest sales	£'000
Compass Group	12,642
RSA Insurance Group	12,487
British American Tobacco	11,989
Royal Dutch Shell 'B'	11,838
Experian	11,562
Anglo American	10,586
Pearson	9,275
Standard Chartered	8,685
Laird	8,232
Vodafone Group	8,212
RPS Group	7,850
John Wood Group	7,362
Prudential	7,331
Rio Tinto	7,251
Morgan Advanced Materials (formerly Morgan Crucible)	7,026
GlaxoSmithKline	6,885
Barclays	6,641
Aberdeen Asset Management	6,453
Mitie Group	5,928
Aviva	5,894
Northern Trust Global Fund - Sterling <sup>[a]</sup>	69,704
Other sales	106,931
<b>Total sales</b>	<b>350,764</b>

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

# M&G UK Growth Fund

## FINANCIAL STATEMENTS

For the year ended 31 May 2013.

### STATEMENT OF TOTAL RETURN

	Note	2013		2012	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		124,179		(41,172)
Revenue	4	20,569		19,335	
Expenses	5	(9,413)		(8,425)	
Finance costs: Interest	12	0		(1)	
Net revenue before taxation		11,156		10,909	
Taxation	6	(5)		(8)	
Net revenue after taxation			11,151		10,901
<b>Total return before distributions</b>			<b>135,330</b>		<b>(30,271)</b>
Finance costs: Distributions	12		(10,193)		(10,428)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>125,137</b>		<b>(40,699)</b>

### STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2013		2012	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>507,967</b>		<b>502,446</b>
Amounts received on issue of shares	19,203		6,194	
Transfer of assets from the Prudential UK Growth Trust to the M&G UK Growth Fund	0		81,768	
Transfer of assets from the M&G UK Select Fund to the M&G UK Growth Fund	77,153		0	
Amounts paid on cancellation of shares	(82,309)		(46,046)	
		14,047		41,916
Stamp Duty Reserve Tax (SDRT)		(98)		(81)
Change in net assets attributable to shareholders from investment activities (see above)		125,137		(40,699)
Retained distributions on Accumulation shares		4,288		4,353
Unclaimed distributions		31		32
<b>Closing net assets attributable to shareholders</b>		<b>651,372</b>		<b>507,967</b>

## BALANCE SHEET

	as at 31 May 2013		as at 31 May 2012	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		645,729		509,213
<b>Debtors</b>				
Amounts due from the Prudential UK Growth Trust	0		473	
Amounts due from the M&G UK Select Fund	25		0	
Amounts receivable on issues	3,846		0	
Currency deals outstanding	0		7	
Distributions receivable	7		6	
Dividends receivable	2,435		2,447	
Overseas tax recoverable	24		24	
Prepaid expenses	0		3	
Sales awaiting settlement	1,773		0	
		8,110		2,960
<b>Cash and bank balances</b>				
Cash held as bank balances	4,597		8	
		4,597		8
<b>Total other assets</b>		<b>12,707</b>		<b>2,968</b>
<b>Total assets</b>		<b>658,436</b>		<b>512,181</b>
<b>Liabilities</b>				
<b>Creditors</b>				
Amounts payable on cancellations	(539)		(405)	
Currency deals outstanding	0		(7)	
Expenses payable	(542)		(413)	
Net distributions payable on Income shares	(3,446)		(3,389)	
Purchases awaiting settlement	(2,532)		0	
SDRT payable	(5)		0	
<b>Total liabilities</b>		<b>(7,064)</b>		<b>(4,214)</b>
<b>Net assets attributable to shareholders</b>		<b>651,372</b>		<b>507,967</b>

## 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 31 May 2013, being the last business day of the financial year. The fair value of non-derivative securities is bid price.

#### 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 31 May 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 accrual 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) 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. 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 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.

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 96, 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 (31.05.12: same).

#### 3 Net capital gains / (losses)

	2013 £'000	2012 £'000
Non-derivative securities	123,436	(43,240)
Currency losses	(27)	(14)
Special dividends taken to capital	774	2,086
Transaction charges	(4)	(4)
<b>Net capital gains / (losses)</b>	<b>124,179</b>	<b>(41,172)</b>

# M&G UK Growth Fund

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 4 Revenue

	2013 £'000	2012 £'000
Bank interest	6	3
Interest distributions	79	74
Overseas dividends	28	1,300
Stock dividends	959	473
UK dividends	19,497	17,485
<b>Total revenue</b>	<b>20,569</b>	<b>19,335</b>

#### 5 Expenses

	2013 £'000	2012 £'000
<b>Payable to the Authorised Corporate Director or associate</b>		
Authorised Corporate Director's periodic charge	8,487	7,600
Administration fee	855	760
	9,342	8,360
<b>Payable to the Depositary or associate</b>		
Depositary's fee (including VAT)	39	35
<b>Other expenses</b>		
Audit fee (including VAT)	9	9
Regulatory fees	12	13
Safe custody charge	1	2
Tax consultancy fees (including VAT) <sup>[a]</sup>	10	6
	32	30
<b>Total expenses</b>	<b>9,413</b>	<b>8,425</b>

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

#### 6 Taxation

	2013 £'000	2012 £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	0
Overseas tax	5	8
Current tax charge (note 6b)	5	8
Deferred tax (note 6c)	0	0
<b>Total taxation</b>	<b>5</b>	<b>8</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue before taxation	11,156	10,909
Corporation tax at 20%	2,231	2,182
Effects of:		
UK dividends not taxable	(3,892)	(3,497)
Stock dividends not taxable	(192)	(95)
Overseas dividends not taxable	(13)	(261)
Current period expenses not utilised	1,866	1,671
Overseas tax	5	8
<b>Current tax charge (note 6a)</b>	<b>5</b>	<b>8</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The sub-fund has not recognised a deferred tax asset of £15,424,000 (31.05.12: £13,558,000) 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 (31.05.12: 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 periodic charge are disclosed in note 5. Amounts due at the year end to the Authorised Corporate Director of £525,000 (31.05.12: £392,000) 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 £10,457,000 (2012: £5,034,000).

At the balance sheet date, the sub-fund held shares in related parties of M&G Securities Limited with a value of £19,666,000 (31.05.12: £14,637,000).

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 5.77% (31.05.12: 10.01%) 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 (31.05.12: same).

##### Currency exposure

There was no significant foreign currency exposure within the sub-fund at the balance sheet date (31.05.12: same).

##### Interest rate profile

The majority of the sub-fund's assets comprise equity shares which neither pay interest nor have a maturity date (31.05.12: same).

##### Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (31.05.12: same).

# M&G UK Growth Fund

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 10 Portfolio transaction costs

	2013 £'000	2012 £'000
<b>a) Purchases</b>		
Purchases excluding transaction costs	363,509	370,696
Commissions	220	181
Taxes	832	654
Total transaction costs	1,052	835
<b>Total purchases including transaction costs</b>	<b>364,561</b>	<b>371,531</b>
<b>b) Sales</b>		
Sales excluding transaction costs	351,031	324,095
Commissions	(267)	(193)
<b>Total sales net of transaction costs</b>	<b>350,764</b>	<b>323,902</b>

#### 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.

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 31 May 2013, is set out in the following table (31.05.12: same):

### CHARGES AND EXPENSES

	Initial charge %	Withdrawal fee %	ACD's annual remuneration %
<b>Sterling</b>			
Class 'A'	4.00	n/a	1.50
Class 'C' <sup>[a]</sup>	nil	n/a	nil
Class 'I' <sup>[b]</sup>	1.00	n/a	0.75
Class 'R' <sup>[b]</sup>	1.00	n/a	1.00
Class 'X'	nil	4.50 <sup>[c]</sup>	1.50
<b>Euro</b>			
Class 'A'	5.25	n/a	1.50
Class 'C'	3.25	n/a	0.75

<sup>[a]</sup> With effect from 13 March 2013, the launch date of the Sterling Class 'C' share class.

<sup>[b]</sup> With effect from 3 August 2012, the launch date of the Sterling Class 'I' and Sterling Class 'R' share classes.

<sup>[c]</sup> 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

	31.05.13		31.05.12	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
<b>Sterling</b>				
Class 'A'	336,220	269,225	297,907	201,058
Class 'C'	13,669	n/a	n/a	n/a
Class 'I'	5,581	7,401	n/a	n/a
Class 'R'	288	163	n/a	n/a
Class 'X'	8,861	9,506	3,713	4,129
<b>Euro</b>				
Class 'A'	n/a	442	n/a	1,147
Class 'C'	n/a	16	n/a	13

The net asset value per share and the number of shares are given in the net assets table on page 88. The distribution per share is given in the distribution table on pages 94 & 95. Each share class has the same rights on winding-up.

# M&G UK Growth Fund

## FINANCIAL STATEMENTS

### NOTES TO THE FINANCIAL STATEMENTS

#### 12 Finance costs

	2013 £'000	2012 £'000
<b>Income shares (sterling)</b>		
Class 'A' - Interim	2,348	3,033
- Final	3,117	3,348
Class 'C' - Interim	n/a	n/a
- Final	170	n/a
Class 'I' - Interim <sup>[a]</sup>	0	n/a
- Final	72	n/a
Class 'R' - Interim <sup>[b]</sup>	0	n/a
- Final	4	n/a
Class 'X' - Interim	31	37
- Final	83	41
<b>Accumulation shares (sterling)</b>		
Class 'A' - Interim	1,582	2,015
- Final	2,478	2,236
Class 'I' - Interim <sup>[c]</sup>	0	n/a
- Final	94	n/a
Class 'R' - Interim <sup>[d]</sup>	0	n/a
- Final	2	n/a
Class 'X' - Interim	34	39
- Final	87	46
<b>Accumulation shares (euro)</b>		
Class 'A' - Interim	7	4
- Final	4	13
Class 'C' - Interim <sup>[e]</sup>	0	0
- Final <sup>[e]</sup>	0	0
Finance costs: Dividend distributions	10,113	10,812
Income deducted on cancellation of shares	356	224
Income received on issue of shares	(276)	(608)
<b>Finance costs: Distributions</b>	<b>10,193</b>	<b>10,428</b>
Finance costs: Interest	0	1
<b>Total finance costs</b>	<b>10,193</b>	<b>10,429</b>
Net revenue per statement of total return	11,151	10,901
Stock dividends not distributed	(959)	(473)
Undistributed income brought forward	1	1
Undistributed income carried forward	0	(1)
<b>Finance costs: Distributions</b>	<b>10,193</b>	<b>10,428</b>

<sup>[a]</sup> The interim distribution for Sterling Class 'I' (Income) shares in 2013 was £279.

<sup>[b]</sup> The interim distribution for Sterling Class 'R' (Income) shares in 2013 was £8.

<sup>[c]</sup> The interim distribution for Sterling Class 'I' (Accumulation) shares in 2013 was £9.

<sup>[d]</sup> The interim distribution for Sterling Class 'R' (Accumulation) shares in 2013 was £8.

<sup>[e]</sup> The total distributions for Euro Class 'C' (Accumulation) shares in 2013 were €433 (2012: €493).

### DISTRIBUTION TABLE

Dividend distributions on Income shares	Net income	Equalisation	Distribution paid/payable	
			2012/13	2011/12
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
Class 'A' - Interim				
Group 1:	15.6410	-	15.6410	19.0700
Group 2:	9.0084	6.6326	15.6410	19.0700
- Final				
Group 1:	22.4512	-	22.4512	21.7470
Group 2:	17.3441	5.1071	22.4512	21.7470
Class 'C' - Interim				
Group 1:	n/a	n/a	n/a	n/a
Group 2:	n/a	n/a	n/a	n/a
- Final				
Group 1:	30.1954	-	30.1954	n/a
Group 2:	24.4333	5.7621	30.1954	n/a
Class 'I' - Interim				
Group 1:	8.7070	-	8.7070	n/a
Group 2:	6.8570	1.8500	8.7070	n/a
- Final				
Group 1:	15.2926	-	15.2926	n/a
Group 2:	10.1866	5.1060	15.2926	n/a
Class 'R' - Interim				
Group 1:	0.7870	-	0.7870	n/a
Group 2:	0.7870	-	0.7870	n/a
- Final				
Group 1:	1.4221	-	1.4221	n/a
Group 2:	0.9798	0.4423	1.4221	n/a
Class 'X' - Interim				
Group 1:	15.7450	-	15.7450	19.1480
Group 2:	7.1397	8.6053	15.7450	19.1480
- Final				
Group 1:	22.7122	-	22.7122	21.8630
Group 2:	17.3473	5.3649	22.7122	21.8630
<b>Dividend distributions on Accumulation shares</b>	<b>Net income</b>	<b>Equalisation</b>	<b>Amount reinvested</b>	
			2012/13	2011/12
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
Class 'A' - Interim				
Group 1:	22.0924	-	22.0924	26.2718
Group 2:	8.5463	13.5461	22.0924	26.2718
- Final				
Group 1:	31.9573	-	31.9573	30.3340
Group 2:	24.9101	7.0472	31.9573	30.3340
Class 'I' - Interim				
Group 1:	9.1150	-	9.1150	n/a
Group 2:	9.1150	-	9.1150	n/a
- Final				
Group 1:	15.3992	-	15.3992	n/a
Group 2:	2.4052	12.9940	15.3992	n/a
Class 'R' - Interim				
Group 1:	0.7870	-	0.7870	n/a
Group 2:	0.7870	-	0.7870	n/a
- Final				
Group 1:	1.4249	-	1.4249	n/a
Group 2:	1.1959	0.2290	1.4249	n/a
Class 'X' - Interim				
Group 1:	21.8483	-	21.8483	25.9755
Group 2:	5.9673	15.8810	21.8483	25.9755
- Final				
Group 1:	31.6013	-	31.6013	29.9900
Group 2:	24.7787	6.8226	31.6013	29.9900



# M&G UK Growth Fund

## FINANCIAL STATEMENTS

### DISTRIBUTION TABLE (continued)

Dividend distributions on Accumulation shares	Net income	Equalisation	Amount reinvested	
			2013	2012
Euro	€	€	€	€
Class 'A' - Interim				
Group 1:	7.1953	-	7.1953	8.1193
Group 2:	1.1298	6.0655	7.1953	8.1193
- Final				
Group 1:	9.8741	-	9.8741	10.0550
Group 2:	9.6483	0.2258	9.8741	10.0550
Class 'C' - Interim				
Group 1:	11.2462	-	11.2462	11.5809
Group 2:	11.2462	-	11.2462	11.5809
- Final				
Group 1:	14.2212	-	14.2212	13.9940
Group 2:	-	14.2212	14.2212	13.9940

Interim period 01.06.12 - 30.11.12

Final period 01.12.12 - 31.05.13

Group 1: Shares purchased prior to a distribution period.

Group 2: Shares purchased during a distribution period.

# 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 Extra Income Fund	26.87%
M&G Gilt & Fixed Interest Income Fund	99.17%
M&G High Yield Corporate Bond Fund	98.66%
M&G Index-Linked Bond Fund	99.85%
M&G Index Tracker Fund	0.16%
M&G Short Dated Corporate Bond Fund	99.14%
M&G UK Growth Fund	4.74%

## 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 31.05.13	as at 31.05.12
M&G High Yield Corporate Bond Fund	95.59%	97.92%
M&G UK Growth Fund	68.36%	110.43%

## 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:

	Share class (Accumulation)	Total Expense Ratio		
		31.05.13	31.05.12	
		%	%	
M&G High Yield Corporate Bond Fund	Euro	Class 'A-H'	1.46	1.48
		Class 'C-H'	0.87	1.00
	US dollar	Class 'A-H'	1.46	1.49
		Class 'C-H'	0.86	0.97
M&G UK Growth Fund	Sterling	Class 'A'	1.66	1.66
		Class 'A'	1.66	1.68
		Class 'C'	0.92	0.87

