

M&G Investment Funds (3)



Contents

Introduction	Page	1
Company Information ^[a]	Page	1
For European Investors	Page	1
Authorised Corporate Director's Report ^[a]	Page	2
Aggregated Financial Statements (unaudited)	Page	3
Directors' Statement	Page	4
Investment Report ^[a] and Financial Statements for:		
M&G Corporate Bond Fund	Page	5
M&G Dividend Fund	Page	19
M&G Emerging Markets Bond Fund	Page	25
M&G European Corporate Bond Fund	Page	31
M&G European High Yield Bond Fund	Page	41
M&G Fund of Investment Trust Shares	Page	49
M&G International Sovereign Bond Fund	Page	55
M&G Recovery Fund	Page	61
M&G Smaller Companies Fund	Page	69
M&G UK Select Fund	Page	75
Further Information ^[a]	Page	80
Risk Factor	Page	80
Liquidity	Page	80
Dilution	Page	80
The EU Savings Directive	Page	80
Portfolio Turnover Rates	Page	80
Total Expense Ratios	Page	80

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

Introduction

COMPANY INFORMATION

Company

M&G Investment Funds (3)

Registered Office

Laurence Pountney Hill, London EC4R 0HH

Authorised Corporate Director (ACD)

M&G Securities Limited, Laurence Pountney Hill,
London EC4R 0HH Telephone: 0800 390 390
(Authorised and regulated by the Financial Services Authority)

Directors of the ACD

W J Nott (Chief Executive),
J R Talbot (Director and Secretary),
G N Cotton, C I Jackson, M Lewis,
G W MacDowall, L J Mumford

Investment Manager

M&G Investment Management Limited, Laurence Pountney Hill,
London EC4R 0HH Telephone: 020 7626 4588
(Authorised and regulated by the Financial Services Authority)

Fund managers

The following fund managers are employed by M&G Limited
which is an associate of M&G Securities Limited.

M&G Corporate Bond Fund

Richard Woolnough

M&G Dividend Fund

Alex Odd

M&G Emerging Markets Bond Fund

Mike Riddell

M&G European Corporate Bond Fund

Stefan Isaacs

M&G European High Yield Bond Fund

James Tomlins

M&G Fund of Investment Trust Shares

Richard O'Connor

M&G International Sovereign Bond Fund

Mike Riddell

M&G Recovery Fund

Tom Dobell

M&G Smaller Companies Fund

Louise Nash

M&G UK Select Fund

Mike Felton

Registrar

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

Depository

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

Independent Auditors

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

Customer Services and Administration

M&G Securities Limited,
PO Box 9039, Chelmsford CM99 2XG

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

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.

Note to shareholders

Subject to a successful shareholder vote, on 15 March 2013 the
M&G UK Select Fund will merge into the M&G UK Growth Fund
(a sub-fund of M&G Investment Funds (2)) and will no longer be
available for investment.

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.

FOR EUROPEAN INVESTORS

Copies of the Prospectus and the Interim / Annual Investment
Report and Financial Statements can be obtained from:

For Germany (German branch):

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

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

For Italy:

M&G International Investments Limited,
Laurence Pountney Hill, London EC4R 0HH, UK

Introduction

FOR EUROPEAN INVESTORS

Italian Paying Agents:

Allfunds Bank, S.A.,
Via Santa Margherita 7, 20121 Milano, Italy

Banca Monte dei Paschi di Siena S.p.A.,
Piazza Salimbeni 3, 53100 Siena, Italy

Banca Sella Holding S.p.A.,
Piazza Gaudenzio Sella 1, 13900 Biella, Italy

BNP PARIBAS Securities Services,
Via Ansperto 5, 20123 Milano, Italy

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

For France:

M&G International Investments Limited,
Laurence Pountney Hill, London EC4R 0HH, UK

French Centralising Agent:

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

During the considered semester (or year), the effective proportion of the net assets of the M&G Recovery Fund in PEA eligible assets has permanently been equal to at least 75%.

Swedish Paying Agent:

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

Danish Representative Agent:

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

For the Netherlands, Norway and Finland:

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

AUTHORISED CORPORATE DIRECTOR'S REPORT

The Authorised Corporate Director (ACD) presents its interim investment report and unaudited financial statements for the six months ended 31 December 2012.

The sub-funds in this report are all part of an umbrella Open-Ended Investment Company (OEIC), M&G Investment Funds (3). This OEIC is an Investment Company with Variable Capital (ICVC) incorporated under the Open-Ended Investment Companies Regulations 2001. It is authorised and regulated by the Financial Services Authority (FSA) under the Financial Services and Markets Act 2000. M&G Investment Funds (3), as an umbrella OEIC, contains 10 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 FSA:

M&G Corporate Bond Fund
M&G Dividend Fund
M&G Emerging Markets Bond Fund
M&G European Corporate Bond Fund
M&G European High Yield Bond Fund
M&G Fund of Investment Trust Shares
M&G International Sovereign Bond Fund
M&G Recovery Fund
M&G Smaller Companies Fund
M&G UK Select Fund

The Company was authorised on 8 August 2001 and was launched on 7 March 2002, following the conversion of a series of authorised unit trusts.

The Company's principal activity is to carry on business as an OEIC. The Company is structured as an umbrella company, and different sub-funds may be established by the ACD from time to time with the agreement of the Depositary and approval from the FSA. 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 interim investment report and unaudited financial statements for each sub-fund for the six months ended 31 December 2012 are set out in detail in their section of this report (see contents page).

J R Talbot
Director of M&G Securities Limited

G W MacDowall
Director of M&G Securities Limited

12 February 2013

Aggregated Financial Statements (unaudited)

For the six months ended 31 December 2012.

STATEMENT OF TOTAL RETURN				
	2012		2011	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		948,910		(555,994)
Revenue	303,693		259,974	
Expenses	(98,645)		(84,700)	
Finance costs: Interest	(11)		(11)	
Net revenue before taxation	205,037		175,263	
Taxation	(573)		(109)	
Net revenue after taxation		204,464		175,154
Total return before distributions		1,153,374		(380,840)
Finance costs: Distributions		(196,851)		(170,062)
Change in net assets attributable to shareholders from investment activities		956,523		(550,902)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS				
	2012		2011	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		16,739,456		13,615,816
Amounts received on issue of shares	1,186,340		2,201,788	
Transfer of assets from merged funds	0		749,410	
Amounts paid on cancellation of shares	(1,575,087)		(890,136)	
		(388,747)		2,061,062
Stamp Duty Reserve Tax		(1,926)		(2,443)
Dilution levy		0		154
Change in net assets attributable to shareholders from investment activities (see above)		956,523		(550,902)
Retained distributions on Accumulation shares		77,962		68,577
Unclaimed distributions		115		81
Closing net assets attributable to shareholders		17,383,383		15,192,345

The opening net assets attributable to shareholders for 2012 differs to the closing position in 2011 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

BALANCE SHEET				
	as at 31 December 2012		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		17,267,972		16,626,744
Debtors	189,183		240,729	
Cash and bank balances	48,400		86,444	
Total other assets		237,583		327,173
Total assets		17,505,555		16,953,917
Liabilities				
Investment liabilities		(11,053)		(13,784)
Creditors				
Net distributions payable on Income shares	(58,969)		(94,327)	
Other creditors	(51,715)		(106,350)	
Bank overdraft	(435)		0	
Total other liabilities		(111,119)		(200,677)
Total liabilities		(122,172)		(214,461)
Net assets attributable to shareholders		17,383,383		16,739,456

NOTE TO THE FINANCIAL STATEMENTS

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.

Aggregated Financial Statements (unaudited)

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 Services Authority.

J R TALBOT
G W MACDOWALL } Directors

12 February 2013

M&G Corporate Bond Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective of the M&G Corporate Bond Fund

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

Investment policy of the M&G Corporate Bond Fund

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

Investment approach

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

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

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

Risk and reward profile*



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

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 2 January 2013, for the six months ended 31 December 2012

We adjust the positioning of the M&G Corporate Bond Fund to reflect changes in our outlook regarding interest rates and credit risk (companies' ability to repay their debts).

We started the period with a broadly defensive, or cautious, positioning from a credit risk perspective. Signs that the eurozone crisis had begun to worsen, and had started to affect economic activity outside the region, led us to reduce investments in economically sensitive areas – especially banks – and to increase our allocation to government bonds*. As the period progressed, however, and the near-term threats to global financial stability appeared to ease, we gradually took on more credit risk in the fund. We reduced our weighting in government bonds from around 9% at the beginning of July to less than 5% at the end of the review period, and increased our holdings in bonds issued by financial institutions. Nonetheless, we remained underweight in banks relative to our peer group and continued to be highly selective when lending to firms in the sector.

The change in our interest rate risk positioning between the start and end of the period also reflects our incrementally more positive view on the global outlook. Such positioning is best observed in our adjustment of the fund's duration stance. Duration measures a portfolio's price sensitivity to fluctuations in market interest rates, with a higher duration portfolio benefiting more from a fall in rates, but suffering greater price declines when rates rise (bond prices move inversely to market interest rates, or yields). Although the fund's duration remained short relative to a comparable index, it fell from 7.0 years in July – when the weak economic backdrop suggested interest rates might remain lower than we had previously expected – to 6.4 years at the end of December – when renewed momentum in the US economy appeared to swing the balance back in favour of an earlier pickup in yields.

Richard Woolnough Fund manager

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

* Corporate and government bonds are loans that are extended by an investor to an issuing entity – private sector firms in the case of corporate bonds and governments in the case of government bonds – in exchange for regular interest payments. The issuer promises to pay the holder the initial value of the loan at the end of the bond's life.

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

M&G Corporate Bond Fund

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Third interim	02.04.13	31.05.13
Final	01.07.13	31.08.13
First interim	01.10.13	30.11.13
Second interim	02.01.14	28.02.14

	Interim distribution Inc 28.02.13 ^[a]	Acc 02.01.13 ^[a]	Ongoing Charges Figure ^[b] 31.12.12	30.06.12
Sterling	p	p	%	%
Class 'A'	0.2460	0.3612	1.16	1.16
Class 'I'	0.2840	0.4276	0.66	0.66
Class 'R'	0.7140	0.7168	0.91 ^[c]	n/a
Class 'X'	0.2260	0.3260	1.41	1.41
Euro	€	€	%	%
Class 'A'	n/a	11.9902	1.41	1.40
Class 'C'	n/a	15.4072	0.66	0.66

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

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

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

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

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 31.12.12		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	37.96	56.25	36.00	52.65	+5.44	+6.84
Class 'I'	37.98	57.51	36.01	53.72	+5.47	+7.06
Class 'R'	101.50	102.66	n/a	n/a	n/a	n/a
Class 'X'	37.97	55.04	36.00	51.56	+5.47	+6.75
Euro	€	€	€	€	%	%
Class 'A'	n/a	16.1441	n/a	15.2546	n/a	+5.83
Class 'C'	n/a	16.5755	n/a	15.6031	n/a	+6.23

PERFORMANCE SINCE LAUNCH

	six months 02.07.12 %	one year 03.01.12 %	five years 02.01.08 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+5.1	+9.9	+8.3	+6.8 ^[c]
Class 'I'	+5.3	+10.3	+8.8	+8.9 ^[d]
Class 'R'	n/a	n/a	n/a	+2.1 ^[e]
Class 'X'	+5.0	+9.7	+8.1	+6.6 ^[f]
Euro ^[g]				
Class 'A'	+4.3	+13.4	+6.9	+4.8 ^[h]
Class 'C'	+4.7	+14.3	+7.8	+5.1 ^[h]

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

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

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

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

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

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

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

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

SINGLE YEAR PERFORMANCE (5 YEARS ENDING DECEMBER)

From To	30.12.11 31.12.12 %	31.12.10 30.12.11 %	31.12.09 31.12.10 %	31.12.08 31.12.09 %	31.12.07 31.12.08 %
Sterling					
Class 'A'	+11.3	+8.9	+7.1	+18.2	-1.2

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

M&G Corporate Bond Fund

FUND STATISTICS

PRICES					
	Calendar year	Income shares Highest	Income shares Lowest	Accumulation shares Highest	Accumulation shares Lowest
Sterling (net)					
Class 'A'	2008 ^[a]	p	p	p	p
	2008	30.15	27.22	37.57	34.91
	2009	33.09	27.84	44.12	36.05
	2010	35.37	32.35	48.76	43.55
	2011 ^[b]	35.68	33.22	51.02	46.32
	2012	38.62	35.32	56.87	50.89
	2013 ^[c]	37.74	37.74	55.92	55.92
Class 'I'	2008 ^[a]	30.14	27.24	37.63	35.11
	2009	33.12	27.85	44.55	36.28
	2010	35.42	32.36	49.41	43.99
	2011 ^[b]	35.72	33.24	51.96	47.00
	2012	38.68	35.33	58.14	51.83
	2013 ^[c]	37.75	37.75	57.18	57.18
Class 'R'	2012 ^[d]	103.34	99.29	103.80	99.29
	2013 ^[c]	100.90	100.90	102.08	102.08
Class 'X'	2008 ^[a]	30.14	27.21	37.12	34.44
	2009	33.09	27.83	43.43	35.54
	2010	35.36	32.36	47.92	42.86
	2011 ^[b]	35.67	33.22	50.02	45.49
	2012	38.61	35.33	55.64	49.89
	2013 ^[c]	37.74	37.74	54.72	54.72
Euro (gross)					
Class 'A'	2008 ^[a]	€	€	€	€
	2008	n/a	n/a	11.5180	8.6047
	2009	n/a	n/a	11.4460	8.7929
	2010	n/a	n/a	13.6873	11.1372
	2011 ^[b]	n/a	n/a	14.2073	12.3152
	2012	n/a	n/a	16.5404	14.1904
	2013 ^[c]	n/a	n/a	16.0982	16.0982
Class 'C'	2008 ^[a]	n/a	n/a	11.3572	8.5742
	2009	n/a	n/a	11.4886	8.7669
	2010	n/a	n/a	13.8092	11.1827
	2011 ^[b]	n/a	n/a	14.4782	12.4837
	2012	n/a	n/a	16.9264	14.4621
	2013 ^[c]	n/a	n/a	16.5294	16.5294

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

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

^[c] To 2 January 2013.

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

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

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

INCOME

Interest income per share						
	Calendar year	Interims	Distributed Final	Interim	Total	Reinvested
Sterling (net)						
Class 'A'	2008	p	p	p	p	p
	2008	0.5352	0.2788	0.2860	1.1000	1.3777
	2009	0.5521	0.2860	0.3100	1.1481	1.4987
	2010	0.6160	0.3000	0.3020	1.2180	1.6424
	2011	0.5900	0.2900	0.2840	1.1640	0.6316
	2012	0.5392	0.2620	0.2520	1.0532	1.5236
	2013 ^[a]	0.2460	-	-	0.2460	0.3612
Class 'I'	2008	0.5896	0.3052	0.3144	1.2092	1.5184
	2009	0.6089	0.3160	0.3420	1.2669	1.6628
	2010	0.6820	0.3320	0.3360	1.3500	1.8448
	2011	0.6600	0.3240	0.3200	1.3040	1.8488
	2012	0.6112	0.2980	0.2900	1.1992	1.7656
	2013 ^[a]	0.2840	-	-	0.2840	0.4276
Class 'R'	2012	n/a	n/a	0.4416	0.4416	0.4412
	2013 ^[a]	0.7140	-	-	0.7140	0.7168
Class 'X'	2008	0.5052	0.2636	0.2712	1.0400	1.2869
	2009	0.5246	0.2720	0.2940	1.0906	1.4022
	2010	0.5840	0.2820	0.2840	1.1500	1.5268
	2011	0.5560	0.2740	0.2660	1.0960	1.5072
	2012	0.5040	0.2460	0.2320	0.9820	1.3904
	2013 ^[a]	0.2260	-	-	0.2260	0.3260
Euro (gross)						
Class 'A'	2008	¢	¢	¢	¢	¢
	2008	n/a	n/a	n/a	n/a	43.6640
	2009	n/a	n/a	n/a	n/a	44.4032
	2010	n/a	n/a	n/a	n/a	52.8624
	2011	n/a	n/a	n/a	n/a	50.6087
	2012	n/a	n/a	n/a	n/a	50.4388
	2013 ^[a]	n/a	n/a	n/a	n/a	11.9902
Class 'C'	2008	n/a	n/a	n/a	n/a	54.2380
	2009	n/a	n/a	n/a	n/a	51.5891
	2010	n/a	n/a	n/a	n/a	61.3939
	2011	n/a	n/a	n/a	n/a	60.5233
	2012	n/a	n/a	n/a	n/a	62.8895
	2013 ^[a]	n/a	n/a	n/a	n/a	15.4072

^[a] Up to interim: ex-distribution date 2 January 2013;
payment date 28 February 2013.

M&G Corporate Bond Fund

FUND STATISTICS

NET ASSETS					
	Period ended	Value per share Inc	Acc	Number of shares Inc	Acc
Sterling					
Class 'A'	Jun 2010	33.42	45.79	3,635,288,098	2,160,823,546
	Jun 2011	33.91	48.11	3,369,352,994	2,283,562,546
	Jun 2012	36.00	52.65	4,078,914,994	2,718,625,546
	Dec 2012	37.96	56.25	3,492,910,994	2,752,569,546
Class 'I'	Jun 2010	33.43	46.35	2,714,442,000	128,627,000
	Jun 2011	33.93	48.89	5,333,008,275	106,645,000
	Jun 2012	36.01	53.72	6,819,224,275	198,509,000
	Dec 2012	37.98	57.51	6,630,877,275	254,479,000
Class 'R'	Dec 2012	101.50	102.66	21,000	23,500
Class 'X'					
	Jun 2010	33.42	45.03	2,036,868,907	341,715,357
	Jun 2011	33.92	47.21	1,862,277,907	112,680,357
	Jun 2012	36.00	51.56	1,793,124,907	112,936,357
	Dec 2012	37.97	55.04	1,748,274,907	107,239,357
Euro					
Class 'A'	Jun 2010	n/a	12.9367	n/a	399,647
	Jun 2011	n/a	12.3630	n/a	561,647
	Jun 2012	n/a	15.2546	n/a	3,542,947
	Dec 2012	n/a	16.1441	n/a	3,425,447
Class 'C'	Jun 2010	n/a	13.0366	n/a	36,300
	Jun 2011	n/a	12.5521	n/a	38,500
	Jun 2012	n/a	15.6031	n/a	873,100
	Dec 2012	n/a	16.5755	n/a	662,300

Total net asset value of sub-fund		
Period ended	£	€ [a]
Jun 2010	4,010,665,000	4,904,642,000
Jun 2011	4,794,224,000	5,301,284,000
Jun 2012	6,220,370,000	7,715,147,000
Dec 2012	6,315,733,000	7,743,903,000

[a] Based on the midday exchange rate on the last business day of each accounting period.

PORTFOLIO

PORTFOLIO STATEMENT

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'AAA' credit rated bonds			
£9,500,000 Abbey National Treasury Services 5.125% 2022	11,218	0.18	
£7,860,000 Abbey National Treasury Services FRN 2017	8,138	0.13	
£8,791,194 Alba FRN 2042	9,081	0.14	
£7,514,665 Alba FRN 2051	7,625	0.12	
£16,414,000 Arkle Master Issuer 3.986% 2060	18,012	0.29	
£5,700,000 Arkle Master Issuer 4.681% 2060	6,347	0.10	
£14,085,000 Arran Residential Mtg Fund 1 FRN 2047	14,476	0.23	
£400,000 BL Superstores Finance 4.482% 2030	451	0.01	
£5,857,135 Brass No.1 FRN 2048	5,971	0.10	

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'AAA' credit rated bonds (continued)			
£9,970,000 Broadgate Financing 4.821% 2036	10,941	0.17	
£700,000 Broadgate Financing 4.851% 2033	779	0.01	
£2,043,690 Broadgate Financing 4.949% 2031	2,352	0.04	
£10,700,000 Broadgate Financing FRN 2030	9,683	0.15	
£13,250,000 Channel Tunnel Rail Link 5.234% 2035	16,418	0.26	
£18,340,000 Cie de Financement Foncier 5.5% 2027	21,972	0.35	
£1,179,999 Cumbernauld Funding No.3 4.55% 2014	1,185	0.02	
£640,000 European Coal & Steel Community 6.875% 2019	825	0.01	
£4,000,000 European Investment Bank 3% 2015	4,255	0.07	
£26,000,000 European Investment Bank 3.75% 2027	27,876	0.44	
£10,000,000 European Investment Bank 4.25% 2021	11,575	0.18	
£10,000,000 European Investment Bank 4.5% 2029	11,699	0.19	
£2,500,000 European Investment Bank 4.75% 2018	2,951	0.05	
£29,000,000 European Investment Bank 5.5% 2025	36,998	0.59	
£456,884 First Flexible FRN 2034	420	0.01	
£11,000,000 Fosse Master Issuer Var. Rate 2054	12,203	0.19	
£6,509,000 Gosforth Funding 2012-2 FRN 2049	6,509	0.10	
£10,000,000 Gracechurch Mortgage Financing FRN 2056	10,394	0.16	
£10,000,000 Holmes Master Issuer FRN 2054	10,256	0.16	
£6,759,798 Isobel Finance No.1 FRN 2038	6,760	0.11	
£5,000,000 Kenrick FRN 2043	5,125	0.08	
£30,000,000 KfW 6% 2028	42,815	0.68	
£10,547,000 Lanark Master Issuer FRN 2054	10,971	0.17	
£1,000,000 LCR Finance 4.5% 2028	1,199	0.02	
£47,500,000 Lloyds TSB Bank 5.125% 2025	57,183	0.91	
£1,500,000 Microsoft 5.3% 2041	1,172	0.02	
£3,673,000 Mobil 8.625% 2021	3,391	0.05	
£22,000,000 Permanent Master Issuer 4.805% 2042	24,574	0.39	
£5,450,000 Permanent Master Issuer FRN 2020	5,444	0.09	
£10,000,000 Permanent Master Issuer FRN 2042	10,378	0.16	
£5,000,000 Sandown Gold FRN 2039	5,164	0.08	
£1,273,944 Silk Road Finance No.3 FRN 2055	1,301	0.02	
£5,450,000 Silverstone Master Issuer 5.063% 2055	6,144	0.10	
£10,000,000 Silverstone Master Issuer FRN 2055	10,391	0.16	
£6,834,471 Tenterden Funding FRN 2044	6,862	0.11	
£25,000,000 Treasury 3.25% 2044	25,332	0.40	
£170,000,000 Treasury 3.75% 2052	189,644	3.00	
£2,000,000 Treasury 4% Perp.	2,007	0.03	
£20,000,000 Treasury 4.25% 2049	24,558	0.39	
£20,000,000 Treasury 4.5% 2042	25,484	0.40	
£2,500,000 Wellcome Trust Finance 4.75% 2021	2,942	0.05	
'AA' credit rated bonds			
£5,969,136 Aire Valley Mortgages FRN 2066 1X 2A2	5,584	0.09	
£2,500,000 Aire Valley Mortgages FRN 2066 1X 1B3	2,044	0.03	
£735,684 Aire Valley Mortgages FRN 2066 1X 2A1	690	0.01	
£10,769,607 Aire Valley Mortgages FRN 2066 1A	6,233	0.10	
£1,833,120 Autolink Concessionaires 8.39% 2022	2,266	0.03	
£815,000 Broadgate Financing 4.999% 2033	895	0.01	
£13,333,000 Deutsche Bahn Finance 2.75% 2022	13,724	0.22	
£2,400,000 Federal National Mortgage Association 5.375% 2021	2,886	0.04	

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'AA' credit rated bonds (continued)			
£5,601,000 Federal National Mortgage Association 5.375% 2028	6,854	0.11	
€3,500,000 GE Capital European Funding 6.025% 2038	3,769	0.06	
£9,434,000 GE Capital UK Funding 4.375% 2019	10,248	0.16	
£1,000,000 GE Capital UK Funding 5.125% 2023	1,130	0.02	
£9,000,000 GE Capital UK Funding 5.875% 2020	10,676	0.17	
£3,000,000 GE Capital UK Funding 6.25% 2038	3,715	0.06	
£8,000,000 GE Capital UK Funding 6.75% 2018	9,645	0.15	
£8,500,000 GE Capital UK Funding 8% 2039	12,440	0.20	
£3,000,000 General Electric Capital 4.875% 2037	2,896	0.04	
£3,000,000 General Electric Capital 5.25% 2028	3,396	0.05	
£1,500,000 General Electric Capital 5.375% 2040	1,686	0.03	
£1,000,000 General Electric Capital 5.5% 2021	1,154	0.02	
\$15,000,000 General Electric Capital 5.875% 2038	11,309	0.18	
£14,824,000 General Electric Capital 6.25% 2020	17,917	0.28	
£4,976,109 General Electric Capital 6.44% 2022	5,493	0.09	
£954,000 Great Places Housing Group 4.75% 2042	987	0.01	
£9,483,472 Integrated Accommodation Services 6.48% 2029	12,111	0.19	
£960,000 Investor 5.5% 2037	1,109	0.02	
£1,611,000 Isobel Finance No.1 FRN 2038	1,611	0.02	
£15,175,000 Land Securities Capital Markets Var. Rate 2019	17,214	0.27	
£7,037,000 Land Securities Capital Markets Var. Rate 2022	8,336	0.13	
£12,937,000 Land Securities Capital Markets Var. Rate 2025	15,207	0.24	
£13,110,000 Land Securities Capital Markets Var. Rate 2026	15,686	0.25	
£553,000 Land Securities Capital Markets Var. Rate 2027	670	0.01	
£14,000,000 Land Securities Capital Markets Var. Rate 2027 'A5'	16,970	0.27	
£6,807,000 Mercantile Investment Trust 6.125% 2030	7,572	0.12	
£8,157,000 MetLife Global Funding 3.5% 2026	8,369	0.13	
£4,000,000 MetLife Global Funding 4.625% 2017	3,749	0.06	
£9,240,802 NATS EN Route 5.25% 2026	10,806	0.17	
\$3,030,000 Nordea Bank 4.875% 2021	2,173	0.03	
£2,600,000 Places For People Homes 5.09% 2043	2,957	0.05	
£1,600,000 Places For People Homes 8.625% 2020	2,086	0.03	
£2,600,000 Quadrant Housing Finance Step-Up 2033	3,735	0.06	
£10,000,000 Rabobank Nederland 4% 2022	10,673	0.17	
€2,763,000 Rabobank Nederland Var. Rate 2035	2,215	0.04	
£12,000,000 Reseau Ferre de France 4.83% 2060	12,564	0.20	
£10,000,000 Reseau Ferre de France 5% 2052	10,771	0.17	
£15,000,000 Reseau Ferre de France 5.25% 2028	17,675	0.28	
£7,000,000 Reseau Ferre de France 5.25% 2035	7,960	0.13	
£22,000,000 Reseau Ferre de France 5.5% 2021	26,444	0.42	
\$25,000,000 Roche Holdings 7% 2039	23,388	0.37	
£3,650,000 RSL Finance No.1 6.625% 2038	4,860	0.08	
£4,000,000 Sanctuary Capital 6.697% 2039	5,674	0.09	
£1,800,000 Scotland Gas Networks 4.75% 2017	1,989	0.03	
\$5,000,000 Shell International Finance 6.375% 2038	4,391	0.07	
£4,770,000 SLM Student Loan Trust 5.15% 2039	4,055	0.06	
£20,000,000 Société Nationale des Chemins de Fer Français 5.375% 2027	22,951	0.36	
\$1,398,000 Svenska Handelsbanken 5.125% 2020	1,016	0.02	

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'AA' credit rated bonds (continued)			
£2,939,711 Telereal Securitisation 5.5534% 2033	3,566	0.06	
£4,899,550 Telereal Securitisation 5.9478% 2033	6,110	0.10	
£31,000,000 Transport for London 2.25% 2022	30,344	0.48	
£17,500,000 Transport for London 3.875% 2042	17,635	0.28	
£413,000 Unite USAF FRN 2017	406	0.01	
£11,000,000 Wal-Mart Stores 4.875% 2039	12,635	0.20	
£15,200,000 Wal-Mart Stores 5.25% 2035	18,290	0.29	
£30,000,000 Wal-Mart Stores 5.625% 2034	38,379	0.61	
\$35,000,000 Wal-Mart Stores 5.625% 2040	28,140	0.45	
£3,000,000 Wal-Mart Stores 5.75% 2030	3,869	0.06	
\$7,250,000 Wal-Mart Stores 6.2% 2038	6,116	0.10	
\$9,000,000 Wal-Mart Stores 6.5% 2037	7,881	0.12	
£1,900,000 Witan Investment Trust 6.125% 2025	2,355	0.04	
£15,000,000 Yorkshire Building Society 4.75% 2018	16,917	0.27	
£16,016,000 Yorkshire Building Society FRN 2016	16,342	0.26	
		34.88	32.86
'A' credit rated bonds			
\$7,500,000 ABN Amro Bank 4.25% 2017	5,058	0.08	
£8,000,000 Aegon 6.625% 2039	9,672	0.15	
£3,009,724 Aire Valley Mortgages FRN 2066 1X 2A3	2,769	0.04	
\$3,790,584 Aire Valley Mortgages FRN 2066 1A 2A1	2,193	0.04	
€10,100,000 Allianz Var. Rate 2042	9,282	0.15	
£5,000,000 America Movil 4.375% 2041	4,934	0.08	
£5,500,000 America Movil 5% 2026	6,376	0.10	
£1,500,000 American International Group 6.765% 2017	1,757	0.03	
£5,000,000 Amgen 4% 2029	5,012	0.08	
\$11,000,000 Amgen 5.375% 2043	8,056	0.13	
£34,000,000 Amgen 5.5% 2026	40,744	0.65	
£4,804,000 Anglian Water Services Financing 5.837% 2022	5,864	0.09	
£13,500,000 Anheuser-Busch InBev 9.75% 2024	21,646	0.34	
£2,000,000 Annington Finance No.4 Var. Rate 2023	2,149	0.03	
£2,400,000 ASIF II 6.375% 2020	2,882	0.05	
€899,000 ASIF III Jersey 4.75% 2013	752	0.01	
£10,974,000 ASIF III Jersey 5% 2018	12,208	0.19	
£7,000,000 ASIF III Jersey 5.375% 2016	7,770	0.12	
\$7,942,000 AT&T 4.3% 2042	4,996	0.08	
£52,000,000 AT&T 4.875% 2044	54,429	0.86	
\$2,150,000 AT&T 5.35% 2040	1,552	0.03	
\$10,500,000 AT&T 5.55% 2041	7,835	0.12	
\$5,418,000 AT&T 6.5% 2037	4,368	0.07	
\$10,000,000 AT&T 6.55% 2039	8,165	0.13	
£5,570,000 Australia & New Zealand Banking Group Var. Rate 2018	5,662	0.09	
£1,150,000 AWG Step-Up 2014	1,268	0.02	
£12,770,000 AWG Step-Up 2023	16,966	0.27	
£1,550,000 AWG Step-Up 2029	2,105	0.03	
£29,000,000 Bank of America 6.125% 2021	34,085	0.54	
£1,100,000 Bank of America 7% 2028	1,430	0.02	
£5,000,000 Bank of America NA FRN 2016	2,953	0.05	
£3,400,000 Bank of Scotland 2.64% IL 2020	5,077	0.08	
£4,000,000 Barclays Bank 9.5% 2021	5,247	0.08	
£9,000,000 BAT International Finance 6% 2022	11,163	0.18	
£2,500,000 BAT International Finance 6.375% 2019	3,118	0.05	
£5,000,000 BAT International Finance 7.25% 2024	6,758	0.11	
\$12,000,000 BAT International Finance 9.5% 2018	10,344	0.16	
\$2,000,000 BG Energy Capital 4% 2020	1,364	0.02	
£29,000,000 BG Energy Capital 5.125% 2025	34,263	0.54	
£4,250,000 BHP Billiton Finance 3.25% 2024	4,242	0.07	
£2,820,000 BL Superstores Finance 5.27% 2030	3,112	0.05	

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'A' credit rated bonds (continued)			
£7,000,000 BNP Paribas 3.5% 2016	7,401	0.12	
£6,000,000 BUPA Finance 7.5% 2016	6,973	0.11	
£4,270,880 Canary Wharf Finance II 6.455% 2033	5,342	0.08	
£14,100,000 Centrica 6.375% 2022	17,897	0.28	
£4,000,000 Centrica 6.4% 2026	5,195	0.08	
£16,390,000 Centrica 7% 2018	20,531	0.33	
\$2,000,000 Citigroup FRN 2018	1,247	0.02	
£4,000,000 Close Brothers Group 6.5% 2017	4,321	0.07	
€1,000,000 Cloverie (Zurich Ins) Var. Rate 2039	994	0.02	
£3,864,000 Coventry Building Society 5.875% 2022	4,585	0.07	
£4,120,000 Coventry Building Society 6% 2019	4,852	0.08	
£15,000,000 Daimler International Finance 3.5% 2019	15,721	0.25	
\$7,500,000 DBS Bank Var. Rate 2022	4,894	0.08	
£6,250,000 Delamare Finance 5.5457% 2029	7,102	0.11	
£9,000,000 DNB Bank 4.25% 2020	10,060	0.16	
£12,148,000 DNB Bank Var. Rate 2018	12,163	0.19	
£9,418,000 DNB Bank Var. Rate 2020	10,292	0.16	
£20,000,000 DWR Cymru Financing 6.907% 2021	25,791	0.41	
€2,172,552 Eddystone Finance FRN 2021	1,683	0.03	
£7,500,000 Eddystone Finance FRN 2021 1 A2	6,938	0.11	
£50,000 Eddystone Finance FRN 2021 1 B	43	0.00	
£1,000,000 EDF 5.125% 2050	1,003	0.02	
£12,000,000 EDF 5.5% 2037	13,146	0.21	
£50,000,000 EDF 5.5% 2041	54,583	0.86	
£37,000,000 EDF 6.125% 2034	44,525	0.71	
£8,000,000 EDF 6.875% 2022	10,254	0.16	
£12,650,000 ELM for Swiss Reinsurance Var. Rate Perp.	13,030	0.21	
£9,100,000 Eni Coordination Centre 4.75% 2021	9,592	0.15	
£5,000,000 Eni Coordination Centre 6.125% 2018	5,814	0.09	
£1,000,000 Eurosail FRN 2045	760	0.01	
£22,900,000 Experian Finance 4.75% 2018	25,619	0.41	
£3,300,000 Experian Finance 5.625% 2013	3,429	0.05	
£4,500,000 France Telecom 5.25% 2025	5,114	0.08	
\$5,000,000 France Telecom 5.375% 2042	3,578	0.06	
£3,000,000 France Telecom 5.375% 2050	3,142	0.05	
£8,250,000 France Telecom 7.25% 2020	10,559	0.17	
£5,000,000 France Telecom 8% 2017	6,255	0.10	
£5,000,000 France Telecom 8.125% 2028	7,206	0.11	
£9,500,000 France Telecom 8.125% 2033	12,226	0.19	
€15,753,000 GDF Suez 5.95% 2111	13,705	0.22	
\$3,500,000 GlaxoSmithKline Capital 2.85% 2022	2,248	0.04	
£35,862,000 GlaxoSmithKline Capital 3.375% 2027	35,785	0.57	
£14,118,000 Goldman Sachs Group 7.125% 2025	18,246	0.29	
£1,500,000 Goldman Sachs Group 7.25% 2028	1,963	0.03	
£11,425,345 Granite Master Issuer FRN 2054 05-1 A6	11,193	0.18	
£3,000,000 Granite Master Issuer FRN 2054 05-1 B3	2,786	0.04	
£4,850,000 Granite Master Issuer FRN 2054 05-1 M3	4,220	0.07	
£3,965,183 Granite Master Issuer FRN 2054 05-2 A7	3,900	0.06	
£2,000,000 Granite Master Issuer FRN 2054 05-2 M3	1,740	0.03	
£1,500,000 Granite Master Issuer FRN 2054 05-4 B3	1,393	0.02	
£2,500,000 Granite Master Issuer FRN 2054 05-4 B4	1,896	0.03	

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'A' credit rated bonds (continued)			
£1,900,000 Granite Master Issuer FRN 2054 05-4 M3	1,700	0.03	
£7,639,255 Granite Master Issuer FRN 2054 06-1 A8	7,484	0.12	
£1,150,000 Granite Master Issuer FRN 2054 06-1 B3	1,068	0.02	
\$6,600,000 Granite Master Issuer FRN 2054 06-1 M2	3,644	0.06	
€1,000,000 Granite Master Issuer FRN 2054 06-1X B4	754	0.01	
£3,000,000 Granite Master Issuer FRN 2054 06-1X M3	2,610	0.04	
£850,000 Granite Master Issuer FRN 2054 06-2 M4	740	0.01	
\$9,500,000 Granite Master Issuer FRN 2054 06-3 B2	5,347	0.08	
\$9,000,000 Granite Master Issuer FRN 2054 06-3 M2	4,857	0.08	
£5,551,256 Granite Master Issuer FRN 2054 06-4 A8	5,439	0.09	
\$1,000,000 Granite Master Issuer FRN 2054 06-4 B1	563	0.01	
\$4,596,000 Granite Master Issuer FRN 2054 07-1 1B1	2,587	0.04	
\$2,500,000 Granite Master Issuer FRN 2054 07-1 1M1	1,380	0.02	
€4,006,000 Granite Master Issuer FRN 2054 07-1 3B1	3,022	0.05	
£2,300,000 Granite Master Issuer FRN 2054 07-1 3M2	2,057	0.03	
£6,344,293 Granite Master Issuer FRN 2054 07-1 5A1	6,216	0.10	
£15,034,651 Granite Master Issuer FRN 2054 07-1 6A1	14,786	0.23	
\$2,500,000 Granite Master Issuer FRN 2054 07-1 M1	1,349	0.02	
€1,100,000 Granite Master Issuer FRN 2054 07-2 3B2	830	0.01	
£1,800,000 Granite Master Issuer FRN 2054 07-2 3M3	1,610	0.03	
£7,654,455 Granite Master Issuer FRN 2054 07-2 4A2	7,499	0.12	
\$1,250,000 Granite Master Issuer FRN 2054 07-2 M1	690	0.01	
\$480,011 Granite Mortgages FRN 2043 03-2 1C	241	0.00	
€320,008 Granite Mortgages FRN 2043 03-2 2M	240	0.00	
€2,000,000 Granite Mortgages FRN 2044 04-1 2C	1,465	0.02	
€2,500,000 Granite Mortgages FRN 2044 04-1 2M	1,916	0.03	
£1,400,402 Granite Mortgages FRN 2044 04-1 3A	1,379	0.02	
£2,000,000 Granite Mortgages FRN 2044 04-2 3C	1,690	0.03	
£10,157,469 Granite Mortgages FRN 2044 04-3 3A2	9,996	0.16	
£6,310,609 Granite Mortgages Var. Rate 2043	6,247	0.10	
\$5,418,388 Great Hall Mortgages FRN 2039	2,982	0.05	
£2,606,764 Greene King Finance 5.318% 2031	2,648	0.04	
\$1,000,000 GTE Southwest 8.5% 2031	860	0.01	
£14,471,000 Hammerson 6% 2026	17,393	0.28	
£4,496,000 Hammerson 6.875% 2020	5,536	0.09	
£6,000,000 Hammerson 7.25% 2028	7,912	0.13	
€2,500,000 Hannover Finance Luxembourg Var. Rate 2024	2,127	0.03	
€5,000,000 Hannover Finance Luxembourg Var. Rate 2040	4,682	0.07	
£700,000 Hannover Finance Luxembourg Var. Rate 2043	626	0.01	
£3,000,000 Heathrow Funding (formerly BAA Funding) 3.334% IL 2041	4,244	0.07	
£20,250,000 Heathrow Funding (formerly BAA Funding) 5.225% 2025	23,399	0.37	

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'A' credit rated bonds (continued)			
£1,250,000 Heathrow Funding (formerly BAA Funding) 5.875% 2043	1,470	0.02	
£16,000,000 Heathrow Funding (formerly BAA Funding) 6.75% 2028	20,957	0.33	
£10,353,000 Heathrow Funding (formerly BAA Funding) 7.075% 2028	13,797	0.22	
£8,500,000 Heathrow Funding (formerly BAA Funding) 9.2% 2023	12,020	0.19	
£9,500,000 Heathrow Funding (formerly BAA Funding) 12.45% 2016	12,493	0.20	
£600,000 HSBC Bank 4.75% 2046	579	0.01	
£1,500,000 HSBC Bank 5.375% 2033	1,657	0.03	
£1,607,000 HSBC Bank 6.5% 2023	1,978	0.03	
£23,000,000 HSBC Bank Var. Rate 2020	23,579	0.37	
£12,500,000 HSBC Bank Var. Rate 2023	13,314	0.21	
£19,000,000 HSBC Bank Var. Rate 2030	20,111	0.32	
£1,544,000 HSBC Holdings 5.75% 2027	1,741	0.03	
£3,000,000 HSBC Holdings 6% 2040	3,537	0.06	
£6,700,000 HSBC Holdings 6.75% 2028	8,343	0.13	
£7,050,000 HSBC Holdings 7% 2038	9,151	0.14	
£29,000,000 HSBC Holdings Var. Rate 2022	32,182	0.51	
£5,500,000 Hutchison Ports UK Finance 6.75% 2015	6,267	0.10	
\$5,000,000 ING Bank 3.75% 2017	3,285	0.05	
£10,500,000 Italy (Republic of) 6% 2028	10,400	0.16	
£35,357,000 JPMorgan Chase 3.5% 2026	35,002	0.55	
\$15,000,000 JPMorgan Chase 4.4% 2020	10,435	0.17	
\$3,000,000 JPMorgan Chase 6.3% 2019	2,287	0.04	
£4,950,000 JPMorgan Chase Var. Rate 2017	4,603	0.07	
€5,000,000 JPMorgan Chase Var. Rate 2019	4,085	0.06	
£19,000,000 JPMorgan Chase Bank 5.375% 2016	21,076	0.33	
€4,000,000 JPMorgan Chase Bank Var. Rate 2021	3,446	0.05	
£3,431,810 Juturna European Loan Conduit No.16 5.0636% 2033	3,792	0.06	
£20,202,000 La Poste 5.625% 2016	22,714	0.36	
£3,000,000 Leo-Mesdag FRN 2019	2,080	0.03	
£24,000,000 Lloyds TSB Bank 7.5% 2024	31,880	0.50	
£5,902,000 London Merchant Securities 6.5% 2026	7,131	0.11	
£5,300,000 London Stock Exchange Group 9.125% 2019	6,932	0.11	
£1,750,000 Longstone Finance 4.896% 2036	1,731	0.03	
£885,000 Marstons Issuer Var. Rate 2027	901	0.01	
£2,000,000 Marstons Issuer Var. Rate 2032	1,836	0.03	
£11,500,000 McDonald's 6.375% 2020	14,642	0.23	
£4,881,520 Mitchells & Butlers Finance 5.574% 2030	5,352	0.08	
£1,276,941 Mitchells & Butlers Finance 5.965% 2025	1,371	0.02	
£1,400,000 Mitchells & Butlers Finance 6.013% 2030	1,498	0.02	
£1,850,000 Mitchells & Butlers Finance FRN 2033	1,161	0.02	
€2,000,000 Morgan Stanley 3.75% 2017	1,739	0.03	
€17,000,000 Morgan Stanley 5.375% 2020	15,722	0.25	
£2,470,000 Morgan Stanley 5.75% 2017	2,721	0.04	
€13,250,000 Morgan Stanley FRN 2016	10,267	0.16	
€1,000,000 Morgan Stanley FRN 2017	765	0.01	
£2,550,175 Mortgages FRN 2038	2,382	0.04	
£22,220,000 Motability Operations Group 6.625% 2019	28,052	0.44	
£13,000,000 Muenchener Rueckversicherung Var. Rate 2028	15,587	0.25	

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'A' credit rated bonds (continued)			
€4,000,000 Muenchener Rueckversicherung Var. Rate 2041	3,895	0.06	
£11,000,000 Muenchener Rueckversicherung Var. Rate 2042	12,930	0.20	
£3,500,000 National Grid Electricity Transmission 2.983% IL 2018	5,710	0.09	
£2,500,000 National Grid Electricity Transmission 3.806% IL 2020	4,410	0.07	
£17,000,000 National Grid Electricity Transmission 4% 2027	17,392	0.28	
\$6,750,000 Nationwide Building Society 6.25% 2020	4,952	0.08	
£3,613,000 Nationwide Building Society 8.625% 2018	4,310	0.07	
£3,490,367 Newgate Funding FRN 2050	3,346	0.05	
£2,590,000 Northern Electric Finance 8.875% 2020	3,625	0.06	
£3,750,000 Northern Powergrid Yorkshire 4.375% 2032	3,857	0.06	
£247,327 Opera Finance FRN 2017	241	0.00	
£3,600,000 PepsiCo 2.5% 2022	3,581	0.06	
£224,993 PICTS 5.218% 2039	205	0.00	
€4,000,000 Principal Financial Global Funding II 4.5% 2017	3,614	0.06	
£2,530,000 Province of Quebec Canada 12.25% 2020	4,233	0.07	
£6,850,000 Rabobank Nederland Var. Rate Perp.	6,857	0.11	
£6,200,000 Rio Tinto Finance 4% 2029	6,271	0.10	
€316,545 RMAC FRN 2037	242	0.00	
£1,255,163 RMAC Securities FRN 2044	1,134	0.02	
£10,000,000 Rolls-Royce 6.75% 2019	12,525	0.20	
\$4,318,000 Royal Bank of Scotland 5% 2015	2,852	0.05	
€8,187,000 Royal Bank of Scotland 5.375% 2019	7,915	0.13	
£2,000,000 Royal Bank of Scotland 6.375% 2028	2,383	0.04	
£21,500,000 RSA Insurance Group Var. Rate 2039	27,474	0.44	
£2,000,000 RSA Insurance Group Var. Rate Perp.	2,180	0.03	
£391,882 Sandwell Commercial Finance FRN 2037	343	0.01	
£3,550,000 Santander UK 6.5% 2015	3,825	0.06	
£3,500,000 Scottish & Southern Energy 5% 2018	4,003	0.06	
£1,500,000 Scottish & Southern Energy 8.375% 2028	2,297	0.04	
£1,000,000 Segro 5.25% 2015	1,080	0.02	
£16,450,000 Segro 5.625% 2020	18,704	0.30	
£15,000,000 Segro 6% 2019	17,487	0.28	
£14,000,000 Segro 6.75% 2021	16,982	0.27	
£4,957,000 Segro 6.75% 2024	6,061	0.10	
£1,500,000 Segro 7% 2022	1,849	0.03	
€2,000,000 Snam 5% 2019	1,848	0.03	
€5,000,000 Society of Lloyd's Var. Rate 2024	4,086	0.06	
£9,000,000 Society of Lloyd's Var. Rate 2025	9,561	0.15	
£13,177,000 Southern Water Services Finance 5% 2021	14,597	0.23	
£14,955,000 Southern Water Services Finance 6.125% 2019	17,521	0.28	
£145,000 SPI Electricity & Gas Australia Holdings 7.125% 2018	178	0.00	
€4,000,000 Standard Chartered Bank 5.875% 2017	3,808	0.06	
\$3,750,000 Standard Chartered Bank 6.4% 2017	2,665	0.04	
£8,550,000 Standard Chartered Bank 7.75% 2018	10,440	0.17	
£1,000,000 Standard Chartered Bank Var. Rate Perp.	1,112	0.02	
£2,690,000 Standard Life Var. Rate Perp. (6.546%)	2,836	0.04	
£5,500,000 Standard Life Var. Rate Perp. (6.75%)	5,814	0.09	
£2,500,000 Suncorp Insurance Funding Var. Rate 2027	2,488	0.04	
£3,000,000 Suncorp-Metway 5.125% 2014	3,150	0.05	
£1,100,000 Swiss Re Capital I LP Var. Rate Perp.	704	0.01	
£700,000 Tesco 4% IL 2016	1,155	0.02	

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'A' credit rated bonds (continued)			
£540,000 Tesco 5% 2023	607	0.01	
£2,500,000 Tesco 5.2% 2057	2,588	0.04	
£2,000,000 Tesco 5.5% 2019	2,322	0.04	
£27,500,000 Tesco 6.125% 2022	33,305	0.53	
£2,409,549 Tesco Property Finance 2 6.0517% 2039	2,795	0.04	
£26,835,684 Tesco Property Finance 3 5.744% 2040	29,277	0.46	
£13,424,215 Tesco Property Finance 4 5.8006% 2040	14,758	0.23	
£19,919,615 Tesco Property Finance 5 5.6611% 2041	21,563	0.34	
£5,333,000 Thames Water Utilities Cayman 4.375% 2034	5,551	0.09	
£8,534,000 Thames Water Utilities Cayman 4.625% 2046	8,620	0.14	
£20,000,000 Thames Water Utilities Cayman 7.241% 2058	24,340	0.39	
£3,727,000 Thames Water Utilities Finance 3.375% IL 2021	6,422	0.10	
£4,378,000 Thames Water Utilities Finance 5.125% 2037	4,927	0.08	
£600,000 Thames Water Utilities Finance 6.5% 2032	785	0.01	
£10,800,000 Thames Water Utilities Finance 6.75% 2028	14,646	0.23	
£12,016,000 THFC Funding No.3 5.2% 2043	13,118	0.21	
£522,842 Trafford Centre Finance FRN 2015	508	0.01	
£5,400,000 Trafford Centre Finance FRN 2038	4,215	0.07	
£11,726,000 UBS London 6.375% 2016	13,571	0.21	
£1,000,000 UBS London 6.625% 2018	1,216	0.02	
\$1,500,000 UBS NY 5.75% 2018	1,099	0.02	
\$2,500,000 UBS NY 5.875% 2017	1,838	0.03	
\$2,500,000 United Parcel Service 6.2% 2038	2,096	0.03	
\$3,500,000 Verizon Communications 5.85% 2035	2,711	0.04	
\$2,000,000 Verizon Communications 6.9% 2038	1,756	0.03	
\$1,000,000 Verizon Maryland 5.125% 2033	651	0.01	
\$6,000,000 Verizon New Jersey 7.85% 2029	4,921	0.08	
\$2,000,000 Verizon New York 7.375% 2032	1,619	0.03	
\$5,000,000 Verizon Pennsylvania 8.35% 2030	4,256	0.07	
£7,742,000 Verizon Wireless Capital 8.875% 2018	10,557	0.17	
£38,000,000 Vodafone Group 8.125% 2018	50,170	0.79	
€1,000,000 Wachovia 4.375% 2018	905	0.01	
£7,935,000 Wales & West Utilities Finance 4.625% 2023	8,894	0.14	
£8,000,000 Wales & West Utilities Finance 5% 2028	9,053	0.14	
£4,500,000 Wales & West Utilities Finance 5.75% 2030	5,463	0.09	
£287,000 Wales & West Utilities Finance 6.25% 2021	357	0.01	
£8,900,000 Wells Fargo 4.875% 2035	9,011	0.14	
£34,500,000 Wells Fargo Bank NA 5.25% 2023	39,140	0.62	
£3,152,781 White City Property Finance 5.1202% 2035	3,447	0.05	
£10,000,000 Yorkshire Water Services Bradford Finance 6% 2019	12,029	0.19	
£5,662,000 Yorkshire Water Services Odsal Finance 6.5876% 2023	7,367	0.12	
£6,420,000 Zurich Finance Var. Rate Perp.	6,942	0.11	
'BBB' credit rated bonds			
£1,000,000 3i Group 5.75% 2032	961	0.01	
£1,400,000 3i Group 6.875% 2023	1,594	0.02	
		34.26	31.98

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'BBB' credit rated bonds (continued)			
£9,500,000 Ahold Finance 6.5% 2017	11,038	0.17	
£14,500,000 Akzo Nobel 8% 2016	17,155	0.27	
\$2,500,000 Altria Group 9.95% 2038	2,543	0.04	
\$10,000,000 Altria Group 10.2% 2039	10,393	0.16	
£6,650,000 Anglian Water Services Financing Var. Rate 2024	6,996	0.11	
£419,000 Anglian Water Services Financing Var. Rate 2040	458	0.01	
£4,100,000 APT Pipelines 4.25% 2024	4,182	0.07	
£11,500,000 Aspire Defence Finance 4.674% 2040 'A'	11,936	0.19	
£9,000,000 Aspire Defence Finance 4.674% 2040 'B'	9,349	0.15	
€1,300,000 Assicurazioni Generali Var. Rate 2042	1,128	0.02	
£5,950,000 Assicurazioni Generali Var. Rate Perp. (6.269%)	4,420	0.07	
£7,950,000 Assicurazioni Generali Var. Rate Perp. (6.416%)	6,143	0.10	
£400,000 Atlantia 6.25% 2022	436	0.01	
£18,000,000 Aviva Var. Rate 2036	18,710	0.30	
€4,750,000 Aviva Var. Rate 2038	4,218	0.07	
£10,584,000 Aviva Var. Rate 2041	11,022	0.17	
£11,500,000 Aviva Var. Rate 2058	12,138	0.19	
£19,350,000 Aviva Var. Rate Perp.	18,161	0.29	
£11,500,000 AXA 4.125% 2022	11,939	0.19	
£4,000,000 AXA 7.125% 2020	4,588	0.07	
£14,630,000 AXA Var. Rate Perp. (6.6862%)	13,464	0.21	
£5,378,000 AXA Var. Rate Perp. (6.772%)	5,137	0.08	
£8,500,000 BAE Systems 10.75% 2014	9,903	0.16	
€4,000,000 Bank of America Var. Rate 2017	3,001	0.05	
€4,000,000 Bank of America Var. Rate 2018	3,055	0.05	
£5,000,000 Bank of Scotland 6.375% 2019	5,304	0.08	
£3,000,000 Barclays Bank 5.75% 2026	3,188	0.05	
€5,000,000 Barclays Bank 6% 2021	4,608	0.07	
£5,150,000 Barclays Bank Var. Rate 2023	5,514	0.09	
£4,722,000 Barclays SLCSM Funding (formerly Standard Life Funding) Var. Rate Perp.	4,520	0.07	
€10,000,000 Bayer Var. Rate 2105	8,602	0.14	
£23,000,000 BG Energy Capital Var. Rate 2072	24,781	0.39	
£700,000 Birmingham Airport Finance 6.25% 2021	776	0.01	
€1,080,000 Bord Gáis Éireann 3.625% 2017	924	0.01	
£10,000,000 Bouygues 5.5% 2026	11,039	0.17	
£1,000,000 British Sky Broadcasting 6% 2027	1,220	0.02	
\$3,000,000 British Sky Broadcasting 6.1% 2018	2,218	0.03	
\$2,000,000 British Sky Broadcasting 9.5% 2018	1,722	0.03	
£6,264,000 British Telecommunications 3.5% IL 2025	11,430	0.18	
£3,000,000 British Telecommunications 5.75% 2028	3,546	0.06	
£7,500,000 British Telecommunications 6.375% 2037	9,251	0.15	
£28,500,000 British Telecommunications 8.5% 2016	35,373	0.56	
£4,000,000 British Telecommunications 8.625% 2020	5,415	0.08	
£10,000,000 BSkyB Finance UK 5.75% 2017	11,599	0.18	
£7,550,000 Carlsberg Breweries 7.25% 2016	9,040	0.14	
\$5,000,000 CBS 7.875% 2030	4,274	0.07	
£24,000,000 Central Networks West 6% 2025	29,455	0.47	
£4,500,000 Channel Link Enterprises Finance FRN 2050	4,247	0.07	
£1,402,000 Citigroup 4.5% 2031	1,254	0.02	
£6,000,000 Citigroup 5.125% 2018	6,382	0.10	
£8,500,000 Citigroup 5.875% 2024	9,227	0.15	
€2,000,000 Citigroup Var. Rate 2030	1,490	0.02	

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'BBB' credit rated bonds (continued)			
\$1,000,000 Comcast 6.45% 2037	795	0.01	
€3,000,000 Comcast 6.5% 2035	2,379	0.04	
€3,500,000 Commerzbank 6.375% 2019	3,012	0.05	
£3,590,000 Commerzbank 6.625% 2019	3,721	0.06	
£3,824,000 Co-Operative Bank 5.875% 2033	3,022	0.05	
£5,520,000 Co-Operative Bank 7.875% 2022	5,696	0.09	
£12,000,000 CPMK Finance 7.239% 2042	13,914	0.22	
£11,000,000 Credit Agricole 7.375% 2023	12,503	0.20	
\$3,000,000 CVS Caremark 6.125% 2039	2,377	0.04	
\$2,000,000 Deutsche Telekom 4.875% 2042	1,298	0.02	
£45,900,000 Deutsche Telekom 6.5% 2022	57,456	0.91	
£2,500,000 Deutsche Telekom 7.625% 2030	3,522	0.05	
\$6,000,000 Deutsche Telekom 8.75% 2030	5,535	0.09	
£16,250,000 Deutsche Telekom 8.875% 2028	24,949	0.40	
£7,100,000 DIRECTV Holdings 4.375% 2029	7,112	0.11	
£5,200,000 Eastern Power Networks (formerly EDF Energy Networks) 4.75% 2021	5,779	0.09	
£442,000 EDF Energy Networks 5.125% 2023	510	0.01	
£9,197,000 EDF Energy Networks 5.375% 2016	10,291	0.16	
£6,176,000 EDF Energy Networks 5.5% 2026	7,306	0.11	
£12,600,000 EDF Energy Networks 6.375% 2031	15,854	0.25	
£6,795,000 EnBW Energie Baden-Wuerttemberg Var. Rate 2072	6,187	0.10	
£4,000,000 Enel 5.75% 2037	3,656	0.06	
£1,750,000 Enel 6.25% 2019	1,904	0.03	
£5,000,000 Enel Finance International 5.625% 2024	5,096	0.08	
£6,500,000 Enel Finance International 5.75% 2040	5,909	0.09	
\$13,500,000 Enel Finance International 6% 2039	8,105	0.13	
\$7,000,000 Enel Finance International 6.25% 2017	4,821	0.08	
£132,000 ENW Finance 6.125% 2021	158	0.00	
€5,000,000 Eutelsat 5% 2019	4,780	0.07	
£6,000,000 Eversholt Funding 5.831% 2020	7,050	0.11	
£13,113,000 Eversholt Funding 6.359% 2025	16,203	0.26	
£6,500,000 Eversholt Funding 6.697% 2035	8,202	0.13	
£8,000,000 Fidelity International 6.75% 2020	8,870	0.14	
£6,226,000 Finmeccanica Finance 8% 2019	6,830	0.11	
£8,000,000 Firstgroup 6.875% 2024	8,820	0.14	
£10,000,000 Firstgroup 8.125% 2018	11,752	0.19	
£5,000,000 Friends Life Group 8.25% 2022	5,424	0.08	
£12,000,000 G4S 7.75% 2019	14,727	0.23	
£20,000,000 Gatwick Funding 5.25% 2026	22,561	0.36	
£18,000,000 Gatwick Funding 6.125% 2028	22,028	0.35	
£9,250,000 Go-Ahead Group 5.375% 2017	10,109	0.16	
£3,000,000 Goldman Sachs Group 5.5% 2021	3,158	0.05	
£8,650,000 Goldman Sachs Group 6.125% 2017	9,435	0.15	
£5,500,000 Goldman Sachs Group 6.875% 2038	6,018	0.09	
£3,900,000 Granite Master Issuer FRN 2054 02-1 C3	2,576	0.04	
£1,500,000 Granite Master Issuer FRN 2054 02-1 C3	1,211	0.02	
£582,000 Granite Master Issuer FRN 2054 02-4 C3	470	0.01	
£5,700,000 Granite Master Issuer FRN 2054 05-2 C2	3,765	0.06	
\$1,614,307 Granite Master Issuer FRN 2054 05-4 C2	804	0.01	
£5,700,000 Granite Master Issuer FRN 2054 05-4 C4	3,766	0.06	
\$2,000,000 Granite Master Issuer FRN 2054 06-1 C2	996	0.01	

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'BBB' credit rated bonds (continued)			
\$5,750,000 Granite Master Issuer FRN 2054 06-1A	2,863	0.04	
\$5,000,000 Granite Master Issuer FRN 2054 06-1X C2	2,587	0.04	
£1,300,000 Granite Master Issuer FRN 2054 06-1X C3	1,050	0.02	
£2,000,000 Granite Master Issuer FRN 2054 06-1X C4	1,321	0.02	
£364,000 Granite Master Issuer FRN 2054 06-2 C3	294	0.00	
\$5,000,000 Granite Master Issuer FRN 2054 06-3 C2	2,490	0.04	
€1,500,000 Granite Master Issuer FRN 2054 06-3 C3	991	0.01	
\$5,000,000 Granite Master Issuer FRN 2054 07-1 1C1	2,490	0.04	
\$2,500,000 Granite Master Issuer FRN 2054 07-1 2C1	1,245	0.02	
€1,000,000 Granite Master Issuer FRN 2054 07-1 2C2	661	0.01	
€21,727,000 Granite Master Issuer FRN 2054 07-1 3C1	14,353	0.23	
£3,300,000 Granite Master Issuer FRN 2054 07-1 3C2	2,665	0.04	
\$3,500,000 Granite Master Issuer FRN 2054 07-2 2C1	1,743	0.03	
€1,000,000 Granite Master Issuer FRN 2054 07-2 2C2	661	0.01	
€7,500,000 Granite Master Issuer FRN 2054 07-2 3C2	4,955	0.08	
£6,000,000 Granite Master Issuer FRN 2054 07-2 3C3	4,845	0.08	
£5,000,000 Great Rolling Stock 6.25% 2020	5,977	0.09	
£9,981,000 Heathrow Funding (formerly BAA Funding) 6% 2020	11,192	0.18	
£13,500,000 Heathrow Funding (formerly BAA Funding) 7.125% 2024	16,209	0.26	
€14,000,000 Henkel Var. Rate 2104	12,246	0.19	
£8,500,000 HJ Heinz Finance UK 6.25% 2030	10,369	0.16	
£4,075,000 Holcim GB Finance 8.75% 2017	5,052	0.08	
£2,083,000 HSBC Capital Funding Var. Rate Perp.	2,293	0.04	
\$3,000,000 Hutchison Whampoa International Var. Rate Perp.	1,967	0.03	
£5,500,000 Iberdrola Finanzas 6% 2022	5,820	0.09	
£5,000,000 Iberdrola Finanzas 7.375% 2024	5,650	0.09	
€4,000,000 ICAP Group Holdings 7.5% 2014	3,465	0.05	
£6,000,000 Imperial Tobacco Finance 5.5% 2026	7,013	0.11	
£5,000,000 Imperial Tobacco Finance 6.25% 2018	5,967	0.09	
£7,100,000 Imperial Tobacco Finance 7.75% 2019	9,107	0.14	
£23,000,000 Imperial Tobacco Finance 8.125% 2024	31,699	0.50	
£35,000,000 Imperial Tobacco Finance 9% 2022	49,608	0.79	
€4,000,000 ING Bank Var. Rate 2023 (6.125%)	3,549	0.06	
£10,500,000 ING Bank Var. Rate 2023 (6.875%)	11,701	0.18	
£2,000,000 Intercontinental Hotels Group 3.875% 2022	2,024	0.03	
£17,000,000 Intercontinental Hotels Group 6% 2016	19,223	0.30	
€1,229,000 Intesa Sanpaolo 4% 2017	1,035	0.02	
\$1,970,000 Intesa Sanpaolo 6.5% 2021	1,270	0.02	
\$2,000,000 JPMorgan Chase Var. Rate Perp.	1,401	0.02	
\$1,000,000 Kerr-McGee 6.95% 2024	786	0.01	
\$6,000,000 Kinder Morgan Energy Partners 6.95% 2038	4,849	0.08	
£1,000,000 Kingfisher 5.625% 2014	1,063	0.02	
€969,000 KPN 3.25% 2021	791	0.01	
£17,500,000 KPN 5% 2026	18,468	0.29	
£14,000,000 KPN 5.75% 2029	15,572	0.25	
£16,300,000 KPN 6% 2019	18,734	0.30	

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'BBB' credit rated bonds (continued)			
\$4,000,000 KPN 8.375% 2030	3,283	0.05	
\$8,334,000 Kraft Foods 3.5% 2022	5,488	0.09	
\$5,000,000 Kraft Foods 6.875% 2039	4,194	0.07	
£27,907,000 Kraft Foods 7.25% 2018	34,852	0.55	
£21,000,000 Legal & General Group Var. Rate 2041	28,438	0.45	
£12,500,000 Lend Lease Europe Finance 6.125% 2021	12,909	0.20	
£2,000,000 Linde Finance Var. Rate 2066	2,337	0.04	
£6,500,000 Linde Finance Var. Rate Perp.	5,415	0.09	
£1,596,000 Lloyds TSB Bank 6.625% 2015	1,709	0.03	
£10,000,000 Lloyds TSB Bank 7.625% 2025	11,502	0.18	
£5,500,000 Lloyds TSB Bank 9.625% 2023	7,082	0.11	
€3,000,000 Lloyds TSB Bank Var. Rate 2018	2,355	0.04	
£7,500,000 Lloyds TSB Bank Var. Rate 2020	7,446	0.12	
£3,015,000 Lloyds TSB Bank Var. Rate 2021	3,585	0.06	
£15,532,000 Lloyds TSB Bank Var. Rate 2025	15,029	0.24	
\$3,000,000 Lorillard Tobacco 6.875% 2020	2,253	0.04	
£3,088,000 Marks & Spencer 4.75% 2025	3,118	0.05	
£3,800,000 Marks & Spencer 6.125% 2019	4,337	0.07	
£23,000,000 Marks & Spencer 6.125% 2021	26,112	0.41	
\$10,000,000 Marks & Spencer 7.125% 2037	6,725	0.11	
£1,000,000 Merrill Lynch 5.5% 2021	1,065	0.02	
£5,500,000 Mexico (United Mexican States) 6.75% 2024	6,903	0.11	
€6,665,000 Mondi Finance 3.375% 2020	5,588	0.09	
€7,000,000 Mondi Finance 5.75% 2017	6,561	0.10	
£1,000,000 MUFG Capital Finance Var. Rate Perp.	1,095	0.02	
£17,500,000 National Express 6.25% 2017	19,447	0.31	
£3,000,000 National Express 6.625% 2020	3,470	0.05	
£2,110,000 National Westminster Bank 6.5% 2021	2,224	0.04	
€4,500,000 Nationwide Building Society 6.75% 2020	4,287	0.07	
£1,900,000 Nationwide Building Society Var. Rate Perp.	1,885	0.03	
£2,000,000 Next 5.375% 2021	2,293	0.04	
£21,000,000 Next 5.875% 2016	23,660	0.37	
£8,776,000 NIE Finance 6.375% 2026	10,372	0.16	
€5,500,000 Nordenia International 9.75% 2017	5,181	0.08	
£2,258,000 Northern Gas Networks Finance 5.625% 2040	2,603	0.04	
£11,000,000 Northern Gas Networks Finance 5.875% 2019	13,054	0.21	
£2,000,000 Northern Powergrid Holdings 7.25% 2022	2,624	0.04	
£6,897,000 Northumbrian Water Finance 5.125% 2042	7,553	0.12	
£10,806,000 Northumbrian Water Finance 6% 2017	12,647	0.20	
£9,610,000 Northumbrian Water Finance 6.875% 2023	12,656	0.20	
£11,500,000 Old Mutual 8% 2021	12,478	0.20	
\$4,116,000 Pearson 7% 2014	4,508	0.07	
£14,000,000 Pearson Funding Four 3.75% 2022	8,791	0.14	
€8,045,000 Petrobras Global Finance 5.375% 2029	8,443	0.13	
£7,000,000 Petrobras International Finance 6.25% 2026	8,050	0.13	
£2,200,000 Petróleos Mexicanos 8.25% 2022	2,842	0.04	
£10,000,000 Phoenix Natural Gas Finance 5.5% 2017	10,904	0.17	
£8,300,000 PostNL 7.5% 2018	10,065	0.16	

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'BBB' credit rated bonds (continued)			
£20,000,000 Reed Elsevier Investments 5.625% 2016	22,628	0.36	
£6,000,000 Reed Elsevier Investments 7% 2017	7,300	0.12	
£11,500,000 Rentokil Initial 5.75% 2016	12,463	0.20	
\$500,000 Rhodia 6.875% 2020	349	0.01	
£9,270,135 RMPA Services 5.337% 2038	10,640	0.17	
€1,000,000 Royal Bank of Scotland 6.934% 2018	915	0.01	
£10,000,000 RWE Finance 5.625% 2023	12,070	0.19	
£3,500,000 RWE Finance 6.125% 2039	4,351	0.07	
£12,000,000 RWE Finance 6.5% 2021	14,977	0.24	
£7,000,000 Santander International Debt 3.16% 2015	6,826	0.11	
£1,500,000 Santander UK Var. Rate 2023	1,662	0.03	
£6,800,000 Santander UK Var. Rate Perp. (7.037%)	5,942	0.09	
£1,000,000 Santander UK Var. Rate Perp. (7.125%)	798	0.01	
£3,500,000 Scottish & Southern Energy Var. Rate Perp.	3,647	0.06	
£734,000 Scottish Power 8.375% 2017	891	0.01	
£1,000,000 Severn Trent 1.3% IL 2022	1,021	0.02	
£7,475,000 Severn Trent Water 6% 2018	8,809	0.14	
£1,250,000 Severn Trent Water 6.125% 2024	1,548	0.02	
£9,000,000 Severn Trent Water 6.25% 2029	11,579	0.18	
£15,000,000 Siemens Financier Var. Rate 2066	16,501	0.26	
\$5,046,000 Smiths Group 6.05% 2014	3,322	0.05	
£4,578,000 Smiths Group 7.25% 2016	5,242	0.08	
€2,000,000 Société Générale Var. Rate Perp.	1,555	0.02	
£8,625,000 Société Générale Var. Rate Perp.	8,833	0.14	
£2,500,000 South East Water Finance 2.5329% IL 2041	3,062	0.05	
£3,000,000 South East Water Finance 5.6577% 2019	3,478	0.06	
£189,000 Southern Gas Network 4.875% 2020	214	0.00	
£6,995,000 Southern Gas Network 4.875% 2023	7,945	0.13	
£17,390,000 Southern Gas Network 5.125% 2018	19,787	0.31	
£6,100,000 Southern Gas Network FRN 2015	5,678	0.09	
£4,214,000 Spain (Kingdom of) 5.25% 2029	3,772	0.06	
£18,000,000 Stagecoach Group 5.75% 2016	19,992	0.32	
£6,692,220 Sutton Bridge Financing 8.625% 2022	8,568	0.14	
£12,054,000 Talisman Energy 6.625% 2017	14,175	0.22	
£12,000,000 Tate & Lyle International Finance 6.75% 2019	14,712	0.23	
£10,000,000 TDC 5.625% 2023	11,681	0.18	
€2,600,000 Telecom Italia 5.25% 2055	1,752	0.03	
£8,000,000 Telecom Italia 5.875% 2023	8,244	0.13	
£15,000,000 Telecom Italia 6.375% 2019	16,246	0.26	
\$3,750,000 Telecom Italia Capital 6.375% 2033	2,332	0.04	
\$2,400,000 Telecom Italia Capital 6.999% 2018	1,696	0.03	
£14,100,000 Telefónica Emisiones 5.289% 2022	14,282	0.23	
£8,000,000 Telefónica Emisiones 5.375% 2018	8,436	0.13	
£6,000,000 Telefónica Emisiones 5.445% 2029	5,687	0.09	
£11,000,000 Telefónica Emisiones 5.597% 2020	11,452	0.18	
\$1,000,000 Telefónica Europe 8.25% 2030	735	0.01	
£369,512 Telereal Securitisation 6.1645% 2033	426	0.01	
€2,000,000 Textron 3.875% 2013	1,637	0.03	
£2,000,000 Textron 6.625% 2020	2,253	0.04	
£8,000,000 Thames Water Utilities Cayman Var. Rate 2025	8,757	0.14	
£3,926,000 Thames Water Utilities Cayman Var. Rate 2030	4,428	0.07	
\$1,500,000 Time Warner 6.5% 2036	1,165	0.02	
£25,500,000 Time Warner Cable 5.25% 2042	27,299	0.43	
\$7,500,000 Time Warner Cable 5.875% 2040	5,411	0.09	
\$5,000,000 Time Warner Cable 7.3% 2038	4,119	0.07	

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'BBB' credit rated bonds (continued)			
\$2,000,000 Time Warner Entertainment 8.375% 2033	1,759	0.03	
£6,000,000 UBS Capital Securities Var. Rate Perp.	4,944	0.08	
£1,000,000 UBS Jersey Var. Rate 2021	1,039	0.02	
£7,880,000 UBS Jersey Var. Rate 2024	8,765	0.14	
\$1,950,000 UBS NY 7% 2015	1,320	0.02	
\$4,000,000 United Business Media 5.75% 2020	2,537	0.04	
£9,500,000 United Business Media 6.5% 2016	10,817	0.17	
£3,000,000 United Utilities Water 5.625% 2027	3,614	0.06	
£11,000,000 United Utilities Water 5.75% 2022	13,263	0.21	
£11,777,000 United Utilities Water 6.125% 2015	13,296	0.21	
£3,813,000 Vector 7.625% 2019	4,512	0.07	
£10,600,000 Virgin Media Secured Finance 5.5% 2021	11,869	0.19	
£32,000,000 Virgin Media Secured Finance 7% 2018	34,643	0.55	
£1,000,000 Wales & West Utilities Finance Var. Rate 2036	1,167	0.02	
£3,333,000 Wessex Water Services Finance 4% 2021	3,568	0.06	
£12,134,000 Western Power Distribution East Midlands 5.25% 2023	14,098	0.22	
£9,600,000 Western Power Distribution South West 5.75% 2040	11,243	0.18	
£10,000,000 WPP Finance 6.375% 2020	12,226	0.19	
£29,750,000 WPP Group 6% 2017	34,013	0.54	
£3,426,000 Yorkshire Power Finance 7.25% 2028	4,608	0.07	
£14,000,000 Yorkshire Water Services Bradford Finance Var. Rate 2025	15,551	0.25	
'BB' credit rated bonds			
£7,500,000 Brit Insurance Holdings Var. Rate 2030	5,470	0.09	
£350,000 Cheltenham & Gloucester 11.75% Perp.	441	0.01	
€5,000,000 Conti Gummi Finance 7.5% 2017	4,369	0.07	
£360,304 Coventry & Rugby Hospital 3.246% IL 2040	573	0.01	
€3,250,000 Crown European Holdings 7.125% 2018	2,917	0.05	
£5,000,000 Daily Mail & General Trust 5.75% 2018	5,301	0.08	
£5,500,000 Daily Mail & General Trust 6.375% 2027	5,404	0.08	
£5,000,000 Daily Mail & General Trust 10% 2021	6,276	0.10	
\$2,900,000 Dufry Finance 5.5% 2020	1,848	0.03	
£2,306,000 EDP Finance 6.625% 2017	2,444	0.04	
£2,500,000 EDP Finance 8.625% 2024	2,719	0.04	
£2,000,000 Enterprise Inns 6.375% 2031	1,666	0.03	
£5,000,000 Enterprise Inns 6.875% 2025	4,350	0.07	
£5,000,000 F&C Finance 9% 2016	5,350	0.08	
\$8,000,000 Fresenius Medical Care US Finance 5.75% 2021	5,307	0.08	
\$500,000 Fresenius Medical Care US Finance 6.875% 2017	350	0.01	
\$4,000,000 Fresenius US Finance II 9% 2015	2,852	0.04	
£3,000,000 GKN 5.375% 2022	3,093	0.05	
£5,000,000 GKN 6.75% 2019	5,679	0.09	
\$3,520,000 HCA - The Healthcare Co. 7.25% 2020	2,414	0.04	
£3,000,000 Heathrow Finance (formerly BAA) 7.125% 2017	3,248	0.05	
€2,000,000 HeidelbergCement Finance 9.5% 2018	2,095	0.03	
€1,000,000 Intergen 8.5% 2017	705	0.01	
£5,400,000 Intergen 9.5% 2017	4,752	0.07	
€4,000,000 Kabel Deutschland Vertrieb & Service 6.5% 2018	3,525	0.06	

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'BB' credit rated bonds (continued)			
£3,500,000 Ladbrokes Group Finance 7.625% 2017	3,901	0.06	
£10,000,000 Lafarge 10% 2017	11,954	0.19	
£6,000,000 Lafarge Cement UK 10.75% 2013	6,422	0.10	
£1,750,000 LBG Capital No.2 7.625% 2019	1,814	0.03	
£870,000 LBG Capital No.2 9% 2019	930	0.01	
£1,000,000 LBG Capital No.2 9% 2029	1,069	0.02	
£750,000 LBG Capital No.2 9.334% 2020	820	0.01	
£1,000,000 LBG Capital No.2 9.875% 2023	1,070	0.02	
£500,000 LBG Capital No.2 10.5% 2023	545	0.01	
£600,000 LBG Capital No.2 11.25% 2023	663	0.01	
£2,000,000 LBG Capital No.2 15% 2019	2,832	0.04	
£1,265,000 LBG Capital No.2 15% 2029	1,813	0.03	
€1,000,000 OI European Group 6.75% 2020	928	0.01	
€2,000,000 OI European Group 6.875% 2017	1,688	0.03	
€1,350,000 Piaggio & C 7% 2016	1,173	0.02	
£2,000,619 Portugal (Republic of) 9% 2016	1,994	0.03	
£6,000,000 Portugal (Republic of) 9% 2016 (Bearer)	5,980	0.09	
\$6,000,000 Royal Bank of Scotland Group 6.125% 2022	3,912	0.06	
€4,095,000 Smurfit Kappa Acquisitions 7.25% 2017	3,593	0.06	
€4,571,000 Smurfit Kappa Acquisitions 7.75% 2019	4,126	0.07	
\$1,667,000 Stora Enso 6.404% 2016	1,072	0.02	
€400,000 Suedzucker International Finance Var. Rate Perp.	340	0.01	
CHF3,000,000 Sunrise Communications International 7% 2017	2,171	0.03	
€3,500,000 Sunrise Communications International 7% 2017	3,097	0.05	
\$3,000,000 Unitymedia 7.5% 2019	2,041	0.03	
€3,961,000 Unitymedia Hessen 7.5% 2019	3,552	0.06	
€2,052,000 UPCB Finance 7.625% 2020	1,834	0.03	
€2,000,000 UPCB Finance II 6.375% 2020	1,739	0.03	
£8,000,000 UPM-Kymmene 6.625% 2017	8,547	0.14	
£668,000 Virgin Media Finance 8.875% 2019	757	0.01	
€2,500,000 Wind Acquisition Finance 7.375% 2018	2,055	0.03	
'B' credit rated bonds			
\$4,000,000 Abengoa 8.875% 2017	2,326	0.04	
€1,000,000 Abengoa 9.625% 2015	856	0.01	
CHF1,000,000 Aguila 3 7.875% 2018	722	0.01	
€1,125,000 Ardagh Packaging Finance 7.375% 2017	1,006	0.02	
€4,500,000 Bank of Ireland 10% 2022	3,936	0.06	
€3,000,000 Edcon Proprietary FRN 2014	2,349	0.04	
£2,236,000 Elli Finance UK 8.75% 2019	2,440	0.04	
\$429,000 Huntsman International 8.625% 2020	291	0.00	
\$909,000 Huntsman International 8.625% 2021	641	0.01	
€2,803,000 Inaer Aviation Finance 9.5% 2017	2,248	0.04	
€1,500,000 Ineos Finance 9.25% 2015	1,315	0.02	
€1,095,000 Iron Mountain 6.75% 2018	906	0.01	
\$750,000 Iron Mountain 7.75% 2019	523	0.01	
£163,607 Road Management Consolidated 9.18% 2021	166	0.00	
\$1,500,000 Sprint Capital 6.9% 2019	1,005	0.02	
\$2,000,000 Sprint Nextel 6% 2016	1,335	0.02	
\$4,500,000 Sprint Nextel 8.375% 2017	3,212	0.05	
€1,430,000 Techem 6.125% 2019	1,260	0.02	
€3,000,000 TVN Finance 10.75% 2017	2,701	0.04	
€643,000 UPC Holding 9.75% 2018	561	0.01	
'CCC' credit rated bonds			
€1,000,000 Ardagh Glass Finance 7.125% 2017	837	0.01	
€2,000,000 Ardagh Glass Finance 8.75% 2020	1,707	0.03	
€1,500,000 Beverage Packaging Holdings Luxembourg II 9.5% 2017	1,271	0.02	
		0.47	0.69

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
Bonds with no credit rating		4.29	4.39
£3,500,000 AmicusHorizon Finance 5.25% 2043	3,707	0.06	
£4,680,000 Annington Repackaging No.1 5.3236% 2023	5,351	0.09	
\$2,140,000 Aquarius + Investments for Swiss Reinsurance Var. Rate Perp.	1,410	0.02	
£345,000 BLD Property Holdings 6.125% 2014	360	0.01	
£1,308,000 British Land 5.264% 2035	1,326	0.02	
£902,000 British Land 5.264% 2035 (Bearer)	895	0.01	
£4,353,324 British Land 5.357% 2028	4,587	0.07	
£5,695,000 British Land 5.357% 2028 (Bearer)	6,058	0.10	
£932,000 British Land 6.75% 2020	1,108	0.02	
£216,163 Capital Shopping Centres Debenture 5.562% 2027	220	0.00	
£3,500,000 Carlsberg Finance 7% 2013	3,526	0.06	
£3,808,000 Circle Anglia Social 5.2% 2044	4,293	0.07	
£6,523,000 Circle Anglia Social 7.25% 2038	9,327	0.15	
€1,800,000 Davide Campari-Milano 4.5% 2019	1,527	0.02	
£8,920,000 Delamare Finance 6.067% 2029	9,791	0.16	
£885,000 F&C Commercial Property Finance Var. Rate 2017	919	0.01	
£3,277,647 Fintrust Debenture 9.25% 2023	4,865	0.08	
£2,000,000 First Hydro Finance 9% 2021	2,438	0.04	
£3,000,000 Foreign & Colonial Investment Trust 11.25% 2014	3,412	0.05	
£10,000,000 GESB 8.35% 2018	12,455	0.20	
£34,120 Great Portland Estates 5.625% 2029	37	0.00	
£7,800,000 Grosvenor UK Finance 6.5% 2026	9,016	0.14	
£721,000 Guardian Royal Exchange 6.625% 2023	848	0.01	
£1,000,000 Heineken 7.25% 2015	1,118	0.02	
£4,985,137 Highbury Finance 7.017% 2023	5,986	0.09	
£2,192,000 Housing Finance 5% 2027	2,357	0.04	
£4,582,000 Housing Finance 8.625% 2023	6,631	0.10	
£450,000 Housing Finance 8.75% 2021	556	0.01	
£8,500,000 Housing Finance 11.5% 2016	11,306	0.18	
£8,271,321 Housing Securities 8.375% 2019	10,858	0.17	
£5,800,000 John Lewis 6.125% 2025	7,053	0.11	
£23,000,000 John Lewis 8.375% 2019	30,002	0.48	
£3,000,000 LAB Investments 7.125% 2019	3,727	0.06	
£3,000,000 Libra Longhurst Group Treasury 5.125% 2038	3,239	0.05	
£6,000,000 Lloyds TSB Bank FRN 2016	5,421	0.09	
£3,478,000 Midland Heart Capital 5.087% 2044	3,912	0.06	
£7,477,000 Moat Homes Finance 5% 2041	8,231	0.13	
£1,500,000 Notting Hill Housing Trust 5.25% 2042	1,777	0.03	
£9,300,000 Peel South East 10% 2026	11,574	0.18	
£9,598,000 Places For People Homes 5.875% 2031	11,299	0.18	
£537,976 Road Management Services 3.642% IL 2028	540	0.01	
£282,000 Safeway 6.125% 2018	342	0.01	
£4,020,000 Saxon Weald Capital 5.375% 2042	4,583	0.07	
£485,000 Severn River Crossing 6.125% IL 2013	896	0.01	
£4,750,000 South East Water Finance 5.875% 2040	5,417	0.09	
£18,200,000 Suez Environnement 5.375% 2030	21,002	0.33	
£2,327,429 Summit Finance Law 6.484% 2028	2,663	0.04	
£900,000 Together Housing Finance 4.5% 2042	904	0.01	
£250,000 Washington Mutual Bank 5.5% 2019 ^[a]	0	0.00	
£15,000,000 WM Morrison Supermarkets 3.5% 2026	15,013	0.24	

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
Bonds with no credit rating (continued)			
£1,679,000 WM Morrison Supermarkets 4.625% 2023	1,907	0.03	
£5,000,000 Yorkshire Water Services Bradford Finance 3.625% 2029	4,933	0.08	
Credit default swaps ^[b]		0.00	0.03
\$(10,000,000) General Electric Capital Sep 2016	11	0.00	
€(2,850,000) UBS Dec 2017	150	0.00	
Forward currency contracts		(0.01)	0.02
€3,678,985 Bought for £2,988,164 (expires 10.01.13)	13	0.00	
€(170,026,456) Sold for £137,813,456 (expires 14.02.13)	(921)	(0.02)	
€(186,162,931) Sold for £150,680,638 (expires 21.03.13)	(1,291)	(0.02)	
€(60,866,110) Sold for £48,739,880 (expires 10.01.13)	(905)	(0.01)	
CHF(4,320,743) Sold for £2,904,653 (expires 14.02.13)	(17)	0.00	
\$7,571,199 Bought for £4,659,056 (expires 10.01.13)	24	0.00	
\$(114,658,634) Sold for £71,491,909 (expires 21.03.13)	551	0.01	
\$(13,318,440) Sold for £8,254,115 (expires 10.01.13)	16	0.00	
\$(371,947,654) Sold for £232,135,765 (expires 10.01.13)	2,058	0.03	
Interest rate futures contracts		0.00	(0.01)
(4,500) 10 Year US Treasury Note Mar 2013	1,018	0.01	
(100) Euro BTP Italian Government Bond Mar 2013	56	0.00	
(1,000) German Euro Bund Mar 2013	(855)	(0.01)	
(5,200) UK Long Gilt Bond Mar 2013	(887)	(0.01)	
(500) Ultra Long US Treasury Bond Mar 2013	693	0.01	
'AAA' rated money market funds ^[c]		0.04	0.71
2,413,000 Northern Trust Global Fund - Sterling	2,413	0.04	
Portfolio of investments	6,223,438	98.54	98.25
Net other assets	92,295	1.46	1.75
Net assets attributable to shareholders	6,315,733	100.00	100.00

^[a] Defaulted bond.

^[b] Unquoted / unlisted.

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

M&G Corporate Bond Fund

PORTFOLIO

PORTFOLIO TRANSACTIONS

for the six months ended 31 December 2012

Largest purchases	£'000
UK Long Gilt Bond Dec 2012 ^[a]	620,984
UK Long Gilt Bond Sep 2012 ^[a]	597,560
10 Year US Treasury Note Dec 2012 ^[a]	374,921
German Euro Bund Dec 2012 ^[a]	80,983
Treasury 3.75% 2052 (£)	63,346
Treasury 4.5% 2034 (£)	59,530
Ultra Long US Treasury Bond Dec 2012 ^[a]	52,191
Treasury 4.5% 2042 (£)	39,418
GlaxoSmithKline Capital 3.375% 2027 (£)	35,433
JPMorgan Chase 3.5% 2026 (£)	34,971
Transport for London 2.25% 2022 (£)	30,688
Treasury 3.25% 2044 (£)	25,323
Transport for London 3.875% 2022 (£)	23,388
European Investment Bank 5.5% 2025 (£)	22,432
Treasury 4.25% 2055 (£)	18,424
Treasury 2.5% IL 2016 (£)	17,158
Treasury 2.5% IL 2013 (£)	16,864
European Investment Bank 3.75% 2027 (£)	16,684
US Treasury 1.75% 2022 (\$)	15,273
WM Morrison Supermarkets 3.5% 2026 (£)	14,964
Northern Trust Global Fund - Sterling ^[b]	638,763
Other purchases	583,042
Total purchases	3,382,340
Largest sales	£'000
UK Long Gilt Bond Dec 2012 ^[a]	628,811
UK Long Gilt Bond Mar 2013 ^[a]	616,980
10 Year US Treasury Note Mar 2013 ^[a]	373,539
10 Year US Treasury Note Dec 2012 ^[a]	370,109
UK Long Gilt Bond Sep 2012 ^[a]	320,244
German Euro Bund Mar 2013 ^[a]	117,267
Treasury 2.5% IL 2020 (£)	111,180
Treasury 2.5% IL 2016 (£)	86,086
German Euro Bund Dec 2012 ^[a]	78,244
Treasury 1.875% IL 2022 (£)	75,009
Treasury 2.5% IL 2013 (£)	70,266
US Treasury 1.75% 2022 (\$)	61,425
Treasury 4.5% 2034 (£)	59,340
Ultra Long US Treasury Bond Mar 2013 ^[a]	51,757
Ultra Long US Treasury Bond Dec 2012 ^[a]	50,550
Barclays Bank 4.25% 2022 (£)	35,467
Lloyds TSB Bank 5.125% 2025 (£)	21,408
Svenska Handelsbanken 4% 2019 (£)	18,738
JPMorgan Chase 4.5% 2022 (\$)	18,649
AT&T 5.55% 2041 (\$)	18,459
Northern Trust Global Fund - Sterling ^[b]	680,295
Other sales	618,257
Total sales	4,482,080

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

^[b] Cash management fund used to reduce risk and manage surplus cash.

INTERIM FINANCIAL STATEMENTS (unaudited)

For the six months ended 31 December 2012.

STATEMENT OF TOTAL RETURN

	2012		2011	
	£'000	£'000	£'000	£'000
Income				
Net capital gains		337,855		154,595
Revenue	144,446		130,412	
Expenses	(31,909)		(25,630)	
Finance costs: Interest	(8)		(6)	
Net revenue before taxation	112,529		104,776	
Taxation	(28)		(45)	
Net revenue after taxation		112,501		104,731
Total return before distributions		450,356		259,326
Finance costs: Distributions		(112,623)		(104,739)
Change in net assets attributable to shareholders from investment activities		337,733		154,587

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2012		2011	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		6,220,370		4,794,224
Amounts received on issue of shares	362,003		600,630	
Amounts paid on cancellation of shares	(628,066)		(117,683)	
		(266,063)		482,947
Stamp Duty Reserve Tax		0		(47)
Change in net assets attributable to shareholders from investment activities (see above)		337,733		154,587
Retained distributions on Accumulation shares		23,684		20,977
Unclaimed distributions		9		6
Closing net assets attributable to shareholders		6,315,733		5,452,694

The opening net assets attributable to shareholders for 2012 differs to the closing position in 2011 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

M&G Corporate Bond Fund

INTERIM FINANCIAL STATEMENTS (unaudited)

BALANCE SHEET

	as at 31 December 2012		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		6,228,314		6,121,180
Debtors	121,311		146,042	
Cash and bank balances	35,772		61,524	
Total other assets		157,083		207,566
Total assets		6,385,397		6,328,746
Liabilities				
Investment liabilities		(4,876)		(9,531)
Creditors				
Net distributions payable on				
Income shares	(31,376)		(35,419)	
Other creditors	(33,374)		(63,426)	
Bank overdrafts	(38)		0	
Total other liabilities		(64,788)		(98,845)
Total liabilities		(69,664)		(108,376)
Net assets attributable to shareholders		6,315,733		6,220,370

NOTE TO THE FINANCIAL STATEMENTS

Accounting policies

The interim financial statements have been prepared on the same basis as the audited annual financial statements for the year ended 30 June 2012. They are 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.

M&G Dividend Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G Dividend Fund

The Fund invests mainly in a range of UK equities with the aim of achieving a steadily increasing income stream. The Fund will target a yield higher than that of the FTSE All-Share Index. Subject to this, the aim will be to maximise total return (the combination of income and growth of capital).

Investment approach

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

Risk and reward profile*



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

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 2 January 2013, for the six months ended 31 December 2012

During the period under review, new holdings of note that were introduced to the fund included cardboard and packaging firm DS Smith, business processing company Capita and Swiss pharmaceuticals manufacturer Novartis. After struggling for many years, DS Smith has a new management team and has made a recent acquisition in Europe, which has put the firm in a much stronger competitive position. Capita was purchased following a period of share price weakness. The business is benefiting from the trend by companies towards outsourcing administrative functions. Novartis is a global drugs company with significant cost-cutting potential and some interesting prospects in the pipeline.

Market weakness was used to top up some existing holdings. One example of this was Tesco's shares, which had been acquired at the start of 2012 and presented a rare opportunity to buy into a strong dividend*-growing stock at an attractive level. Another was Barclays, one of the few banks not requiring a government bailout, which has taken advantage of the very attractive borrowing rates offered by the Bank of England to strengthen its balance sheet.

Two holdings left the portfolio due to takeovers. These were Cove Energy, which was sold to Thailand's PTT Exploration and Production, and the UK's largest software company, Logica, which was bought out by Canadian rival, CGI.

Some of the fund's holdings were reduced, including insurer Legal & General and banking group HSBC, to lock in to some good performance. Elsewhere, positions in Vodafone and BG Group were reduced; the telecommunications firm on the back of concerns that it would have to bid up for 4G spectrum on the evidence of the Dutch auction; and oil and gas producer BG, ahead of a profit and production warning in October.

Alex Odd

Fund manager

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

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

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

M&G Dividend Fund

FUND STATISTICS

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

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Final	01.07.13	31.08.13
Interim	02.01.14	28.02.14

	Interim distribution Inc 28.02.13 ^[a]	Acc 02.01.13 ^[a]	Ongoing Charges Figure ^[b] 31.12.12	30.06.12
Sterling	p	p	%	%
Class 'A'	0.7700	6.7600	1.66	1.66
Class 'C'	0.7700	n/a	0.16	0.16
Class 'I'	14.4700	14.4700	0.91 ^[c]	n/a
Class 'R'	1.4500	1.4500	1.16 ^[c]	n/a
Class 'X'	0.7700	6.6900	1.66	1.66

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

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

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

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 31.12.12		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	54.00	482.70	51.02	449.77	+5.84	+7.32
Class 'C'	60.57	n/a	56.71	n/a	+6.81	n/a
Class 'I'	1,035.84	1,050.23	n/a	n/a	n/a	n/a
Class 'R'	103.49	104.88	n/a	n/a	n/a	n/a
Class 'X'	54.26	477.52	51.26	444.94	+5.85	+7.32

PERFORMANCE SINCE LAUNCH

	six months 02.07.12 %	one year 03.01.12 %	five years 02.01.08 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+7.8	+11.0	-2.7	+6.7 ^[c]
Class 'C'	+8.7	+12.7	-1.2	+0.7 ^[d]
Class 'I'	n/a	n/a	n/a	+6.3 ^[e]
Class 'R'	n/a	n/a	n/a	+6.2 ^[e]
Class 'X'	+7.8	+11.0	-2.7	+3.3 ^[f]

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

^[b] Bid to bid excluding reinvested income.

^[c] 6 May 1964, the end of the initial offer period of the predecessor unit trust.

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

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

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

SINGLE YEAR PERFORMANCE (5 YEARS ENDING DECEMBER)

From To	30.12.11 31.12.12 %	31.12.10 30.12.11 %	31.12.09 31.12.10 %	31.12.08 31.12.09 %	31.12.07 31.12.08 %
Sterling					
Class 'A'	+15.7	-5.9	+13.6	+16.3	-23.8

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

PRICES

	Calendar year	Income shares Highest	Lowest	Accumulation shares Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008	63.46	39.45	444.95	287.09
	2009	50.82	35.26	392.69	262.41
	2010	55.06	44.43	445.95	359.84
	2011 ^[a] ^[b] ^[c]	56.68	44.20	468.37	372.61
	2012 ^[d]	55.72	49.40	491.02	422.86
	2013 ^[e]	55.43	55.43	495.30	495.30
Class 'C'	2008	65.91	41.47	n/a	n/a
	2009	54.37	37.31	n/a	n/a
	2010	59.81	47.91	n/a	n/a
	2011 ^[a] ^[b] ^[c]	61.95	48.57	n/a	n/a
	2012 ^[d]	62.38	54.57	n/a	n/a
	2013 ^[e]	62.17	62.17	n/a	n/a
Class 'I'	2012 ^[f]	1,068.31	1,000.00	1,068.22	1,000.00
	2013 ^[e]	1,063.18	1,063.18	1,077.67	1,077.67
Class 'R'	2012 ^[f]	106.74	100.00	106.68	100.00
	2013 ^[e]	106.21	106.21	107.62	107.62
Class 'X'	2008	63.76	39.63	440.12	284.00
	2009	51.06	35.43	388.47	259.59
	2010	55.32	44.63	441.16	355.97
	2011 ^[a] ^[b] ^[c]	56.94	44.40	463.33	368.60
	2012 ^[d]	55.97	49.63	485.74	418.32
	2013 ^[e]	55.69	55.69	489.98	489.98

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

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

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

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

^[e] To 2 January 2013.

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

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

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

M&G Dividend Fund

FUND STATISTICS

INCOME

Dividend income per share

	Calendar year	Interim	Distributed Final	Total	Reinvested
Sterling (net)		p	p	p	p
Class 'A'	2008	1.0200	1.9330	2.9530	20.5905
	2009	1.0200	1.5300	2.5500	18.8075
	2010	0.7500	1.4650	2.2150	17.2858
	2011	0.7500	1.4740	2.2240	18.1748
	2012	0.7600	1.5260	2.2860	19.4823
	2013 [a]	0.7700	-	0.7700	6.7600
Class 'C'	2008	1.0200	2.0500	3.0700	n/a
	2009	1.0200	1.6700	2.6900	n/a
	2010	0.7500	1.6200	2.3700	n/a
	2011	0.7500	1.6730	2.4230	n/a
	2012	0.7600	1.7635	2.5235	n/a
	2013 [a]	0.7700	-	0.7700	n/a
Class 'I'	2013 [a]	14.4700	-	14.4700	14.4700
Class 'R'	2013 [a]	1.4500	-	1.4500	1.4500
Class 'X'	2008	1.0200	1.9490	2.9690	20.3844
	2009	1.0200	1.5410	2.5610	18.5999
	2010	0.7500	1.4750	2.2250	17.0982
	2011	0.7500	1.4840	2.2340	17.9772
	2012	0.7600	1.5360	2.2960	19.2827
	2013 [a]	0.7700	-	0.7700	6.6900

[a] Up to interim: ex-distribution date 2 January 2013;
payment date 28 February 2013.

NET ASSETS

	Period ended	Value per share Inc	Value per share Acc	Number of shares Inc	Number of shares Acc
Sterling		p	p		
Class 'A'	Jun 2010	45.36	367.35	806,739,364	18,978,765
	Jun 2011	54.01	455.34	702,534,364	17,931,765
	Jun 2012	51.02	449.77	941,137,965	23,716,713
	Dec 2012	54.00	482.70	916,434,965	23,179,813
Class 'C'	Jun 2010	48.91	n/a	32,147,100	n/a
	Jun 2011	59.12	n/a	28,342,100	n/a
	Jun 2012	56.71	n/a	1,125,179,420	n/a
	Dec 2012	60.57	n/a	1,095,235,420	n/a
Class 'I'	Dec 2012	1,035.84	1,050.23	4,100	7,100
Class 'R'	Dec 2012	103.49	104.88	1,000	31,000
Class 'X'	Jun 2010	45.57	363.41	32,652,085	549,400
	Jun 2011	54.26	450.44	38,485,085	751,000
	Jun 2012	51.26	444.94	47,054,602	966,163
	Dec 2012	54.26	477.52	49,941,602	976,963

Total net asset value of sub-fund

Period ended	£	€ [a]
Jun 2010	468,228,000	572,609,000
Jun 2011	502,119,000	555,257,000
Jun 2012	1,253,323,000	1,554,501,000
Dec 2012	1,302,076,000	1,596,513,000

[a] Based on the midday exchange rate on the last business day of each accounting period.

PORTFOLIO

PORTFOLIO STATEMENT

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
Oil and gas producers		15.07	17.65
2,500,000 BG Group	25,325	1.95	
15,500,000 BP	65,991	5.07	
2,500,000 Royal Dutch Shell 'B'	54,612	4.19	
3,000,000 Tullow Oil	37,890	2.91	
2,000,000 Zhaikmunai GDR	12,384	0.95	
Chemicals		0.89	0.77
5,000,000 Elementis	11,530	0.89	
Industrial metals & mining		2.53	2.16
2,500,000 First Quantum Minerals	32,924	2.53	
Mining		4.67	1.80
3,500,000 African Minerals	11,095	0.85	
1,500,000 BHP Billiton	32,167	2.47	
500,000 Rio Tinto	17,560	1.35	
Aerospace & defence		1.27	2.44
7,500,000 Cobham	16,545	1.27	
General industrials		1.56	0.00
10,000,000 DS Smith	20,350	1.56	
Industrial engineering		2.82	2.29
800,000 Spirax-Sarco Engineering	18,136	1.39	
1,000,000 Weir Group	18,670	1.43	
Industrial transportation		1.31	1.24
7,672,000 BBA Aviation	17,001	1.31	
Support services		5.31	5.81
1,900,000 Acal	3,610	0.28	
2,500,000 Capita Group	18,912	1.45	
3,500,000 Filtrona	19,180	1.47	
7,500,000 Premier Farnell	14,438	1.11	
12,000,000 Regus	13,044	1.00	
Food producers		4.97	4.28
3,500,000 Tate & Lyle	26,757	2.06	
1,600,000 Unilever	37,936	2.91	
Household goods & home construction		1.49	0.00
500,000 Reckitt Benckiser	19,400	1.49	
Personal goods		1.17	1.01
4,000,000 PZ Cussons	15,228	1.17	
Tobacco		7.30	7.38
1,900,000 British American Tobacco	59,489	4.57	
1,500,000 Imperial Tobacco	35,550	2.73	
Healthcare equipment & services		0.00	1.01
Pharmaceuticals & biotechnology		10.47	10.87
1,400,000 AstraZeneca	40,824	3.14	
4,300,000 BTG	14,297	1.10	
3,500,000 GlaxoSmithKline	46,760	3.59	
350,000 Novartis (Regd.)	13,583	1.04	
1,100,000 Shire	20,779	1.60	
Food & drug retailers		2.59	0.74
10,000,000 Tesco	33,655	2.59	
General retailers		0.65	0.76
30,000,000 Dixons Retail	8,490	0.65	
Media		3.96	2.90
1,500,000 British Sky Broadcasting Group	11,520	0.89	
2,032,500 Informa	9,134	0.70	
1,080,500 Pearson	12,912	0.99	
2,500,000 UBM	17,938	1.38	

M&G Dividend Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
Travel & leisure		2.85	3.52
9,500,000 Enterprise Inns	9,804	0.75	
5,000,000 Ladbrokes	9,955	0.77	
5,000,000 William Hill	17,360	1.33	
Mobile telecommunications		3.27	5.41
27,500,000 Vodafone Group	42,584	3.27	
Gas, water & multi-utilities		6.75	7.32
9,235,500 Centrica	30,902	2.37	
4,500,000 National Grid	31,613	2.43	
750,000 Severn Trent	11,887	0.91	
2,000,000 United Utilities	13,470	1.04	
Banks		5.73	5.32
10,000,000 Barclays	26,215	2.01	
7,500,000 HSBC Holdings	48,473	3.72	
Financial services		1.25	1.74
1,200,000 Provident Financial	16,332	1.25	
Life insurance		3.43	4.81
12,500,000 Legal & General Group	18,138	1.39	
8,000,000 Standard Life	26,528	2.04	
Non-life insurance		3.53	2.79
3,000,000 Catlin Group	15,000	1.15	
2,400,000 Hiscox	10,855	0.83	
16,000,000 RSA Insurance Group	20,112	1.55	
Real estate investment trusts		1.11	1.10
15,222,500 Hansteen Holdings	11,874	0.91	
3,530,280 Treasury China Trust	2,627	0.20	
Software & computer services		3.88	3.77
1,500,000 Fidessa Group	22,320	1.71	
2,335,046 Micro Focus	13,543	1.04	
5,000,000 Sage Group	14,760	1.13	
AIM quoted		0.92	2.00
10,000,000 Bowleven	6,550	0.50	
7,914,362 Dolphin Capital Investors	2,058	0.16	
1,460,000 Gaming VC Holdings	3,387	0.26	
Unquoted / unlisted		0.00	0.00
336,816 Battersea Power Station 'A'	0	0.00	
168,408 Battersea Power Station 'A' wts.	0	0.00	
377,518 Izodia ^[a]	5	0.00	
'AAA' rated money market funds ^[b]		0.30	1.47
3,833,000 Northern Trust Global Fund - Sterling	3,833	0.30	
Portfolio of investments	1,315,801	101.05	102.36
Net other liabilities	(13,725)	(1.05)	(2.36)
Net assets attributable to shareholders	1,302,076	100.00	100.00

^[a] Suspended on 16 December 2002.

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

PORTFOLIO TRANSACTIONS

for the six months ended 31 December 2012

Largest purchases	£'000
Tesco	22,989
Reckitt Benckiser	18,492
Capita	17,560
Cobham	16,590
DS Smith	16,410
Rio Tinto	15,072
Novartis (Regd.)	13,255
Barclays	11,289
Fidessa	11,146
British Sky Broadcasting Group	10,456
African Minerals	8,755
Imperial Tobacco	7,633
Shire	7,388
National Grid	7,028
AstraZeneca	6,026
RSA Insurance Group	5,333
Hiscox	4,992
BHP Billiton	4,633
Legal & General Group	3,603
Tate & Lyle	3,264
Northern Trust Global Fund - Sterling ^[a]	143,250
Other purchases	11,272
Total purchases	366,436
Largest sales	£'000
Aviva	25,425
BAE Systems	23,578
GlaxoSmithKline	20,655
Vodafone Group	18,077
Berendsen	16,783
HSBC Holdings	15,375
Cove Energy	14,603
Smith & Nephew	13,340
BG Group	12,986
Go Ahead Group	12,812
Hays	10,867
Logica	10,484
Umeco	8,755
Legal & General Group	7,781
United Utilities	6,834
Tullett Prebon	6,814
Severn Trent	6,541
Catlin Group	4,666
William Hill	4,223
Halfords Group	3,583
Northern Trust Global Fund - Sterling ^[a]	157,835
Other sales	11,410
Total sales	413,427

^[a] Cash management fund used to reduce risk and manage surplus cash.

M&G Dividend Fund

INTERIM FINANCIAL STATEMENTS (unaudited)

For the six months ended 31 December 2012.

STATEMENT OF TOTAL RETURN

	2012		2011	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		79,807		(36,768)
Revenue	23,049		16,210	
Expenses	(5,855)		(4,912)	
Net revenue before taxation	17,194		11,298	
Taxation	(49)		(18)	
Net revenue after taxation		17,145		11,280
Total return before distributions		96,952		(25,488)
Finance costs: Distributions		(17,852)		(11,234)
Change in net assets attributable to shareholders from investment activities		79,100		(36,722)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2012		2011	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		1,253,323		502,119
Amounts received on issue of shares	25,036		3,040	
Transfer of assets from the M&G Income Fund to the M&G Dividend Fund	0		159,394	
Transfer of assets from the Prudential Equity Income Trust to the M&G Dividend Fund	0		590,016	
Amounts paid on cancellation of shares	(57,039)		(40,768)	
		(32,003)		711,682
Stamp Duty Reserve Tax		(72)		(59)
Dilution levy		0		154
Change in net assets attributable to shareholders from investment activities (see above)		79,100		(36,722)
Retained distributions on Accumulation shares		1,634		1,536
Unclaimed distributions		94		62
Closing net assets attributable to shareholders		1,302,076		1,178,772

The opening net assets attributable to shareholders for 2012 differs to the closing position in 2011 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

BALANCE SHEET

	as at 31 December 2012		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		1,315,801		1,282,933
Debtors	3,446		7,192	
Cash and bank balances	12		1	
Total other assets		3,458		7,193
Total assets		1,319,259		1,290,126
Liabilities				
Creditors				
Net distributions payable on Income shares	(15,875)		(34,944)	
Other creditors	(1,308)		(1,859)	
Total liabilities		(17,183)		(36,803)
Net assets attributable to shareholders		1,302,076		1,253,323

NOTE TO THE FINANCIAL STATEMENTS

Accounting policies

The interim financial statements have been prepared on the same basis as the audited annual financial statements for the year ended 30 June 2012. They are 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.

M&G Dividend Fund

This page is intentionally blank

M&G Emerging Markets Bond Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective of the M&G Emerging Markets Bond Fund

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

Investment policy of the M&G Emerging Markets Bond Fund

The Fund invests mainly in debt instruments issued by emerging market borrowers, including government, government agency and corporate debt. There are no restrictions on the currencies to which the Fund may be exposed. Derivatives may be used for investment purposes as well as for efficient portfolio management. The Fund may also invest in collective investment schemes, other transferable securities (including other debt instruments), cash and near cash, deposits, warrants and money market instruments.

M&G has the discretion to identify the countries that it considers to qualify as emerging markets although these will typically be those that the IMF or World Bank define as emerging or developing economies.

Investment approach

The M&G Emerging Markets Bond Fund aims to maximise total returns by investing mainly in emerging market sovereign and corporate debt. The investment approach begins with a top-down assessment of macroeconomic factors such as global risk appetite and structural global growth catalysts. On a regional and country-specific level, factors such as monetary and fiscal policies, capital flows, and political and regulatory environments will be assessed. The result of this analysis will help inform the fund's country and currency allocations and its duration. Individual credit selection is determined by a thorough credit analysis and an assessment of valuations. Both macroeconomic and stock-specific analysis is undertaken in close conjunction with the deputy fund manager and the internal credit analysts. The fund is diversified by investing in a range of assets across global emerging markets and is unconstrained by a benchmark with a fully flexible strategy.

Risk and reward profile*



* 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 2 January 2013, for the six months ended 31 December 2012

We substantially increased the fund's holdings in emerging market corporate bonds* during the review period. In our view, such assets are attractively priced compared with emerging market government debt but are not necessarily much riskier. This is because most emerging market corporate bonds are denominated in US dollars, thereby reducing the risk due to currency fluctuations. Additionally, most issuers that we hold in the portfolio have globally diversified operations while many of the companies are wholly or partly state-owned.

During the six months, we established positions in a range of emerging market corporate bonds from various countries and sectors, including Abu Dhabi-based energy investment company IPIC GMTN, Russian gas giant Gazprom, Brazilian mining group Vale Overseas and Corporación Andina de Fomento, a Latin American development bank. All of these bonds are denominated in US dollars. Over the review period, the fund's holdings in corporate and supranational bonds increased from 2% to 50%.

In contrast, we reduced the fund's presence in emerging market government bonds following good performance. As valuations for these assets have risen steeply, we considered many of them to be overpriced and unlikely to offer much more upside potential. As a result, we closed stakes in Brazilian and Argentinian government bonds and decreased holdings in government bonds issued by Colombia, Indonesia, Russia and Chile. However, we initiated positions in Zambian and Bolivian government bonds and added to an existing stake in Mexican government debt due to our belief that Mexico is likely to benefit from the US economic recovery.

These changes had the effect of increasing the portfolio's allocation to the US dollar, which at the end of the review period made up about 80% of the fund. The remainder was held in the Mexican peso, Malaysian ringgit and Korean won, among others.

Mike Riddell
Fund manager

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

* Corporate and government bonds are loans that are extended by an investor to an issuing entity – private sector firms in the case of corporate bonds and governments in the case of government bonds – in exchange for regular interest payments. The issuer promises to pay the holder the initial value of the loan at the end of the bond's life.

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

M&G Emerging Markets Bond Fund

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Final	01.07.13	31.08.13
Interim	02.01.14	28.02.14

	Interim distribution Inc 28.02.13 ^[a]	Acc 02.01.13 ^[a]	Ongoing Charges Figure ^[b] 31.12.12	30.06.12
Sterling	p	p	%	%
Class 'A'	0.9180	1.7188	1.47	1.49
Class 'I'	1.6000	1.4424	0.97	1.15
Class 'R'	1.0540	1.0580	1.22 ^[c]	n/a
Class 'X'	0.8960	1.7096	1.47	1.51
Euro	¢	¢	%	%
Class 'A'	n/a	15.4362	1.47	1.45
Class 'C'	n/a	18.1790	0.97	0.95
US dollar	¢	¢	%	%
Class 'A'	n/a	14.6780	1.51	1.60
Class 'C'	n/a	18.1550	0.98	0.98

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

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

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

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

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 31.12.12		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	78.55	149.00	76.54	143.52	+2.63	+3.82
Class 'I'	105.16	107.31	102.58	103.15	+2.52	+4.03
Class 'R'	98.74	99.79	n/a	n/a	n/a	n/a
Class 'X'	77.40	149.35	75.41	143.86	+2.64	+3.82
Euro	€	€	€	€	%	%
Class 'A'	n/a	10.7774	n/a	10.4701	n/a	+2.94
Class 'C'	n/a	10.8151	n/a	10.4803	n/a	+3.19
US dollar	\$	\$	\$	\$	%	%
Class 'A'	n/a	10.8246	n/a	10.0418	n/a	+7.80
Class 'C'	n/a	10.8726	n/a	10.0533	n/a	+8.15

PERFORMANCE SINCE LAUNCH

	six months 02.07.12 %	one year 03.01.12 %	five years 02.01.08 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+3.4	+8.4	+10.4	+9.2 ^[c]
Class 'I'	+3.6	n/a	n/a	+7.6 ^[d]
Class 'R'	n/a	n/a	n/a	+0.0 ^[e]
Class 'X'	+3.4	+8.4	+10.4	+8.6 ^[f]
Euro ^[g]				
Class 'A'	+2.7	n/a	n/a	+8.4 ^[d]
Class 'C'	+3.0	n/a	n/a	+8.8 ^[d]
US dollar ^[g]				
Class 'A'	+7.7	n/a	n/a	+9.4 ^[d]
Class 'C'	+8.1	n/a	n/a	+9.9 ^[d]

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

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

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

^[d] 19 April 2012, the launch date of the share class. Not annualised.

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

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

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

SINGLE YEAR PERFORMANCE (5 YEARS ENDING DECEMBER)

From To	30.12.11 31.12.12 %	31.12.10 30.12.11 %	31.12.09 31.12.10 %	31.12.08 31.12.09 %	31.12.07 31.12.08 %
Sterling					
Class 'X'	+8.2	+0.9	+13.7	+3.0	+30.0

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

M&G Emerging Markets Bond Fund

FUND STATISTICS

PRICES					
	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling (net)					
Class 'A'	2008 ^[a]	p	p	p	p
	2008	72.53	54.52	118.49	89.07
	2009	73.34	63.39	124.80	106.02
	2010	79.84	69.15	139.70	120.15
	2011	77.83	71.98	142.16	129.32
	2012	80.62	74.48	151.16	137.85
	2013 ^[b]	78.73	78.73	149.39	149.39
Class 'I'	2012 ^[c]	108.24	99.59	108.80	99.59
	2013 ^[b]	105.50	105.50	107.59	107.59
Class 'R'	2012 ^[d]	101.18	96.78	101.18	96.78
	2013 ^[b]	98.94	98.94	100.05	100.05
Class 'X'	2008 ^[a]	71.47	53.71	118.78	89.26
	2009	72.26	62.45	125.10	106.26
	2010	78.66	68.13	140.03	120.43
	2011	76.68	70.91	142.49	129.62
	2012	79.43	73.37	151.52	138.17
	2013 ^[b]	77.56	77.56	149.74	149.74
Euro (gross)					
Class 'A'	2012 ^[c]	€	€	€	€
	2012	n/a	n/a	11.2521	9.9825
	2013 ^[b]	n/a	n/a	10.8388	10.8388
Class 'C'	2012 ^[c]	n/a	n/a	11.2665	9.9833
	2013 ^[b]	n/a	n/a	10.8768	10.8768
US dollar (gross)					
Class 'A'	2012 ^[c]	\$	\$	\$	\$
	2012	n/a	n/a	10.9130	9.8706
	2013 ^[b]	n/a	n/a	10.9406	10.9406
Class 'C'	2012 ^[c]	n/a	n/a	10.9615	9.8773
	2013 ^[b]	n/a	n/a	10.9895	10.9895

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

[b] To 2 January 2013.

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

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

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

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

INCOME

Interest income per share

	Calendar year	Interim	Distributed Final	Total	Reinvested
Sterling (net)					
Class 'A'	2008	p	p	p	p
	2008	1.1568	1.0412	2.1980	3.4872
	2009	1.6620	1.1164	2.7784	4.5824
	2010	1.4460	1.3220	2.7680	4.7584
	2011	1.2420	1.2560	2.4980	4.4524
	2012	0.9880	1.0020	1.9900	3.6596
	2013 ^[a]	0.9180	-	0.9180	1.7188
Class 'I'	2012	n/a	0.5760	0.5760	0.5804
	2013 ^[a]	1.6000	-	1.6000	1.4424
Class 'R'	2013 ^[a]	1.0540	-	1.0540	1.0580
Class 'X'	2008	1.1368	1.0140	2.1508	3.4719
	2009	1.6400	1.1040	2.7440	4.6039
	2010	1.4240	1.3040	2.7280	4.7660
	2011	1.2260	1.2360	2.4620	4.4624
	2012	0.9760	0.9840	1.9600	3.6684
	2013 ^[a]	0.8960	-	0.8960	1.7096
Euro (gross)					
Class 'A'	2012	¢	¢	¢	¢
	2012	n/a	n/a	n/a	6.2020
	2013 ^[a]	n/a	n/a	n/a	15.4362
Class 'C'	2012	n/a	n/a	n/a	7.2140
	2013 ^[a]	n/a	n/a	n/a	18.1790
US dollar (gross)					
Class 'A'	2012	¢	¢	¢	¢
	2012	n/a	n/a	n/a	5.6670
	2013 ^[a]	n/a	n/a	n/a	14.6780
Class 'C'	2012	n/a	n/a	n/a	6.8530
	2013 ^[a]	n/a	n/a	n/a	18.1550

[a] Up to interim: ex-distribution date 2 January 2013; payment date 28 February 2013.

M&G Emerging Markets Bond Fund

FUND STATISTICS

NET ASSETS					
	Period ended	Value per share Inc	Value per share Acc	Number of shares Inc	Number of shares Acc
Sterling					
Class 'A'	Jun 2010	74.93	132.47	3,724,551	2,714,787
	Jun 2011	74.67	136.41	5,174,551	3,257,787
	Jun 2012	76.54	143.52	4,731,551	3,659,287
	Dec 2012	78.55	149.00	9,374,551	7,506,287
Class 'I'	Jun 2012	102.58	103.15	1,000	171,000
	Dec 2012	105.16	107.31	251,000	171,000
Class 'R'	Dec 2012	98.74	99.79	1,000	1,000
Class 'X'	Jun 2010	73.82	132.78	7,896,883	3,119,134
	Jun 2011	73.56	136.73	8,321,883	3,865,134
	Jun 2012	75.41	143.86	8,656,883	4,602,134
	Dec 2012	77.40	149.35	8,939,883	4,188,134
Euro					
Class 'A'	Jun 2012	n/a	10.4701	n/a	1,000
	Dec 2012	n/a	10.7774	n/a	1,600
Class 'C'	Jun 2012	n/a	10.4803	n/a	1,000
	Dec 2012	n/a	10.8151	n/a	1,000
US dollar					
Class 'A'	Jun 2012	n/a	10.0418	n/a	1,000
	Dec 2012	n/a	10.8246	n/a	1,000
Class 'C'	Jun 2012	n/a	10.0533	n/a	1,000
	Dec 2012	n/a	10.8726	n/a	1,000
Total net asset value of sub-fund					
	Period ended	£	€ [a]		
	Jun 2010	16,358,000	20,004,000		
	Jun 2011	19,714,000	21,799,000		
	Jun 2012	22,229,000	27,571,000		
	Dec 2012	32,208,000	39,492,000		

[a] Based on the midday exchange rate on the last business day of each accounting period.

PORTFOLIO

PORTFOLIO STATEMENT

as at 31 December 2012			
Holding	Value £'000	31.12.12 %	30.06.12 %
'AAA' credit rated bonds		3.61	5.17
€500,000 Germany (Federal Republic of) 1.75% 2022	425	1.32	
€100,000 Germany (Federal Republic of) 2.25% 2021	89	0.27	
€150,000 Germany (Federal Republic of) 4.75% 2040	189	0.59	
\$750,000 Temasek Financial I 2.375% 2023	461	1.43	
'AA' credit rated bonds		19.75	11.42
\$250,000 Bermuda (Govt. of) 4.138% 2023	165	0.51	
\$500,000 Chile (Republic of) 3.625% 2042	306	0.95	
CLP823,500,000 Chile (Republic of) 5.5% 2020	1,179	3.66	
\$1,000,000 Corporación Andina de Fomento 4.375% 2022	661	2.05	
\$1,150,000 IPIC GMTN 5.5% 2022	839	2.60	
KRW600,000,000 Korea (Republic of) 4.75% 2014	355	1.10	
\$1,050,000 MDC-GMTN 5.5% 2021	769	2.39	
\$1,055,000 Qatar (State of) 6.4% 2040	907	2.82	
\$1,000,000 TDIC Finance 6.5% 2014	660	2.05	
\$550,000 US Treasury 3.5% 2039	389	1.21	
\$150,000 US Treasury 5.5% 2028	132	0.41	
'A' credit rated bonds		26.90	38.60
\$950,000 Abu Dhabi National Energy 5.875% 2021	699	2.17	
MXN12,500,000 America Movil 6.45% 2022	603	1.87	
\$200,000 Corp Nacional del Cobre de Chile 3% 2022	123	0.38	
\$430,000 Corp Nacional del Cobre de Chile 5.625% 2035	325	1.01	
MYR4,250,000 Malaysia (Govt. of) 3.434% 2014	865	2.69	
\$300,000 Malaysia (Govt. of) Sukuk Global 3.928% 2015	197	0.61	
\$1,600,000 Malaysia (Govt. of) Sukuk Global 4.646% 2021	1,146	3.56	
MXN10,000,000 Mexico (United Mexican States) 7.25% 2016	512	1.59	
MXN8,000,000 Mexico (United Mexican States) 8% 2013	392	1.22	
MXN5,000,000 Mexico (United Mexican States) 8% 2015	257	0.80	
MXN25,000,000 Mexico (United Mexican States) 8.5% 2029	1,494	4.64	
MXN10,000,000 Mexico (United Mexican States) 8.5% 2038	600	1.86	
\$100,000 Poland (Republic of) 6.375% 2019	77	0.24	
\$750,000 Qtel International Finance 3.25% 2023	465	1.44	
\$350,000 Ras Laffan Liquefied Natural Gas III 6.75% 2019	271	0.84	
\$750,000 Vale Overseas 8.25% 2034	637	1.98	
'BBB' credit rated bonds		26.07	27.42
\$1,000,000 Banco Santander 4.125% 2022	628	1.95	
\$500,000 Colombia (Republic of) 10.375% 2033	571	1.77	
\$700,000 DP World 6.85% 2037	507	1.57	
\$635,000 Ecopetrol 7.625% 2019	508	1.58	
\$750,000 Empresa Nacional del Petróleo 6.25% 2019	532	1.65	
\$600,000 Eurasian Development Bank 4.767% 2022	384	1.19	
\$750,000 Gazprom 8.625% 2034	667	2.07	
\$200,000 Iceland (Republic of) 5.875% 2022	138	0.43	
\$200,000 Latvia (Republic of) 5.25% 2021	144	0.45	
\$800,000 Lukoil International Finance 6.125% 2020	572	1.78	
£900,000 Mexico (United Mexican States) 6.75% 2024	1,130	3.51	
£462,000 Petrobras Global Finance 5.375% 2029	485	1.51	

M&G Emerging Markets Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'BBB' credit rated bonds (continued)			
£250,000 Petrobras International Finance 6.25% 2026	288	0.89	
£600,000 Petróleos Mexicanos 8.25% 2022	775	2.41	
\$500,000 Petroleum of Trinidad & Tobago 9.75% 2019	407	1.26	
\$400,000 Russian Federation 5% 2020	293	0.91	
£300,000 RZD Capital 7.487% 2031	366	1.14	
'BB' credit rated bonds			
		13.13	12.74
\$1,000,000 Bolivia (Republic of) 4.875% 2022	603	1.87	
\$500,000 Hrvatska Elektroprivreda 6% 2017	324	1.01	
\$50,000 Indonesia (Republic of) 11.625% 2019	47	0.15	
\$625,000 Israel Electric 7.25% 2019	419	1.30	
€500,000 New World Resources 7.875% 2018	422	1.31	
\$350,000 Northern Lights III 7% 2019	240	0.74	
\$1,500,000 Perusahaan Penerbit 4% 2018	992	3.08	
\$74,000 Perusahaan Penerbit 8.8% 2014	50	0.16	
\$580,000 Philippines (Republic of) 6.375% 2034	503	1.56	
\$250,000 Philippines (Republic of) 6.5% 2020	197	0.61	
\$350,000 Sappi Papier Holding 8.375% 2019	237	0.74	
\$250,000 Turkey (Republic of) 6.25% 2022	193	0.60	
'B' credit rated bonds			
		7.96	3.58
\$200,000 Cemex Finance 9.375% 2022	137	0.43	
€800,000 Cemex Finance 9.625% 2017	700	2.17	
\$875,000 First Quantum Minerals 7.25% 2019	547	1.70	
\$1,125,000 Zambia (Republic of) 5.375% 2022	693	2.15	
\$750,000 Zhaikunai International 7.125% 2019	487	1.51	
Bonds with no credit rating			
		0.61	0.32
\$295,000 Altice Fincio 9.875% 2020	197	0.61	
Credit default swaps ^[a]			
		0.03	0.00
\$750,000 Indonesia (Republic of) Sep 2017	4	0.01	
\$750,000 South Africa (Republic of) Sep 2017	7	0.02	
Forward currency contracts			
		(0.33)	(0.05)
PHP77,000,000 Bought for \$1,867,391 (expires 21.02.13)	5	0.02	
\$1,837,935 Bought for CLP900,000,000 (expires 21.02.13)	(18)	(0.06)	
\$2,903,895 Bought for €2,250,000 (expires 21.02.13)	(40)	(0.12)	
\$5,138,688 Bought for £3,200,000 (expires 21.02.13)	(21)	(0.07)	
\$1,586,124 Bought for ZAR14,000,000 (expires 21.02.13)	(33)	(0.10)	
Interest rate futures contracts			
		0.02	0.00
(50) 10 Year US Treasury Note Mar 2013	10	0.03	
(10) UK Long Gilt Bond Mar 2013	(2)	(0.01)	
'AAA' rated money market funds ^[b]			
		0.13	0.68
66,000 Northern Trust Global Fund - US dollar	41	0.13	
Portfolio of investments	31,525	97.88	99.88
Net other assets	683	2.12	0.12
Net assets attributable to shareholders	32,208	100.00	100.00

^[a] Unquoted / unlisted.

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

PORTFOLIO TRANSACTIONS

for the six months ended 31 December 2012

Largest purchases	£'000
10 Year US Treasury Note Dec 2012 ^[a]	8,332
10 Year US Treasury Note Mar 2013 ^[a]	4,069
UK Long Gilt Bond Dec 2012 ^[a]	2,388
MDC-GMTN 5.5% 2021 (\$)	1,520
UK Long Gilt Bond Mar 2013 ^[a]	1,179
IPIC GMTN 5.5% 2022 (\$)	826
Petróleos Mexicanos 8.25% 2022 (£)	765
Zambia (Republic of) 5.375% 2022 (\$)	707
Abu Dhabi National Energy 5.875% 2021 (\$)	698
TDIC Finance 6.5% 2014 (\$)	671
Gazprom 8.625% 2034 (\$)	665
Corporación Andina de Fomento 4.375% 2022 (\$)	664
Bolivia (Republic of) 4.875% 2022 (\$)	623
Vale Overseas 8.25% 2034 (\$)	622
America Movil 6.45% 2022 (MXN)	620
Mexico (United Mexican States) 6.75% 2024 (£)	618
Banco Santander 4.125% 2022 (\$)	614
Mexico (United Mexican States) 8.5% 2038 (MXN)	609
Cemex Finance 9.625% 2017 (£)	591
Lukoil International Finance 6.125% 2020 (\$)	573
Northern Trust Global Fund - US dollar ^[b]	5,163
Other purchases	9,896
Total purchases	42,413
Largest sales	£'000
10 Year US Treasury Note Dec 2012 ^[a]	8,313
10 Year US Treasury Note Mar 2013 ^[a]	8,301
UK Long Gilt Bond Dec 2012 ^[a]	2,383
UK Long Gilt Bond Mar 2013 ^[a]	2,373
Colombia (Republic of) 4.375% 2021 (\$)	1,244
Peru (Republic of) 7.35% 2025 (\$)	1,173
Russian Federation 5% 2020 (\$)	934
Chile (Republic of) 3.875% 2020 (\$)	931
Germany (Federal Republic of) 6.25% 2024 (€)	882
Malaysia (Govt. of) 2.509% 2012 (MYR)	809
MDC-GMTN 5.5% 2021 (\$)	761
Perusahaan Penerbit 8.8% 2014 (\$)	708
Brazil (Federal Republic of) 8% 2018 (\$)	655
Italy (Republic of) 5.5% 2022 (€)	573
Argentina (Republic of) Step-Up 2038 (€)	522
Sri Lanka (Republic of) 5.88% 2022 (\$)	519
Chile (Republic of) 3.25% 2021 (\$)	506
US Treasury 4.375% 2041 (\$)	410
Malaysia (Govt. of) 3.434% 2014 (MYR)	408
Peru (Republic of) 8.75% 2033 (\$)	217
Northern Trust Global Fund - US dollar ^[b]	5,282
Other sales	1,200
Total sales	39,104

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

^[b] Cash management fund used to reduce risk and manage surplus cash.

M&G Emerging Markets Bond Fund

INTERIM FINANCIAL STATEMENTS (unaudited)

For the six months ended 31 December 2012.

STATEMENT OF TOTAL RETURN

	2012		2011	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		585		(54)
Revenue	579		476	
Expenses	(198)		(148)	
Net revenue before taxation	381		328	
Taxation	(1)		0	
Net revenue after taxation		380		328
Total return before distributions		965		274
Finance costs: Distributions		(381)		(328)
Change in net assets attributable to shareholders from investment activities		584		(54)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2012		2011	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		22,229		19,714
Amounts received on issue of shares	11,087		1,834	
Amounts paid on cancellation of shares	(1,896)		(1,392)	
		9,191		442
Change in net assets attributable to shareholders from investment activities (see above)		584		(54)
Retained distributions on Accumulation shares		204		142
Closing net assets attributable to shareholders		32,208		20,244

The opening net assets attributable to shareholders for 2012 differs to the closing position in 2011 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

BALANCE SHEET

	as at 31 December 2012		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		31,639		22,297
Debtors	570		377	
Cash and bank balances	475		84	
Total other assets		1,045		461
Total assets		32,684		22,758
Liabilities				
Investment liabilities		(114)		(95)
Creditors				
Net distributions payable on Income shares	(170)		(133)	
Other creditors	(192)		(301)	
Total other liabilities		(362)		(434)
Total liabilities		(476)		(529)
Net assets attributable to shareholders		32,208		22,229

NOTE TO THE FINANCIAL STATEMENTS

Accounting policies

The interim financial statements have been prepared on the same basis as the audited annual financial statements for the year ended 30 June 2012. They are 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.

M&G European Corporate Bond Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective of the M&G European Corporate Bond Fund

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

Investment policy of the M&G European Corporate Bond Fund

The Fund invests mainly in investment grade corporate bonds denominated in any European currency. The Fund may also invest in high yield corporate bonds, government and public securities denominated in any European currency. The Fund's exposure to bonds, government and other public securities may be gained through the use of derivatives. The Fund may also invest in other assets, including collective investment schemes, other transferable securities, cash and near cash, deposits, warrants, money market instruments and other derivative instruments which may be denominated in any major global currency. Any non-European currency exposures within the fund may be managed by currency hedges in European currencies.

Investment approach

The M&G European Corporate Bond Fund aims to maximise total returns through investing in mainly European investment grade corporate bonds. The fund also has the flexibility to invest in high yield or government bonds. The fund manager believes returns are driven by a combination of macroeconomic, asset, sector, geography and stock-level factors. A dynamic investment approach is followed, allowing the fund manager to change the blend of duration and credit exposure based on his outlook.

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

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

Risk and reward profile*



* 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 2 January 2013, for the six months ended 31 December 2012

There were no major changes to our key sector convictions during the review period, and we still favour industries that are able to produce stable earnings throughout the economic cycle, so-called 'defensive', or 'non-cyclical' sectors, such as cable and telecommunications companies. Over the period, we invested further in some of our preferred names in these areas such as TeliaSonera and Vivendi.

The fund is mainly invested in companies based in economically stronger European countries such as Germany, the UK, the Netherlands and France. In addition, we maintained approximately 15% of the fund in US issuers based on our positive outlook for the US economy.

Within financials we maintain our preference for insurance companies along with selected banks. We slightly increased our exposure to this sector over the period and purchased bonds* issued by some of the better quality banking names such as Lloyds TSB, Citigroup, Banco Bilbao Vizcaya Argentaria, Svenska Handelsbanken and Bank of America. We also participated in a new bond issuance by the Bank of Ireland which was offering a generous yield (prospective rate of return). Compared with the rest of the eurozone periphery, Ireland is showing some signs of progress and a slight return to growth.

We marginally reduced the fund's credit risk and sold some of the lower rated corporate bonds such as issuances by Czech coal producer New World Resources and Polish television network TVN. Although the bonds had delivered good returns, we believed they offered less potential for further significant gains.

There were no substantial changes to the fund's duration (a measure of the portfolio's sensitivity to changes in interest rates) which was 3.8 years as at the end of December. This is moderately short relative to the Merrill Lynch EMU Corporate Index and we believe it is a prudent position for the fund to take given that interest rates remain at very low levels.

Stefan Isaacs

Fund manager

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

* Corporate and government bonds are loans that are extended by an investor to an issuing entity – private sector firms in the case of corporate bonds and governments in the case of government bonds – in exchange for regular interest payments. The issuer promises to pay the holder the initial value of the loan at the end of the bond's life.

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

M&G European Corporate Bond Fund

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Third interim	02.04.13	31.05.13
Final	01.07.13	31.08.13
First interim	01.10.13	30.11.13
Second interim	02.01.14	28.02.14

	Interim distribution Inc 28.02.13 ^[a]	Acc 02.01.13 ^[a]	Ongoing Charges Figure ^[b] 31.12.12	30.06.12
Sterling	p	p	%	%
Class 'A'	0.3320	0.4396	1.16	1.16
Class 'I'	6.4800	6.4700	0.66 ^[c]	n/a
Class 'R'	0.6040	0.6048	0.91 ^[c]	n/a
Class 'X'	0.2980	0.3840	1.41	1.42
Euro	¢	¢	%	%
Class 'A'	n/a	9.2242	1.16	1.17
Class 'C'	n/a	12.0422	0.66	0.66
Swiss franc	¢	¢	%	%
Class 'A-H'	n/a	5.5006	1.22 ^[c]	n/a
Class 'C-H'	n/a	7.2360	0.72 ^[c]	n/a

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

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

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

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

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 31.12.12		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	68.44	89.70	63.36	82.23	+8.02	+9.08
Class 'I'	1,070.89	1,082.10	n/a	n/a	n/a	n/a
Class 'R'	107.09	108.11	n/a	n/a	n/a	n/a
Class 'X'	68.33	88.41	63.26	81.13	+8.01	+8.97
Euro	€	€	€	€	%	%
Class 'A'	n/a	15.3768	n/a	14.2268	n/a	+8.08
Class 'C'	n/a	16.6497	n/a	15.3656	n/a	+8.36
Swiss franc	CHF	CHF	CHF	CHF	%	%
Class 'A-H'	n/a	10.2526	n/a	n/a	n/a	n/a
Class 'C-H'	n/a	10.2703	n/a	n/a	n/a	n/a

PERFORMANCE SINCE LAUNCH

	six months 02.07.12 %	one year 03.01.12 %	five years 02.01.08 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+8.3	+9.8	+7.9	+6.1 ^[c]
Class 'I'	n/a	n/a	n/a	+8.5 ^[d]
Class 'R'	n/a	n/a	n/a	+8.3 ^[d]
Class 'X'	+8.2	+9.6	+7.7	+5.9 ^[c]
Euro ^[e]				
Class 'A'	+7.5	+13.5	+6.6	+4.5 ^[c]
Class 'C'	+7.8	+14.1	+7.2	+5.3 ^[c]
Swiss franc ^[e]				
Class 'A-H'	n/a	n/a	n/a	+3.1 ^[f]
Class 'C-H'	n/a	n/a	n/a	+3.2 ^[f]

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

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

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

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

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

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

SINGLE YEAR PERFORMANCE (5 YEARS ENDING DECEMBER)

From To	30.12.11 31.12.12 %	31.12.10 30.12.11 %	31.12.09 31.12.10 %	31.12.08 31.12.09 %	31.12.07 31.12.08 %
Sterling					
Class 'A'	+9.5	-1.9	+1.5	+9.2	+23.5

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

M&G European Corporate Bond Fund

FUND STATISTICS

PRICES					
	Calendar year	Income shares Highest	Income shares Lowest	Accumulation shares Highest	Accumulation shares Lowest
Sterling (net)					
Class 'A'	2008 ^[a]	p	p	p	p
	2008	65.96	50.42	76.73	58.66
	2009	71.05	58.13	85.72	68.50
	2010	71.28	63.28	87.72	77.42
	2011	70.55	63.62	88.74	80.18
	2012	69.00	63.12	90.00	80.94
	2013 ^[b]	68.59	68.59	89.88	89.88
Class 'I'	2012 ^[c]	1,081.01	1,000.00	1,085.78	1,000.00
	2013 ^[b]	1,073.25	1,073.25	1,084.50	1,084.50
Class 'R'	2012 ^[c]	108.06	100.00	108.48	100.00
	2013 ^[b]	107.32	107.32	108.35	108.35
Class 'X'	2008 ^[a]	65.83	50.39	76.24	58.36
	2009	70.94	58.03	85.04	68.06
	2010	71.15	63.16	86.85	76.70
	2011	70.41	63.50	87.73	79.35
	2012	68.86	63.02	88.71	79.94
	2013 ^[b]	68.48	68.48	88.59	88.59
Euro (gross)					
Class 'A'	2008 ^[a]	€	€	€	€
	2008	n/a	n/a	11.4288	10.2037
	2009	n/a	n/a	12.7674	10.5122
	2010	n/a	n/a	13.6789	12.7098
	2011	n/a	n/a	13.7832	13.2270
	2012	n/a	n/a	15.4044	13.6162
	2013 ^[b]	n/a	n/a	15.4565	15.4565
Class 'C'	2008 ^[a]	n/a	n/a	12.0953	10.8188
	2009	n/a	n/a	13.6157	11.1685
	2010	n/a	n/a	14.6475	13.5573
	2011	n/a	n/a	14.8188	14.2331
	2012	n/a	n/a	16.6767	14.6702
	2013 ^[b]	n/a	n/a	16.7365	16.7365
Swiss franc (gross)					
Class 'A-H'	2012 ^[d]	CHF	CHF	CHF	CHF
	2012	n/a	n/a	10.2732	10.0000
	2013 ^[b]	n/a	n/a	10.3507	10.3507
Class 'C-H'	2012 ^[d]	n/a	n/a	10.2896	10.0000
	2013 ^[b]	n/a	n/a	10.3239	10.3239

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

^[b] To 2 January 2013.

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

^[d] From 28 September 2012 (the launch date of the share class).

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

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

INCOME

Interest income per share		Calendar year	Interims	Distributed Final	Interim	Total	Reinvested
Sterling (net)			p	p	p	p	p
Class 'A'	2008	0.8948	0.4620	0.4308	1.7876	2.0380	
	2009	1.3312	0.4109	0.5600	2.3021	2.7152	
	2010	0.9640	0.4040	0.5000	1.8680	2.2776	
	2011	0.9040	0.4580	0.4400	1.8020	2.2744	
	2012	0.8260	0.3720	0.3232	1.5212	1.9536	
	2013 ^[a]	0.3320	-	-	0.3320	0.4396	
Class 'I'	2012	n/a	n/a	4.4392	4.4392	4.4392	
	2013 ^[a]	6.4800	-	-	6.4800	6.4700	
Class 'R'	2012	n/a	n/a	0.3972	0.3972	0.3972	
	2013 ^[a]	0.6040	-	-	0.6040	0.6048	
Class 'X'	2008	0.8408	0.4392	0.4052	1.6852	1.9149	
	2009	1.2701	0.3800	0.5260	2.1761	2.5546	
	2010	0.8960	0.3680	0.4700	1.7340	2.0944	
	2011	0.8360	0.4280	0.4060	1.6700	2.0756	
	2012	0.7592	0.3380	0.2912	1.3884	1.7648	
	2013 ^[a]	0.2980	-	-	0.2980	0.3840	
Euro (gross)			¢	¢	¢	¢	¢
Class 'A'	2008	n/a	n/a	n/a	n/a	43.9341	
	2009	n/a	n/a	n/a	n/a	49.8534	
	2010	n/a	n/a	n/a	n/a	45.2734	
	2011	n/a	n/a	n/a	n/a	44.6211	
	2012	n/a	n/a	n/a	n/a	41.4915	
	2013 ^[a]	n/a	n/a	n/a	n/a	9.2242	
Class 'C'	2008	n/a	n/a	n/a	n/a	51.4435	
	2009	n/a	n/a	n/a	n/a	58.5264	
	2010	n/a	n/a	n/a	n/a	55.3539	
	2011	n/a	n/a	n/a	n/a	55.0311	
	2012	n/a	n/a	n/a	n/a	52.4129	
	2013 ^[a]	n/a	n/a	n/a	n/a	12.0422	
Swiss franc (gross)			¢	¢	¢	¢	¢
Class 'A-H'	2012	n/a	n/a	n/a	n/a	nil	
	2013 ^[a]	n/a	n/a	n/a	n/a	5.5006	
Class 'C-H'	2012	n/a	n/a	n/a	n/a	nil	
	2013 ^[a]	n/a	n/a	n/a	n/a	7.2360	

^[a] Up to interim: ex-distribution date 2 January 2013;
payment date 28 February 2013.

M&G European Corporate Bond Fund

FUND STATISTICS

NET ASSETS					
	Period ended	Value per share Inc	Value per share Acc	Number of shares Inc	Number of shares Acc
Sterling					
Class 'A'	Jun 2010	62.96	77.52	6,664,100	549,142,600
	Jun 2011	69.76	88.27	28,359,100	299,387,565
	Jun 2012	63.36	82.23	36,922,100	216,086,565
	Dec 2012	68.44	89.70	39,638,100	94,490,565
Class 'I'	Dec 2012	1,070.89	1,082.10	100	100
Class 'R'	Dec 2012	107.09	108.11	1,000	1,000
Class 'X'					
	Jun 2010	62.87	76.80	4,918,097	53,168,951
	Jun 2011	69.65	87.27	1,858,097	47,425,951
	Jun 2012	63.26	81.13	1,858,097	39,489,951
	Dec 2012	68.33	88.41	1,913,097	39,798,951
Euro					
Class 'A'	Jun 2010	n/a	13.0531	n/a	14,616,058
	Jun 2011	n/a	13.5298	n/a	16,802,358
	Jun 2012	n/a	14.2268	n/a	37,370,758
	Dec 2012	n/a	15.3768	n/a	60,291,158
Class 'C'	Jun 2010	n/a	13.9576	n/a	31,359,853
	Jun 2011	n/a	14.5398	n/a	33,670,653
	Jun 2012	n/a	15.3656	n/a	49,132,253
	Dec 2012	n/a	16.6497	n/a	64,826,753
Swiss franc					
Class 'A-H'	Dec 2012	n/a	10.2526	n/a	10,405,900
Class 'C-H'	Dec 2012	n/a	10.2703	n/a	3,000
Total net asset value of sub-fund					
	Period ended	£	€ [a]		
	Jun 2010	987,779,000	1,207,955,000		
	Jun 2011	975,077,000	1,078,206,000		
	Jun 2012	1,271,637,000	1,577,215,000		
	Dec 2012	1,856,858,000	2,276,748,000		

[a] Based on the midday exchange rate on the last business day of each accounting period.

PORTFOLIO

PORTFOLIO STATEMENT

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'AAA' credit rated bonds			
€3,500,000 European Investment Bank 2.25% 2022	2,988	0.16	12.70
£1,000,000 European Investment Bank 3% 2015	1,064	0.06	
€10,000,000 European Investment Bank 3.5% 2027	9,339	0.50	
€10,000,000 Germany (Federal Republic of) 0.75% IL 2018	9,466	0.51	
€15,000,000 Germany (Federal Republic of) 1.5% IL 2016	15,320	0.82	
€30,000,000 Germany (Federal Republic of) 1.75% IL 2020	31,481	1.70	
€30,000,000 Germany (Federal Republic of) 2% 2016	25,996	1.40	

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'AAA' credit rated bonds (continued)			
€51,300,000 Germany (Federal Republic of) 2.25% IL 2013	46,861	2.52	
€30,835,000 Germany (Federal Republic of) 3.25% 2020	29,388	1.58	
€26,500,000 Germany (Federal Republic of) 3.5% 2016	23,869	1.29	
€2,500,000 Germany (Federal Republic of) 3.75% 2015	2,193	0.12	
€85,000,000 Germany (Federal Republic of) 3.75% 2017	79,278	4.27	
€12,500,000 Germany (Federal Republic of) 4.25% 2017	12,026	0.65	
€3,000,000 Germany (Federal Republic of) 4.25% 2018	2,954	0.16	
€8,400,000 Germany (Federal Republic of) 6% 2016	8,239	0.44	
£9,765,000 Gosforth Funding 2012-2 FRN 2049	9,765	0.53	
€20,000,000 Johnson & Johnson 4.75% 2019	19,975	1.08	
£4,129,940 Leek Finance FRN 2038 18X A2A	4,213	0.23	
£3,577,000 Leek Finance FRN 2038 19X A2A	3,608	0.19	
£3,913,000 Lloyds TSB Bank 4.875% 2027	4,522	0.24	
£4,055,000 Lloyds TSB Bank 5.125% 2025	4,882	0.26	
€10,000,000 Storm FRN 2054	8,232	0.44	
'AA' credit rated bonds			
		9.03	6.16
€8,527,337 Aire Valley Mortgages FRN 2066	6,520	0.35	
€5,657,000 Corporación Andina de Fomento 4.625% 2018	5,101	0.27	
€7,690,000 Deutsche Boerse 2.375% 2022	6,427	0.35	
€5,725,000 Fingrid 3.5% 2024	5,021	0.27	
€2,000,000 GE Capital European Funding 3.625% 2017	1,773	0.10	
€1,500,000 GE Capital European Funding 4.625% 2027	1,465	0.08	
€5,500,000 GE Capital European Funding 6.025% 2038	5,922	0.32	
€3,300,000 GE Capital Trust IV Var. Rate 2066	2,629	0.14	
\$5,000,000 General Electric Capital 5.3% 2021	3,589	0.19	
£8,000,000 Ixis Corporate & Investment Bank 5.875% 2020	9,444	0.51	
€4,095,000 MetLife Global Funding 2.375% 2019	3,501	0.19	
€10,800,000 MetLife Global Funding 4.625% 2017	10,122	0.55	
€1,500,000 Nestlé Finance International 1.5% 2019	1,246	0.07	
€10,000,000 Nestlé Finance International 1.75% 2022	8,068	0.43	
€5,350,000 New York Life Global Funding 4.375% 2017	4,893	0.26	
\$5,000,000 Nordea Bank 4.875% 2021	3,587	0.19	
€4,600,000 Novartis Finance 4.25% 2016	4,209	0.23	
€2,848,078 Paragon Mortgages No.8 FRN 2035	2,091	0.11	
€3,300,000 Pfizer 4.55% 2017	3,103	0.17	
€3,200,000 Pfizer 4.75% 2016	2,956	0.16	
€2,500,000 Pfizer 5.75% 2021	2,662	0.14	
€5,000,000 Rabobank Nederland 4% 2022	4,676	0.25	
€4,100,000 Rabobank Nederland 4.125% 2025	3,902	0.21	
€1,600,000 Rabobank Nederland 4.75% 2018	1,521	0.08	
£6,000,000 Reseau Ferre de France 5.5% 2021	7,212	0.39	
£4,947,585 RMAC Securities FRN 2044	4,466	0.24	
€2,125,000 Roche Holdings 6.5% 2021	2,360	0.13	
\$1,000,000 Roche Holdings 7% 2039	936	0.05	
€2,500,000 Shell International Finance 4.375% 2018	2,390	0.13	
€9,000,000 Svenska Handelsbanken 2.625% 2022	7,579	0.41	
£15,000,000 Svenska Handelsbanken 2.75% 2022	14,876	0.80	
£2,530,000 Svenska Handelsbanken 4% 2019	2,786	0.15	
€1,600,000 Total Capital 4.875% 2019	1,581	0.08	

M&G European Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'AA' credit rated bonds (continued)			
\$20,000,000 US Treasury 0.625% 2017	12,362	0.67	
\$5,000,000 US Treasury 1.75% 2022	3,130	0.17	
£3,000,000 Wal-Mart Stores 5.25% 2035	3,610	0.19	
'A' credit rated bonds			
		25.21	30.16
\$4,000,000 Abbey National Treasury Services FRN 2014	2,464	0.13	
\$3,570,000 ABN Amro Bank 4.25% 2017	2,408	0.13	
€17,000,000 Allianz Finance II Var. Rate 2041	15,901	0.85	
€5,108,000 America Movil 3% 2021	4,379	0.24	
€9,122,000 America Movil 4.125% 2019	8,551	0.46	
€4,100,000 American International Group FRN 2013	3,335	0.18	
€4,100,000 Anglian Water Services Financing 6.25% 2016	3,960	0.21	
£1,000,000 ASIF II 6.375% 2020	1,201	0.06	
€3,300,000 ASIF III Jersey 4.75% 2013	2,760	0.15	
£5,575,000 ASIF III Jersey 5% 2018	6,202	0.33	
€8,890,000 AT&T 3.55% 2032	7,563	0.41	
£3,000,000 AT&T 4.875% 2044	3,140	0.17	
£5,000,000 AT&T 5.875% 2017	5,806	0.31	
€9,900,000 Banco Bilbao Vizcaya Argentaria 3.5% 2020	7,789	0.42	
€1,700,000 Banco Bilbao Vizcaya Argentaria 4.75% 2016	1,460	0.08	
€3,000,000 Banco Santander 3.625% 2017	2,498	0.14	
€1,500,000 Banco Santander 4.375% 2015	1,268	0.07	
€1,600,000 Bank of America 4.625% 2017	1,468	0.08	
€2,500,000 Bank of America 4.75% 2017	2,295	0.12	
€1,600,000 Bank of America 7% 2016	1,543	0.08	
€850,000 Bank of America FRN 2016	668	0.04	
\$5,000,000 Bank of America NA 5.3% 2017	3,454	0.19	
€271,084 Bankinter Fondo Titulización FRN 2035	33	0.00	
€128,142 Bankinter Fondo Titulización FRN 2038	62	0.00	
£2,500,000 Barclays Bank 9.5% 2021	3,279	0.18	
€4,000,000 BAT International Finance 5.375% 2017	3,856	0.21	
£5,000,000 BAT International Finance 7.25% 2024	6,758	0.36	
€2,590,000 BG Energy Capital 3% 2018	2,292	0.12	
€4,100,000 BG Energy Capital 3.625% 2019	3,762	0.20	
€6,000,000 BP Capital Markets 2.994% 2019	5,306	0.29	
€3,000,000 CEZ Finance 4.5% 2020	2,851	0.15	
€2,500,000 CEZ Finance 4.875% 2025	2,462	0.13	
€3,287,000 CEZ Finance 5.75% 2015	2,989	0.16	
€9,000,000 Citigroup 5% 2019	8,631	0.47	
€5,000,000 Citigroup 7.375% 2019	5,359	0.29	
€3,300,000 Citigroup FRN 2016	2,620	0.14	
€14,000,000 Cloverie (Zurich Ins) Var. Rate 2039	13,923	0.75	
€800,000 Crédit Logement FRN 2017	606	0.03	
£5,000,000 Daimler International Finance 3.5% 2019	5,240	0.28	
\$5,000,000 Danske Bank 3.875% 2016	3,271	0.18	
£4,500,000 DNB Bank 4.25% 2020	5,030	0.27	
€5,000,000 DNB Bank 4.25% 2022	4,746	0.26	
€2,715,690 Eddystone Finance FRN 2021	2,104	0.11	
€5,000,000 Électricité de France 4% 2025	4,484	0.24	
€2,500,000 Électricité de France 4.125% 2027	2,257	0.12	
\$8,000,000 Électricité de France 4.6% 2020	5,564	0.30	
€1,500,000 Électricité de France 6.25% 2021	1,582	0.09	

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'A' credit rated bonds (continued)			
€1,990,000 EnBW International 6.125% 2039	2,261	0.12	
€3,400,000 Enxsis Holding 1.875% 2020	2,761	0.15	
€2,425,000 Eni 4.25% 2020	2,245	0.12	
€6,800,000 Fortis Bank FRN 2018	5,414	0.29	
€1,050,000 Fortum 6% 2019	1,072	0.06	
€5,000,000 France Telecom 8.125% 2033	6,435	0.35	
€4,600,000 GDF Suez 5.95% 2111	4,002	0.22	
€1,050,000 GIE Suez Alliance 5.75% 2023	1,101	0.06	
€1,850,000 Goldman Sachs Group 4.5% 2016	1,637	0.09	
€4,100,000 Goldman Sachs Group 4.75% 2014	3,472	0.19	
€2,000,000 Goldman Sachs Group 5.125% 2019	1,885	0.10	
€800,000 Goldman Sachs Group FRN 2015	634	0.04	
€5,181,968 Granite Master Issuer FRN 2054 05-1 A5	4,146	0.22	
€3,680,000 Granite Master Issuer FRN 2054 05-1 B2	2,776	0.15	
€2,600,000 Granite Master Issuer FRN 2054 06-1X B4	1,961	0.11	
£3,000,000 Granite Master Issuer FRN 2054 06-1X M3	2,610	0.14	
£500,000 Granite Master Issuer FRN 2054 06-2 M4	435	0.02	
\$1,250,000 Granite Master Issuer FRN 2054 06-3 M2	675	0.04	
£3,500,000 Granite Master Issuer FRN 2054 07-1 3M2	3,131	0.17	
€1,600,000 Granite Master Issuer FRN 2054 07-2 3B2	1,207	0.07	
£1,652,160 Granite Master Issuer FRN 2054 07-2 4A2	1,619	0.09	
£1,115,697 Granite Mortgages FRN 2044	1,098	0.06	
€3,700,000 Hammerson 2.75% 2019	3,111	0.17	
€150,000 Hammerson 4.875% 2015	133	0.01	
€10,000,000 Hannover Finance Luxembourg Var. Rate 2024	8,508	0.46	
€8,000,000 Hannover Finance Luxembourg Var. Rate 2040	7,492	0.40	
€1,300,000 Hannover Finance Luxembourg Var. Rate 2043	1,163	0.06	
€3,000,000 Hannover Finance Luxembourg Var. Rate Perp.	2,505	0.13	
£2,000,000 Heathrow Funding (formerly BAA Funding) 5.225% 2025	2,311	0.12	
£3,000,000 HSBC Bank 4.75% 2046	2,897	0.16	
£3,000,000 HSBC Bank Var. Rate 2023	3,195	0.17	
£3,500,000 HSBC Bank Capital Funding Sterling LP Var. Rate Perp.	3,395	0.18	
£4,100,000 HSBC Holdings Var. Rate 2022	4,550	0.25	
\$5,000,000 ING Bank 3.75% 2017	3,285	0.18	
€3,500,000 ING Bank 4.5% 2022	3,332	0.18	
€888,000 ING Group 4.125% 2015	771	0.04	
\$3,000,000 JPMorgan Chase 6.3% 2019	2,287	0.12	
€5,800,000 JPMorgan Chase Var. Rate 2019	4,738	0.26	
€7,000,000 JPMorgan Chase Bank Var. Rate 2017	5,523	0.30	
€13,000,000 JPMorgan Chase Bank Var. Rate 2021	11,199	0.60	
\$6,600,000 Legrand 8.5% 2025	5,431	0.29	
€3,000,000 Leo-Mesdag FRN 2019	2,080	0.11	
€2,500,000 Lloyds TSB Bank 5.375% 2019	2,472	0.13	
£989,000 Lloyds TSB Bank 7.5% 2024	1,314	0.07	
€2,854,000 Merck Financial Services 4.5% 2020	2,756	0.15	
£1,000,000 Mitchells & Butlers Finance FRN 2033	628	0.03	
€2,500,000 Morgan Stanley 3.75% 2017	2,173	0.12	
€2,000,000 Morgan Stanley 5% 2019	1,818	0.10	
€5,100,000 Morgan Stanley 5.375% 2020	4,717	0.25	
€800,000 Morgan Stanley 6.5% 2018	782	0.04	
€2,500,000 Morgan Stanley FRN 2016	1,937	0.10	

M&G European Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'A' credit rated bonds (continued)			
€4,000,000 Muenchener Rueckversicherung Var. Rate 2041	3,895	0.21	
€11,700,000 Muenchener Rueckversicherung Var. Rate 2042	11,540	0.62	
\$5,000,000 Nationwide Building Society 6.25% 2020	3,669	0.20	
€6,100,000 OMV 2.625% 2022	5,140	0.28	
€1,627,000 Optus Finance 3.5% 2020	1,478	0.08	
€14,525,000 Parker Hannifin 4.125% 2015	12,696	0.68	
€5,000,000 Philip Morris International 2.875% 2024	4,235	0.23	
€10,400,000 Principal Financial Global Funding II 4.5% 2017	9,397	0.51	
€2,700,000 Rabobank Nederland 3.75% 2020	2,346	0.13	
€69,000 Rabobank Nederland 5.875% 2019	68	0.00	
€3,400,000 Réseau de Transport d'Électricité 2.125% 2019	2,847	0.15	
€7,000,000 Royal Bank of Scotland 5.375% 2019	6,767	0.36	
£2,500,000 Segro 5.5% 2018	2,793	0.15	
£800,000 Segro 5.625% 2020	910	0.05	
£1,837,000 Segro 6.75% 2021	2,228	0.12	
€1,895,000 Snam 3.875% 2018	1,657	0.09	
€1,370,000 Snam 4.375% 2016	1,212	0.07	
€2,970,000 Snam 5% 2019	2,745	0.15	
€1,500,000 Standard Chartered Bank 5.875% 2017	1,428	0.08	
€4,900,000 Standard Chartered Bank FRN 2018	3,936	0.21	
€7,865,000 Statkraft 2.5% 2022	6,469	0.35	
\$4,485,000 Swiss Re Capital I LP Var. Rate Perp.	2,871	0.15	
€4,000,000 Swiss Reinsurance Var. Rate Perp.	3,346	0.18	
€5,200,000 Teliasonera 3% 2027	4,345	0.23	
€2,290,000 Telstra 3.5% 2022	2,068	0.11	
€1,300,000 TenneT 4.5% 2022	1,252	0.07	
€2,000,000 Terna Rete Elettrica Nazionale 4.125% 2017	1,776	0.10	
€3,000,000 Terna Rete Elettrica Nazionale 4.75% 2021	2,780	0.15	
€5,800,000 Tesco 5.125% 2047	5,703	0.31	
€3,470,000 Teva Pharmaceutical Finance IV 2.875% 2019	3,019	0.16	
£5,100,000 UBS London 6.625% 2018	6,199	0.33	
€3,300,000 Verizon Wireless Capital 8.75% 2015	3,312	0.18	
€4,310,000 Westfarmers 2.75% 2022	3,606	0.19	
€2,500,000 Zurich Finance Var. Rate 2023	2,099	0.11	
'BBB' credit rated bonds			
		31.38	32.73
€5,100,000 ACEA 4.5% 2020	4,273	0.23	
€5,000,000 Akzo Nobel 4% 2018	4,589	0.25	
\$10,000,000 Altria Group 9.25% 2019	8,586	0.46	
\$3,615,000 Altria Group 9.7% 2018	3,126	0.17	
\$3,333,000 Altria Group 9.95% 2038	3,390	0.18	
€5,000,000 American International Group Var. Rate 2067 (4.875%)	3,629	0.20	
£5,000,000 American International Group Var. Rate 2067 (5.75%)	4,563	0.25	
£5,000,000 Anglo American Capital 6.875% 2018	5,848	0.31	
\$4,100,000 Anglo American Capital 9.375% 2014	2,780	0.15	
€3,300,000 Areva 3.5% 2021	2,733	0.15	
€3,200,000 Areva 4.875% 2024	2,841	0.15	
€5,000,000 ASF 5.625% 2022	5,112	0.28	
€500,000 ASML Holding 5.75% 2017	475	0.03	
€1,400,000 Assicurazioni Generali Var. Rate 2042	1,215	0.07	

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'BBB' credit rated bonds (continued)			
£400,000 Atlantia 6.25% 2022	436	0.02	
€1,600,000 Aviva Var. Rate Perp.	1,291	0.07	
€16,400,000 Bank of America Var. Rate 2019	12,966	0.70	
€3,000,000 Barclays Bank 6.625% 2022	2,880	0.16	
£8,000,000 Barclays Bank FRN Perp.	4,200	0.23	
€8,000,000 Bayer Var. Rate 2105	6,881	0.37	
£3,000,000 BG Energy Capital Var. Rate 2072	3,232	0.17	
€1,000,000 BNP Paribas 4.875% Perp.	648	0.03	
€1,000,000 BNP Paribas Var. Rate Perp.	767	0.04	
€3,250,000 Bord Gáis Éireann 3.625% 2017	2,782	0.15	
\$2,000,000 British Sky Broadcasting 6.1% 2018	1,479	0.08	
\$2,000,000 British Sky Broadcasting 9.5% 2018	1,722	0.09	
£8,000,000 British Telecommunications 8.5% 2016	9,929	0.53	
€3,400,000 Cap Gemini 5.25% 2016	3,088	0.17	
€1,389,000 Carlsberg Breweries 2.625% 2019	1,178	0.06	
€34,880,000 Channel Link Enterprises Finance FRN 2050	26,740	1.44	
£5,000,000 Citigroup 5.875% 2024	5,428	0.29	
€4,900,000 Citigroup Var. Rate 2017	3,749	0.20	
€1,500,000 Citigroup Var. Rate 2019	1,184	0.06	
€5,845,000 Citigroup Var. Rate 2030	4,354	0.23	
€3,950,000 Coca-Cola Enterprises 3.125% 2017	3,492	0.19	
€1,000,000 Commerzbank 6.375% 2019	860	0.05	
€5,000,000 Commerzbank 7.75% 2021	4,375	0.24	
€1,600,000 Compagnie de St. Gobain 4% 2018	1,429	0.08	
£5,000,000 Co-Operative Bank 5.125% 2017	5,369	0.29	
€650,000 Crédit Logement Var. Rate Perp.	294	0.02	
€1,120,000 Deutsche Telekom 4.375% 2014	961	0.05	
€9,100,000 Deutsche Telekom 5.375% 2021	8,971	0.48	
€2,100,000 Deutsche Telekom 6% 2017	2,031	0.11	
€3,000,000 DONG Energy 4.875% 2021	2,924	0.16	
€3,000,000 DONG Energy 6.5% 2019	3,104	0.17	
€2,040,000 EnBW Energie Baden-Wuerttemberg Var. Rate 2072	1,857	0.10	
€2,500,000 Enel Finance International 4.875% 2020	2,197	0.12	
€2,280,000 Enel Finance International 5% 2022	1,979	0.11	
\$4,000,000 Enel Finance International 6.25% 2017	2,755	0.15	
€7,000,000 Erste Group Bank 7.125% 2022	6,482	0.35	
€4,850,000 FCE Bank 2.875% 2017	4,075	0.22	
£2,500,000 Finmeccanica Finance 8% 2019	2,743	0.15	
£2,000,000 Friends Life Group 8.25% 2022	2,169	0.12	
€3,200,000 Gas Natural Capital Markets 5% 2018	2,872	0.15	
£10,000,000 Gatwick Funding 5.25% 2026	11,281	0.61	
€5,000,000 Gecina 4.75% 2019	4,503	0.24	
€800,000 Glencore Finance Europe 5.25% 2013	675	0.04	
€50,000 Glencore Finance Europe 5.25% 2017	46	0.00	
\$3,000,000 Glencore Finance Europe 7.5% Perp.	2,031	0.11	
€6,000,000 Granite Master Issuer FRN 2054 05-2 C2	3,964	0.21	
€2,200,000 Granite Master Issuer FRN 2054 07-2 2C2	1,453	0.08	
€1,500,000 Granite Master Issuer FRN 2054 07-2 3C2	991	0.05	
£6,654,000 Heathrow Funding (formerly BAA Funding) 6% 2020	7,461	0.40	
£8,000,000 Heathrow Funding (formerly BAA Funding) 6.25% 2018	9,070	0.49	
£686,000 Heathrow Funding (formerly BAA Funding) 7.125% 2024	824	0.04	
€5,000,000 Henkel Var. Rate 2104	4,374	0.24	
€5,800,000 HSBC Capital Funding Var. Rate Perp.	4,730	0.25	
£166,000 HSBC Capital Funding Var. Rate Perp.	183	0.01	
€10,698,000 ICAP Group Holdings 7.5% 2014	9,266	0.50	

M&G European Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'BBB' credit rated bonds (continued)			
€5,000,000 Imperial Tobacco Finance 4.375% 2013	4,203	0.23	
€1,475,000 Imperial Tobacco Finance 4.5% 2018	1,374	0.07	
€3,000,000 Imperial Tobacco Finance 5% 2019	2,912	0.16	
€1,600,000 Imperial Tobacco Finance 5.5% 2016	1,801	0.10	
€12,000,000 Imperial Tobacco Finance 8.375% 2016	11,883	0.64	
€3,500,000 ING Bank Var. Rate 2023	3,105	0.17	
€3,696,000 Intesa Sanpaolo 4% 2017	3,114	0.17	
€4,000,000 Intesa Sanpaolo 4.125% 2020	3,295	0.18	
€1,600,000 Intesa Sanpaolo 4.75% 2017	1,403	0.07	
€279,000 Intesa Sanpaolo FRN 2018	192	0.01	
€2,000,000 KPN 3.25% 2021	1,633	0.09	
€4,000,000 KPN 4.25% 2022	3,461	0.19	
€2,380,000 KPN 4.5% 2021	2,106	0.11	
€6,500,000 KPN 8.375% 2030	5,335	0.29	
€17,150,000 Legal & General Group Var. Rate 2025	13,929	0.75	
€4,900,000 Linde Finance Var. Rate Perp.	4,082	0.22	
€7,500,000 Lloyds TSB Bank 6.5% 2020	6,981	0.38	
€4,000,000 Lloyds TSB Bank 7.625% 2025	4,601	0.25	
€6,880,000 Lloyds TSB Bank Var. Rate 2020	6,830	0.37	
\$5,000,000 Lorillard Tobacco 6.875% 2020	3,755	0.20	
€2,500,000 Lottomatica Group 3.5% 2020	2,095	0.11	
£1,029,000 Marks & Spencer 4.75% 2025	1,039	0.06	
£2,000,000 Marks & Spencer 6.125% 2019	2,282	0.12	
\$1,000,000 Meccanica Holdings USA 6.25% 2019	621	0.03	
€12,000,000 Mondi Consumer Packaging (formerly Nordenia International) 9.75% 2017	11,304	0.61	
€2,000,000 National Capital Instruments Euro FRN Perp.	1,358	0.07	
£2,850,000 National Express 6.625% 2020	3,297	0.18	
€1,050,000 National Grid 4.375% 2020	996	0.05	
£2,000,000 National Westminster Bank 6.5% 2021	2,108	0.11	
€13,500,000 Nationwide Building Society 6.75% 2020	12,862	0.69	
£4,000,000 Next 5.375% 2021	4,586	0.25	
£5,000,000 Next 5.875% 2016	5,633	0.30	
£6,000,000 Old Mutual 8% 2021	6,510	0.35	
€5,300,000 Old Mutual Var. Rate Perp.	3,986	0.21	
£5,000,000 Old Mutual Var. Rate Perp.	4,463	0.24	
€3,375,000 Origin Energy Finance 2.875% 2019	2,856	0.15	
€10,000,000 Pemex Project Funding Master Trust 5.5% 2025	9,258	0.50	
€3,500,000 Petrobras Global Finance 3.25% 2019	2,950	0.16	
£1,900,000 Petróleos Mexicanos 8.25% 2022	2,455	0.13	
\$3,000,000 Qwest 6.875% 2033	1,843	0.10	
\$1,600,000 Qwest 7.5% 2014	1,084	0.06	
\$2,000,000 Reed Elsevier Capital 8.625% 2019	1,598	0.09	
£5,000,000 Reed Elsevier Investments 7% 2017	6,084	0.33	
€2,500,000 Rentokil Initial 4.625% 2014	2,122	0.11	
€600,000 Repsol International Finance 4.875% 2019	536	0.03	
€800,000 Rexam 4.375% 2013	656	0.04	
\$6,500,000 Rhodia 6.875% 2020	4,536	0.24	
CHF1,000,000 Royal Bank of Scotland 2.375% 2015	647	0.03	
€5,000,000 Royal Bank of Scotland 6.934% 2018	4,577	0.25	
€4,900,000 RWE Var. Rate Perp.	4,065	0.22	
€10,000,000 Santander Consumer Finance 3.25% 2014	8,209	0.44	
£900,000 Santander International Debt 3.16% 2015	878	0.05	

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'BBB' credit rated bonds (continued)			
€9,000,000 SES 4.625% 2020	8,568	0.46	
€2,000,000 SES 4.75% 2021	1,926	0.10	
€4,500,000 SES 4.875% 2014	3,888	0.21	
€2,550,000 Severn Trent Water 5.25% 2016	2,355	0.13	
€1,000,000 SG Capital Trust III Var. Rate Perp.	779	0.04	
€1,500,000 Société Générale Var. Rate Perp.	1,166	0.06	
€2,100,000 Solvay Finance Var. Rate 2104	1,843	0.10	
€300,000 TDA Pastor FRN 2038	130	0.01	
€1,765,000 TDC 3.75% 2022	1,581	0.09	
€4,600,000 Telecom Italia 5.25% 2022	3,997	0.22	
€3,000,000 Telecom Italia 7% 2017	2,843	0.15	
£3,000,000 Telecom Italia 7.375% 2017	3,406	0.18	
\$2,000,000 Telecom Italia Capital 4.95% 2014	1,287	0.07	
€500,000 Telecom Italia Finance 7.75% 2033	470	0.03	
€2,000,000 Telefónica Emisiones 4.71% 2020	1,771	0.10	
€900,000 Telefónica Emisiones 4.75% 2017	795	0.04	
£2,000,000 Telefónica Emisiones 5.375% 2018	2,109	0.11	
€1,600,000 Teollisuuden Voima 6% 2016	1,501	0.08	
£1,600,000 Thames Water Utilities Cayman Var. Rate 2030	1,805	0.10	
£2,800,000 Time Warner Cable 5.25% 2042	2,998	0.16	
\$2,500,000 Time Warner Cable 7.3% 2038	2,059	0.11	
\$700,000 Time Warner Entertainment 8.375% 2033	615	0.03	
€2,500,000 TNT 5.375% 2017	2,313	0.12	
£5,500,000 UniCredit Var. Rate 2018	5,118	0.28	
€6,950,000 Ureco Finance 4% 2017	6,200	0.33	
€1,150,000 Ureco Finance 5.375% 2015	1,023	0.06	
€4,100,000 Vattenfall Treasury Var. Rate Perp.	3,546	0.19	
£5,000,000 Virgin Media Secured Finance 5.5% 2021	5,598	0.30	
£10,318,000 Virgin Media Secured Finance 7% 2018	11,170	0.60	
€5,000,000 Vivendi 4.125% 2017	4,474	0.24	
€5,200,000 Vivendi 4.75% 2021	4,868	0.26	
\$4,340,000 Vivendi 6.625% 2018	3,156	0.17	
€2,400,000 Vivendi 7.75% 2014	2,095	0.11	
£2,681,000 Western Power Distribution East Midlands 5.25% 2023	3,115	0.17	
€3,000,000 WPP 2008 6.625% 2016	2,860	0.15	
£2,000,000 WPP Finance 6.375% 2020	2,445	0.13	
£3,036,000 Yorkshire Water Services Bradford Finance Var. Rate 2025	3,373	0.18	
'BB' credit rated bonds		4.61	6.07
£500,000 Anglian Water Osprey Financing 7% 2018	542	0.03	
£600,000 Bank of Scotland Var. Rate Perp.	566	0.03	
€1,500,000 Buzzi Unicem 5.125% 2016	1,275	0.07	
€5,308,000 Crown European Holdings 7.125% 2018	4,764	0.26	
£1,600,000 Daily Mail & General Trust 5.75% 2018	1,696	0.09	
£2,000,000 Daily Mail & General Trust 6.375% 2027	1,965	0.11	
£2,000,000 Daily Mail & General Trust 10% 2021	2,510	0.14	
\$1,000,000 Dufry Finance 5.5% 2020	637	0.03	
€5,000,000 Fiat Industrial Finance Europe 6.25% 2018	4,564	0.25	
\$1,200,000 Fresenius Medical Care US Finance 6.875% 2017	839	0.05	
\$800,000 Fresenius US Finance II 9% 2015	570	0.03	
£1,575,000 GKN 5.375% 2022	1,624	0.09	
£1,000,000 GKN 6.75% 2019	1,136	0.06	
€1,500,000 Greif Luxembourg Finance 7.375% 2021	1,386	0.07	
€1,450,000 HeidelbergCement Finance 9.5% 2018	1,519	0.08	
€1,800,000 Interger 8.5% 2017	1,270	0.07	

M&G European Corporate Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'BB' credit rated bonds (continued)			
\$3,360,000 Intergen 9% 2017	1,860	0.10	
£600,000 Intergen 9.5% 2017	528	0.03	
€3,000,000 Kabel Deutschland Vertrieb & Service 6.5% 2018	2,644	0.14	
£5,500,000 Ladbrokes Group Finance 7.625% 2017	6,131	0.33	
€954,000 Lafarge 8.875% 2014	852	0.05	
€2,500,000 LBG Capital No.2 6.385% 2020	2,029	0.11	
£2,500,000 LBG Capital No.2 8.5% 2032	2,577	0.14	
CHF5,000,000 Matterhorn Mobile 6.75% 2019	3,604	0.19	
€5,007,000 OI European Group 6.75% 2020	4,645	0.25	
€1,200,000 OI European Group 6.875% 2017	1,013	0.05	
€2,500,000 Rexam Var. Rate 2067	2,135	0.11	
€4,000,000 Royal Bank of Scotland Var. Rate Perp.	2,296	0.12	
€1,866,000 Sappi Papier Holding 6.625% 2018	1,638	0.09	
\$4,050,000 Sappi Papier Holding 8.375% 2019	2,744	0.15	
€6,000,000 Smurfit Kappa Acquisitions 7.75% 2019	5,415	0.29	
CHF4,275,000 Sunrise Communications International 5.625% 2017	3,002	0.16	
€1,826,000 Unitymedia Hessen 7.5% 2019	1,638	0.09	
€4,000,000 UPCB Finance 7.625% 2020	3,574	0.19	
€250,000 UPCB Finance II 6.375% 2020	217	0.01	
£500,000 UPM-Kymmene 6.625% 2017	534	0.03	
£8,764,000 William Hill 7.125% 2016	9,715	0.52	
'B' credit rated bonds			
CHF820,000 Aguilas 3 7.875% 2018	592	0.03	
€6,065,000 Ardagh Packaging Finance 7.375% 2017	5,423	0.29	
€2,000,000 Ardagh Packaging Finance USA 7.375% 2017	1,777	0.10	
€2,500,000 Bank of Ireland 10% 2022	2,187	0.12	
€1,577,841 DECO Series FRN 2018	360	0.02	
£788,000 Elli Finance UK 8.75% 2019	860	0.05	
£2,000,000 Gala Group Finance 8.875% 2018	2,111	0.11	
£500,000 House of Fraser 8.875% 2018	525	0.03	
£1,000,000 Iron Mountain 7.25% 2014	1,000	0.05	
€805,000 Kabel Deutschland Holding 6.5% 2017	716	0.04	
€972,000 Refresco Group 7.375% 2018	824	0.05	
€500,000 Sunrise Communications Holdings 8.5% 2018	445	0.02	
€2,000,000 Telenet Finance Luxembourg 6.375% 2020	1,737	0.09	
€1,000,000 Telenet Finance III Luxembourg 6.625% 2021	869	0.05	
'CCC' credit rated bonds			
€1,500,000 Leopard FRN 2023	428	0.02	
Bonds with no credit rating			
€820,000 Alice Financing 8% 2019	704	0.04	
€2,100,000 AP Moller - Maersk 4.375% 2017	1,893	0.10	
€3,700,000 AP Moller - Maersk 4.875% 2014	3,207	0.17	
€20,000,000 Banco Bilbao Vizcaya Argentaria 3.5% 2017	16,359	0.88	
€5,298,000 Bank of Ireland Mortgage Bank 3.125% 2015	4,364	0.24	
€4,900,000 Bureau Veritas 3.75% 2017	4,240	0.23	
€7,500,000 Christian Dior 4% 2016	6,488	0.35	
€900,000 Davide Campari-Milano 4.5% 2019	763	0.04	
€16,400,000 Davide Campari-Milano 5.375% 2016	14,598	0.79	
€1,230,000 EWE 5.25% 2021	1,218	0.07	
€2,500,000 Heineken 4.625% 2016	2,298	0.12	
€2,200,000 Intesa Sanpaolo 3.625% 2022	1,842	0.10	

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
Bonds with no credit rating (continued)			
€2,000,000 Intesa Sanpaolo 5% 2022	1,850	0.10	
£10,000,000 John Lewis 8.375% 2019	13,044	0.70	
€3,100,000 Lagardere 4.125% 2017	2,634	0.14	
€2,700,000 Lehman Brothers Holdings 4.25% 2016 ^[a]	0	0.00	
£3,000,000 Lloyds TSB Bank FRN 2016	2,710	0.15	
£1,000,000 Romulus Finance 5.441% 2023	755	0.04	
€2,500,000 Suez Environnement Var. Rate Perp.	2,074	0.11	
€1,450,000 Suez Environnement 5.5% 2024	1,518	0.08	
€10,535,000 Symrise 4.125% 2017	9,302	0.50	
€3,400,000 Total Infrastructures Gaz France 4.339% 2021	3,208	0.17	
Credit default swaps ^[b]			
€(5,000,000) AB InBev Mar 2017	72	0.00	
€(20,000,000) Aegon Dec 2017	(563)	(0.03)	
€(5,000,000) Alstom Jun 2017	(112)	(0.01)	
€(5,000,000) Alstom Dec 2017	(154)	(0.01)	
€(10,000,000) BAA Funding Sep 2017	(102)	0.00	
€10,000,000 Barclays Bank Sep 2016	(33)	0.00	
\$(10,000,000) Berkshire Hathaway Dec 2017	(43)	0.00	
€(10,000,000) BNP Dec 2017	(115)	(0.01)	
€(10,000,000) Daimler Dec 2022	(321)	(0.02)	
€(10,000,000) Deutsche Telekom Dec 2017	48	0.00	
€(10,000,000) EDF Dec 2017	(12)	0.00	
€(5,000,000) Erste Group Bank Dec 2017	(99)	0.00	
€(10,000,000) Heathrow Funding Dec 2022	(551)	(0.03)	
€(80,000,000) iTraxx Europe Dec 2017	(538)	(0.03)	
€(5,000,000) Koninklijke KPN Sep 2017	(126)	(0.01)	
€5,000,000 Rexam Dec 2016	(40)	0.00	
€(5,000,000) Solvay Dec 2017	(29)	0.00	
€(5,000,000) Swedbank Mar 2017	192	0.01	
€(10,000,000) Telefónica Dec 2017	(434)	(0.02)	
€(10,000,000) The Royal Bank of Scotland Dec 2017	756	0.04	
\$(10,000,000) Time Warner Cable Dec 2016	40	0.00	
€(5,000,000) UBS Dec 2017	22	0.00	
€15,000,000 United States of America Sep 2016	(4)	0.00	
€(5,000,000) Veolia Environment Dec 2017	(94)	0.00	
€(5,000,000) Volkswagen Dec 2017	23	0.00	
€(5,000,000) Xstrata Dec 2017	(97)	0.00	
Forward currency contracts			
€458,153,776 Bought for £370,462,207 (expires 10.01.13)	3,224	0.17	
€9,763,480 Bought for CHF11,773,304 (expires 10.01.13)	9	0.00	
€148,984,997 Bought for \$193,149,888 (expires 10.01.13)	2,040	0.11	
€183,858 Bought for CHF221,971 (expires 24.01.13)	0	0.00	
CHF105,761,336 Bought for €87,605,868 (expires 24.01.13)	14	0.00	
Interest rate futures contracts			
(900) 10 Year US Treasury Note Mar 2013	204	0.01	
(108) German Euro Bobl Mar 2013	(78)	0.00	
(1,041) UK Long Gilt Bond Mar 2013	(178)	(0.01)	
(280) UK Medium Gilt Mar 2013	(53)	0.00	
'AAA' rated money market funds ^[c]			
49,600,000 Northern Trust Global Fund - Euro	40,452	2.18	
Portfolio of investments			
	1,817,984	97.91	96.59
Net other assets			
	38,874	2.09	3.41
Net assets attributable to shareholders			
	1,856,858	100.00	100.00

^[a] Defaulted bond.

^[b] Unquoted / unlisted.

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

M&G European Corporate Bond Fund

PORTFOLIO

PORTFOLIO TRANSACTIONS

for the six months ended 31 December 2012

Largest purchases	£'000
UK Long Gilt Bond Dec 2012 ^[a]	124,316
UK Long Gilt Bond Sep 2012 ^[a]	106,829
10 Year US Treasury Note Sep 2012 ^[a]	76,199
10 Year US Treasury Note Dec 2012 ^[a]	74,984
Germany (Federal Republic of) 3.75% 2017 (€)	73,446
Germany (Federal Republic of) 1.75% IL 2020 (€)	44,876
German Euro Bund Sep 2012 ^[a]	33,814
German Euro Bund Dec 2012 ^[a]	33,744
UK Medium Gilt Bond Sep 2012 ^[a]	31,996
UK Medium Gilt Bond Dec 2012 ^[a]	31,886
German Euro Bobl Dec 2012 ^[a]	28,635
Germany (Federal Republic of) 3.25% 2020 (€)	28,348
German Euro Bobl Sep 2012 ^[a]	28,261
Germany (Federal Republic of) 2% 2016 (€)	25,054
Germany (Federal Republic of) 3.5% 2016 (€)	23,514
Channel Link Enterprises Finance FRN 2050 (€)	16,911
Banco Bilbao Vizcaya Argentaria 3.5% 2017 (€)	16,190
Svenska Handelsbanken 2.75% 2022 (£)	14,860
US Treasury 0.625% 2017 (\$)	12,599
Germany (Federal Republic of) 4.25% 2017 (€)	11,786
Northern Trust Global Fund - Euro ^[b]	51,803
Other purchases	437,073
Total purchases	1,327,124
Largest sales	£'000
UK Long Gilt Bond Dec 2012 ^[a]	125,540
UK Long Gilt Bond Mar 2013 ^[a]	123,515
10 Year US Treasury Note Dec 2012 ^[a]	75,575
10 Year US Treasury Note Mar 2013 ^[a]	74,708
UK Long Gilt Bond Sep 2012 ^[a]	34,456
German Euro Bund Sep 2012 ^[a]	34,153
German Euro Bund Dec 2012 ^[a]	33,574
UK Medium Gilt Dec 2012 ^[a]	32,080
UK Medium Gilt Mar 2013 ^[a]	31,956
Germany (Federal Republic of) 1.75% IL 2020 (€)	28,976
German Euro Bobl Dec 2012 ^[a]	27,894
Treasury 1.875% IL 2022 (£)	14,960
German Euro Bobl Mar 2013 ^[a]	11,120
Heathrow Funding 4.6% 2020 (€)	9,985
Italy (Republic of) 2.1% 2016 (€)	6,571
US Bank NA FRN 2017 (€)	6,567
Altria Group 9.7% 2018 (\$)	6,423
JPMorgan Chase 4.5% 2022 (\$)	5,478
Experian Finance 4.75% 2020 (€)	4,641
VERBUND International Finance 5% 2014 (€)	4,615
Northern Trust Global Fund - Euro ^[b]	42,227
Other sales	143,982
Total sales	878,996

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

^[b] Cash management fund used to reduce risk and manage surplus cash.

INTERIM FINANCIAL STATEMENTS (unaudited)

For the six months ended 31 December 2012.

STATEMENT OF TOTAL RETURN

	2012		2011	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		115,793		(94,202)
Revenue	27,804		20,812	
Expenses	(7,118)		(4,478)	
Finance costs: Interest	(2)		(2)	
Net revenue before taxation	20,684		16,332	
Taxation	6		(2)	
Net revenue after taxation		20,690		16,330
Total return before distributions		136,483		(77,872)
Finance costs: Distributions		(20,690)		(16,330)
Change in net assets attributable to shareholders from investment activities		115,793		(94,202)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2012		2011	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		1,271,637		975,077
Amounts received on issue of shares	613,582		263,912	
Amounts paid on cancellation of shares	(165,616)		(114,771)	
		447,966		149,141
Stamp Duty Reserve Tax		0		(1)
Change in net assets attributable to shareholders from investment activities (see above)		115,793		(94,202)
Retained distributions on Accumulation shares		21,462		16,033
Closing net assets attributable to shareholders		1,856,858		1,046,048

The opening net assets attributable to shareholders for 2012 differs to the closing position in 2011 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

M&G European Corporate Bond Fund

INTERIM FINANCIAL STATEMENTS (unaudited)

BALANCE SHEET

	as at 31 December 2012		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		1,821,760		1,232,431
Debtors	37,089		37,043	
Cash and bank balances	7,424		19,709	
Total other assets		44,513		56,752
Total assets		1,866,273		1,289,183
Liabilities				
Investment liabilities		(3,776)		(4,107)
Creditors				
Net distributions payable on				
Income shares	(137)		(144)	
Other creditors	(5,156)		(13,295)	
Bank overdrafts	(346)		0	
Total other liabilities		(5,639)		(13,439)
Total liabilities		(9,415)		(17,546)
Net assets attributable to shareholders		1,856,858		1,271,637

NOTE TO THE FINANCIAL STATEMENTS

Accounting policies

The interim financial statements have been prepared on the same basis as the audited annual financial statements for the year ended 30 June 2012. They are 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.

M&G European High Yield Bond Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

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

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

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

The Fund mainly invests in higher yielding debt instruments denominated in any European currency and will normally be managed to give investors exposure to European currencies. The Fund's exposure to higher yielding debt instruments may be gained through the use of derivatives. The Fund may also invest in other assets including collective investment schemes, government and public securities and other transferable securities, cash and near cash, deposits, warrants, money market instruments and other derivative instruments which may be denominated in any major global currency. Any non-European currency exposures within the fund may be managed by currency hedges in European currencies.

Investment approach

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

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

Risk and reward profile*



* 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 2 January 2013, for the six months ended 31 December 2012

There were no major changes to our key sector convictions during the review period, and we still favour industries that are able to produce stable earnings throughout the economic cycle, so-called 'defensive', or 'non-cyclical' areas, such as packaging, telecommunication and cable companies. We invested further in some of our preferred names in these industries, such as US packaging group Reynolds, Swiss mobile and broadband provider Sunrise Communications, and South African paper manufacturer Sappi Papier.

The fund continues to be mainly invested in companies based in economically stronger European countries such as Germany, the UK, the Netherlands and Luxembourg. In addition, we maintained approximately 10% of the fund in US issuers, based on our positive outlook for the US economy. On this basis, we also purchased bonds* issued by Mexican cement producer Cemex as we believe the company should be well positioned to benefit from a US housing market recovery.

Within financials, we maintain our preference for insurance companies along with selected banks. Further additions were made in this area, including a new issuance from the Bank of Ireland that was offering a generous yield (prospective rate of return). Compared with the rest of the eurozone periphery, Ireland is showing some signs of progress and a slight return to growth. The fund's weighting in financials rose slightly to around 10% at the end of December.

We sold a number of holdings in names which we considered to be more sensitive to changes in investor sentiment, such as luxury carmaker Aston Martin, German car parts retailer Auto-Teile-Unger and bathroom manufacturer Grohe Holdings. Although these bonds had performed well, we believed they offered less of a potential for further significant gains.

James Tomlins

Fund manager

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

* Corporate and government bonds are loans that are extended by an investor to an issuing entity – private sector firms in the case of corporate bonds and governments in the case of government bonds – in exchange for regular interest payments. The issuer promises to pay the holder the initial value of the loan at the end of the bond's life.

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

M&G European High Yield Bond Fund

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Third interim	02.04.13	31.05.13
Final	01.07.13	31.08.13
First interim	01.10.13	30.11.13
Second interim	02.01.14	28.02.14

	Interim distribution Inc 28.02.13 ^[a]	Acc 02.01.13 ^[a]	Ongoing Charges Figure ^[b] 31.12.12	30.06.12
Sterling	p	p	%	%
Class 'A'	0.4940	1.0496	1.48	1.47
Class 'I'	14.7800	14.9100	0.98 ^[c]	n/a
Class 'R'	1.4340	1.4468	1.23 ^[c]	n/a
Class 'X'	0.4940	1.0496	1.48	1.46
Euro	€	€	%	%
Class 'A'	n/a	34.2224	1.48	1.46
Class 'C'	n/a	34.8761	0.99	0.96

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

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

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

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

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 31.12.12		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	41.49	89.03	37.30	78.06	+11.23	+14.05
Class 'I'	1,101.70	1,127.16	n/a	n/a	n/a	n/a
Class 'R'	110.17	112.61	n/a	n/a	n/a	n/a
Class 'X'	41.42	88.98	37.24	78.02	+11.22	+14.05
Euro	€	€	€	€	%	%
Class 'A'	n/a	23.3189	n/a	20.5546	n/a	+13.45
Class 'C'	n/a	21.9186	n/a	19.2715	n/a	+13.74

PERFORMANCE SINCE LAUNCH

	six months 02.07.12 %	one year 03.01.12 %	five years 02.01.08 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+15.0	+20.7	+8.8	+9.7 ^[c]
Class 'I'	n/a	n/a	n/a	+13.9 ^[d]
Class 'R'	n/a	n/a	n/a	+13.8 ^[d]
Class 'X'	+15.0	+20.7	+8.7	+4.5 ^[e]
Euro ^[f]				
Class 'A'	+14.6	+25.6	+8.3	+8.9 ^[g]
Class 'C'	+14.9	+26.3	+8.8	+8.2 ^[g]

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

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

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

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

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

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

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

SINGLE YEAR PERFORMANCE (5 YEARS ENDING DECEMBER)

From To	30.12.11 31.12.12 %	31.12.10 30.12.11 %	31.12.09 31.12.10 %	31.12.08 31.12.09 %	31.12.07 31.12.08 %
Sterling					
Class 'X'	+21.2	-7.2	+5.3	+35.0	-4.1

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

M&G European High Yield Bond Fund

FUND STATISTICS

PRICES					
	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling (net)					
		p	p	p	p
Class 'A'	2008 ^[a]	38.79	26.84	64.08	45.54
	2009	43.51	29.98	78.61	51.89
	2010	44.36	37.92	83.49	70.69
	2011	44.70	36.45	87.35	73.06
	2012	42.63	36.42	90.40	74.17
	2013 ^[b]	41.93	41.93	89.97	89.97
Class 'I'	2012 ^[c]	1,133.57	998.03	1,144.42	998.03
	2013 ^[b]	1,113.45	1,113.45	1,139.07	1,139.07
Class 'R'	2012 ^[c]	113.31	99.79	114.34	99.79
	2013 ^[b]	111.34	111.34	113.80	113.80
Class 'X'	2008 ^[a]	38.83	26.79	64.22	45.50
	2009	43.45	29.94	78.57	51.87
	2010	44.30	37.87	83.45	70.65
	2011	44.62	36.38	87.30	73.02
	2012	42.56	36.36	90.35	74.13
	2013 ^[b]	41.86	41.86	89.92	89.92
Euro (gross)					
		€	€	€	€
Class 'A'	2008 ^[a]	n/a	n/a	15.9781	11.5278
	2009	n/a	n/a	17.5862	11.6878
	2010	n/a	n/a	19.5733	17.5169
	2011	n/a	n/a	20.3957	17.7836
	2012	n/a	n/a	23.5764	18.8156
	2013 ^[b]	n/a	n/a	23.6381	23.6381
Class 'C'	2008 ^[a]	n/a	n/a	14.6751	10.6151
	2009	n/a	n/a	16.2838	10.7789
	2010	n/a	n/a	18.2014	16.2304
	2011	n/a	n/a	19.0164	16.6124
	2012	n/a	n/a	22.1601	17.5980
	2013 ^[b]	n/a	n/a	22.2187	22.2187

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

^[b] To 2 January 2013.

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

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

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

INCOME

Interest income per share		Calendar year		Interims		Distributed		Interim		Total		Reinvested	
		year				Final							
Sterling (net)				p		p		p		p		p	
Class 'A'	2008			0.9136		0.4592		0.4624		1.8352		3.0133	
	2009			1.1682		0.4232		0.5940		2.1854		3.8061	
	2010			1.1640		0.5480		0.5760		2.2880		4.1952	
	2011			0.9960		0.5140		0.5320		2.0420		3.9772	
	2012			1.1260		0.5220		0.5252		2.1732		4.4332	
	2013 ^[a]			0.4940		-		-		0.4940		1.0496	
Class 'I'	2012			n/a		n/a		9.7392		9.7392		9.7392	
	2013 ^[a]			14.7800		-		-		14.7800		14.9100	
Class 'R'	2012			n/a		n/a		0.9272		0.9272		0.9272	
	2013 ^[a]			1.4340		-		-		1.4340		1.4468	
Class 'X'	2008			0.9144		0.4544		0.4624		1.8312		3.0096	
	2009			1.1656		0.4224		0.5940		2.1820		3.8019	
	2010			1.1620		0.5480		0.5600		2.2700		4.1920	
	2011			0.9980		0.5100		0.5360		2.0440		3.9620	
	2012			1.1200		0.5220		0.5212		2.1632		4.4312	
	2013 ^[a]			0.4940		-		-		0.4940		1.0496	
Euro (gross)				¢		¢		¢		¢		¢	
Class 'A'	2008			n/a		n/a		n/a		n/a		94.7750	
	2009			n/a		n/a		n/a		n/a		108.9829	
	2010			n/a		n/a		n/a		n/a		125.2580	
	2011			n/a		n/a		n/a		n/a		115.9767	
	2012			n/a		n/a		n/a		n/a		142.9323	
	2013 ^[a]			n/a		n/a		n/a		n/a		34.2224	
Class 'C'	2008			n/a		n/a		n/a		n/a		65.3830	
	2009			n/a		n/a		n/a		n/a		106.9757	
	2010			n/a		n/a		n/a		n/a		124.6535	
	2011			n/a		n/a		n/a		n/a		117.5832	
	2012			n/a		n/a		n/a		n/a		143.3062	
	2013 ^[a]			n/a		n/a		n/a		n/a		34.8761	

^[a] Up to interim: ex-distribution date 2 January 2013; payment date 28 February 2013.

M&G European High Yield Bond Fund

FUND STATISTICS

NET ASSETS					
	Period ended	Value per share Inc	Value per share Acc	Number of shares Inc	Number of shares Acc
Sterling					
Class 'A'	Jun 2010	37.82	71.26	15,446,056	4,187,000
	Jun 2011	43.66	86.33	9,380,056	3,547,000
	Jun 2012	37.30	78.06	13,142,056	3,449,000
	Dec 2012	41.49	89.03	14,010,056	3,142,000
Class 'I'	Dec 2012	1,101.70	1,127.16	100	100
Class 'R'	Dec 2012	110.17	112.61	1,000	1,000
Class 'X'					
	Jun 2010	37.77	71.22	31,348,879	3,599,928
	Jun 2011	43.59	86.27	32,548,879	6,734,928
	Jun 2012	37.24	78.02	32,791,879	3,142,928
	Dec 2012	41.42	88.98	33,708,879	3,359,928
Euro					
Class 'A'	Jun 2010	n/a	18.0313	n/a	1,172,544
	Jun 2011	n/a	19.9840	n/a	3,115,844
	Jun 2012	n/a	20.5546	n/a	1,383,244
	Dec 2012	n/a	23.3189	n/a	1,780,244
Class 'C'					
	Jun 2010	n/a	16.7375	n/a	854,400
	Jun 2011	n/a	18.6431	n/a	892,900
	Jun 2012	n/a	19.2715	n/a	209,700
	Dec 2012	n/a	21.9186	n/a	563,300
Total net asset value of sub-fund					
	Period ended	£	€ [a]		
	Jun 2010	52,212,000	63,850,000		
	Jun 2011	98,523,000	108,943,000		
	Jun 2012	48,438,000	60,078,000		
	Dec 2012	69,494,000	85,209,000		

[a] Based on the midday exchange rate on the last business day of each accounting period.

PORTFOLIO

PORTFOLIO STATEMENT

as at 31 December 2012

Holding [a]	Value £'000	31.12.12 %	30.06.12 %
'AAA' credit rated bonds		5.42	3.69
€2,500,000 Germany (Federal Republic of) 0.5% 2017	2,064	2.97	
€2,000,000 Germany (Federal Republic of) 1.75% 2022	1,700	2.45	
'AA' credit rated bonds		0.57	0.72
€500,000 GE Capital Trust IV Var. Rate 2066	398	0.57	
'BBB' credit rated bonds		4.10	3.66
€500,000 Bank of America Var. Rate 2018	382	0.55	
€600,000 Commerzbank 7.75% 2021	525	0.75	
£570,000 Finmeccanica Finance 8% 2019	625	0.90	
£800,000 Friends Life Group 8.25% 2022	868	1.25	
\$100,000 Meccanica Holdings USA 6.25% 2019	62	0.09	
€500,000 Société Générale Var. Rate Perp.	389	0.56	
'BB' credit rated bonds		34.28	38.21
£445,000 Anglian Water Osprey Financing 7% 2018	482	0.69	
€750,000 Bombardier 6.125% 2021	654	0.94	
€955,000 Bormioli Rocco 10% 2018	827	1.19	
€710,000 Buzzi Unicem 6.25% 2018	614	0.88	
£1,080,000 Cabot Financial Luxembourg 10.375% 2019	1,186	1.71	
€500,000 Fiat Finance & Trade 7.75% 2016 (Series EMTN)	432	0.62	
€735,000 Fiat Finance & Trade 7.75% 2016 (Series NOV)	635	0.91	
€500,000 Fiat Industrial Finance Europe 6.25% 2018	456	0.66	
£400,000 Heathrow Finance (formerly BAA) 7.125% 2017	433	0.62	
€550,000 HeidelbergCement Finance 9.5% 2018	576	0.83	
€893,000 Interger 8.5% 2017	630	0.91	
\$1,059,000 Interger 9% 2017	586	0.84	
€700,000 Kabel Deutschland Vertrieb & Service 6.5% 2018	617	0.89	
£650,000 LBG Capital No.1 7.5884% 2020	679	0.98	
£1,030,000 Lowell Group Financing 10.75% 2019	1,130	1.63	
CHF2,210,000 Matterhorn Mobile 6.75% 2019	1,593	2.29	
€1,071,000 New World Resources 7.875% 2018	904	1.30	
€920,000 Rexam Var. Rate 2067	786	1.13	
€174,000 Sappi Papier Holding 6.625% 2018	153	0.22	
\$600,000 Sappi Papier Holding 7.75% 2017	402	0.58	
\$750,000 Sappi Papier Holding 8.375% 2019	508	0.73	
€470,000 Smurfit Kappa Acquisitions 5.125% 2018	404	0.58	
€1,250,000 Smurfit Kappa Acquisitions 7.25% 2017	1,097	1.58	
€295,000 Smurfit Kappa Acquisitions 7.75% 2019	266	0.38	
£425,000 Southern Water Greensands Financing 8.5% 2019	444	0.64	
CHF1,510,000 Sunrise Communications International 5.625% 2017	1,060	1.53	
CHF1,000,000 Sunrise Communications International 7% 2017	724	1.04	
\$770,000 Unitymedia 7.5% 2019	524	0.75	
€520,000 Unitymedia Hessen 7.5% 2019	466	0.67	
€1,000,000 UPCB Finance 7.625% 2020	894	1.29	
€700,000 UPCB Finance II 6.375% 2020	609	0.88	
£635,000 Virgin Media Finance 8.875% 2019	719	1.03	
€500,000 Viridian 11.125% 2017	421	0.61	
\$1,415,000 Viridian 11.125% 2017	912	1.31	
€400,000 Wendel 5.875% 2019	346	0.50	
€797,000 Wind Acquisition Finance 7.375% 2018	655	0.94	

M&G European High Yield Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding ^[a]	Value £'000	31.12.12 %	30.06.12 %
'B' credit rated bonds		39.37	42.49
€1,500,000 Abengoa 4.5% 2017 (Abengoa)	1,119	1.61	
\$270,000 Agrokor 8.875% 2020	174	0.25	
€570,000 Agrokor 9.875% 2019	518	0.74	
CHF930,000 Aguila 3 7.875% 2018	671	0.97	
€621,000 Ardagh Packaging Finance 7.375% 2017	555	0.80	
£1,155,000 Bakkavor Finance 2 8.25% 2018	1,165	1.68	
€1,000,000 Bank of Ireland 10% 2022	875	1.26	
€400,000 Boparan Finance 9.875% 2018	450	0.65	
€940,000 Catalent Pharma Solutions 9.75% 2017	785	1.13	
\$320,000 Cemex Finance 9.375% 2022	219	0.31	
€1,533,000 Cemex Finance 9.625% 2017	1,341	1.93	
€1,110,000 Ciech Group Financing 9.5% 2019	998	1.44	
\$445,000 Cincinnati Bell 8.375% 2020	297	0.43	
£205,357 DFS Furniture Holdings 9.75% 2017	222	0.32	
€1,250,000 Edcon Proprietary 9.5% 2018	978	1.41	
\$240,000 Edcon Proprietary 9.5% 2018	142	0.20	
£698,000 Elli Finance UK 8.75% 2019	762	1.10	
£990,000 Exova 10.5% 2018	1,030	1.48	
\$260,000 First Quantum Minerals 7.25% 2019	163	0.23	
€690,000 Foodcorp 8.75% 2018	618	0.89	
£250,000 Gala Group Finance 8.875% 2018	264	0.38	
€275,000 Guala Closures FRN 2019	227	0.33	
£700,000 House of Fraser 8.875% 2018	734	1.06	
€174,000 Inaer Aviation Finance 9.5% 2017	140	0.20	
€1,020,000 Kerling 10.625% 2017	803	1.15	
€415,000 KM Germany Holdings 8.75% 2020	355	0.51	
\$1,236,000 Nara Cable Funding 8.875% 2018	765	1.10	
€230,000 Numericable Finance 8.75% 2019	200	0.29	
€250,000 Numericable Finance FRN 2018	207	0.30	
€675,000 Ontex IV 7.5% 2018	585	0.84	
£1,510,000 Phones4u Finance 9.5% 2018	1,571	2.26	
\$955,000 Plains Exploration & Production 6.75% 2022	654	0.94	
€320,000 Polish Television Holding Step-Up 2017	278	0.40	
€882,000 Refresco Group 7.375% 2018	748	1.08	
\$1,000,000 Reynolds Group Issuer 5.75% 2020	640	0.92	
€750,000 Schmolz + Bickenbach Luxembourg 9.875% 2019	515	0.74	
\$400,000 Shea Homes 8.625% 2019	273	0.39	
\$500,000 Sprint Nextel 8.375% 2017	357	0.51	
€420,000 Stork Technical Services Holdings 11% 2017	368	0.53	
€785,000 Styrolution Group 7.625% 2016	668	0.96	
€540,000 Techem Energy Metering Service 7.875% 2020	486	0.70	
€1,360,000 Telenet Finance V Luxembourg 6.25% 2022	1,180	1.70	
£200,000 Thomas Cook Group 7.75% 2017	160	0.23	
€371,000 Unitymedia 9.5% 2021	351	0.50	
€750,000 Unitymedia 9.625% 2019	686	0.99	
\$200,000 Univision Communications 7.875% 2020	134	0.19	
€200,000 Verisure Holding 8.75% 2018	178	0.26	
\$945,000 Windstream 7.5% 2023	617	0.89	
€155,000 Xefin 8% 2018	135	0.19	

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding ^[a]	Value £'000	31.12.12 %	30.06.12 %
'CCC' credit rated bonds		10.24	6.81
€118,080 ARD Finance 11.125% 2018	100	0.14	
€1,200,000 Ardagh Glass Finance 8.75% 2020	1,024	1.47	
€150,000 Beverage Packaging Holdings Luxembourg II 9.5% 2017	127	0.18	
\$250,000 CEDC Finance Corp International 9.125% 2016	89	0.13	
€400,000 CMA 8.875% 2019	259	0.37	
€850,000 Codere Finance Luxembourg 8.25% 2015	573	0.83	
\$1,175,000 Codere Finance Luxembourg 9.25% 2019	565	0.81	
€750,000 GCL 9.375% 2018	655	0.94	
€1,800,000 Ineos Group Holdings 7.875% 2016	1,458	2.10	
€500,000 Norcell 1B 12.4% 2019	399	0.58	
€1,675,000 Norcell Sweden Holding 2 10.75% 2019	1,481	2.13	
\$600,000 Reynolds Group Issuer 9% 2019	386	0.56	
Bonds with no credit rating		1.78	1.91
€200,000 Altice Financing 8% 2019	172	0.25	
\$295,000 Altice Finco 9.875% 2020	197	0.28	
€989,561 Boats Investments Netherlands 11% 2017	455	0.66	
€390,000 Faurecia 9.375% 2016	368	0.53	
€641,964 Hellas Telecom III 8.5% 2013 ^[b]	1	0.00	
€600,000 Lehman Brothers Holdings 4.25% 2016 ^[b]	0	0.00	
€1,445,993 Truvo 8.5% 2014 ^[b]	41	0.06	
Credit default swaps		0.00	0.01
Forward currency contracts		0.37	0.19
€16,645,764 Bought for £13,469,807 (expires 10.01.13)	107	0.15	
€5,073,091 Bought for CHF6,113,000 (expires 10.01.13)	8	0.01	
€10,971,624 Bought for \$14,237,350 (expires 10.01.13)	142	0.21	
'AAA' rated money market funds ^[c]		1.46	1.77
1,242,000 Northern Trust Global Fund - Euro	1,013	1.46	
Portfolio of investments	67,818	97.59	99.46
Net other assets	1,676	2.41	0.54
Net assets attributable to shareholders	69,494	100.00	100.00

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

^[b] Defaulted bond.

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

M&G European High Yield Bond Fund

PORTFOLIO

PORTFOLIO TRANSACTIONS

for the six months ended 31 December 2012

Largest purchases	£'000
Germany (Federal Republic of) 1.75% 2022 (€)	2,708
Germany (Federal Republic of) 0.5% 2017 (€)	2,345
Phones4u Finance 9.5% 2018 (£)	1,536
Cabot Financial Luxembourg 10.375% 2019 (£)	1,117
Matterhorn Mobile 6.75% 2019 (CHF)	1,106
Telenet Finance V Luxembourg 6.25% 2022 (€)	1,093
Sunrise Communications International 5.625% 2017 (CHF)	1,023
Edcon Proprietary 9.5% 2018 (€)	928
Ciech Group Financing 9.5% 2019 (€)	923
Ineos Group Holdings 7.875% 2016 (€)	811
Bank of Ireland 10% 2022 (€)	807
Cemex Finance 9.625% 2017 (€)	795
Fiat Finance & Trade 7.75% 2016 (Series EMTN) (€)	790
Bombardier 6.125% 2021 (€)	636
Reynolds Group Issuer 5.75% 2020 (\$)	620
Finmeccanica Finance 8% 2019 (£)	619
Plains Exploration & Production 6.75% 2022 (\$)	612
Fiat Finance & Trade 7.75% 2016 (Series NOV) (€)	602
Kabel Deutschland Vertrieb & Service 6.5% 2018 (€)	595
UPCB Finance II 6.375% 2020 (€)	585
Northern Trust Global Fund - Euro ^[a]	10,368
Other purchases	11,475
Total purchases	42,094
Largest sales	£'000
Germany (Federal Republic of) 1.75% 2022 (€)	1,062
Germany (Federal Republic of) 0.75% 2018 (€)	956
Edcon Proprietary FRN 2014 (€)	908
Germany (Federal Republic of) 2.25% 2013 (€)	815
Orion Engineered Carbons 10% 2018 (€)	746
Carlson Wagonlit 7.5% 2019 (€)	565
Ardagh Glass Finance 7.125% 2017 (€)	552
Aston Martin Capital 9.25% 2018 (£)	539
R&R Ice Cream 8.375% 2017 (€)	518
Dixons Retail 8.75% 2017 (£)	504
Sprint Nextel 8.375% 2017 (\$)	481
Reynolds Group Issuer 7.75% 2016 (\$)	479
Kabel Deutschland Vertrieb & Service 6.5% 2018 (€)	454
OI European Group 6.875% 2017 (€)	449
Mondi Consumer Packaging International 9.75% 2017 (€)	446
Grohe Holding 8.75% 2017 (€)	435
TVN Finance Corp II 10.75% 2017 (€)	433
Sappi Papier Holding 6.625% 2018 (€)	423
Fiat Finance & Trade 7.75% 2016 (Series EMTN) (€)	394
Virgin Media Finance 8.875% 2019 (£)	365
Northern Trust Global Fund - Euro ^[a]	10,222
Other sales	6,225
Total sales	27,971

^[a] Cash management fund used to reduce risk and manage surplus cash.

INTERIM FINANCIAL STATEMENTS (unaudited)

For the six months ended 31 December 2012.

STATEMENT OF TOTAL RETURN

	2012		2011	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		5,819		(14,525)
Revenue	2,207		3,167	
Expenses	(403)		(517)	
Net revenue before taxation	1,804		2,650	
Taxation	(4)		0	
Net revenue after taxation		1,800		2,650
Total return before distributions		7,619		(11,875)
Finance costs: Distributions		(1,799)		(2,649)
Change in net assets attributable to shareholders from investment activities		5,820		(14,524)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2012		2011	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		48,438		98,523
Amounts received on issue of shares	17,621		6,420	
Amounts paid on cancellation of shares	(3,728)		(37,145)	
		13,893		(30,725)
Change in net assets attributable to shareholders from investment activities (see above)		5,820		(14,524)
Retained distributions on Accumulation shares		1,343		1,683
Closing net assets attributable to shareholders		69,494		54,957

The opening net assets attributable to shareholders for 2012 differs to the closing position in 2011 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

BALANCE SHEET

	as at 31 December 2012		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		67,818		48,196
Debtors	2,589		1,590	
Cash and bank balances	620		112	
Total other assets		3,209		1,702
Total assets		71,027		49,898
Liabilities				
Investment liabilities		0		(22)
Creditors				
Net distributions payable on Income shares	(236)		(240)	
Other creditors	(1,297)		(1,198)	
Total other liabilities		(1,533)		(1,438)
Total liabilities		(1,533)		(1,460)
Net assets attributable to shareholders		69,494		48,438

M&G European High Yield Bond Fund

INTERIM FINANCIAL STATEMENTS (unaudited)

NOTE TO THE FINANCIAL STATEMENTS

Accounting policies

The interim financial statements have been prepared on the same basis as the audited annual financial statements for the year ended 30 June 2012. They are 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.

M&G European High Yield Bond Fund

This page is intentionally blank

M&G Fund of Investment Trust Shares

AUTHORISED CORPORATE DIRECTOR'S REPORT

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

The portfolio is normally limited to shares of investment trust companies. These shares provide a wide spread of investment in the UK and overseas stockmarkets and are often available at substantial discounts in relation to underlying asset values. Income is not a major factor, and the yield can be expected to be slightly less than the average for investment trust companies.

Investment approach

The M&G Fund of Investment Trust Shares is a diversified portfolio of approximately 60 investment companies with exposure to a wide range of international markets and investment classes. The fund manager uses his judgement to decide upon areas and investment vehicles from which long-term growth can be obtained. Additional criteria used include the investment philosophy and objective of the underlying holdings and the ability of each manager to deliver on them; and the discount at which its shares are trading. Holdings may be sold if there is a change in the fund manager's view; a failure of the underlying company to deliver on stated objectives; corporate activity, which leads the fund manager to take profits; or if the fund manager believes a holding has become overvalued.

Risk and reward profile*



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

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 2 January 2013, for the six months ended 31 December 2012

Over the review period, we added a Canadian position, Middlefield Canadian Income Trust, to increase our weighting to the North American market as a counterbalance to the fund's emerging market investments. North America is still perceived as a 'safe haven' which could have a stabilising effect should markets turn volatile again. The trust invests in a diverse range of income-generating Canadian companies.

A new position was also established in GCP Infrastructure Investments, a fund primarily invested in UK infrastructure debt. This, together with our existing infrastructure holding, Bilfinger Berger Global Infrastructure Fund, acts as a diversifier since infrastructure as a theme has no links to stockmarket performance. In addition, the fund should provide a relatively stable income.

In contrast, we exited BlackRock Commodities Income Investment Trust following a period of good performance in order to reduce the fund's exposure to mining. This sector tends to be more affected when the pace of economic recovery is uncertain.

We reduced positions in Aberdeen Asian Income Fund and Biotech Growth Trust to realise profits. These holdings have performed extremely well throughout the year. Also, we trimmed our holding in Advance Frontier Markets Fund for portfolio management purposes.

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 Fund of Investment Trust Shares

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Final	01.07.13	31.08.13
Interim	02.01.14	28.02.14

	Interim distribution Inc 28.02.13 ^[a]	Acc 02.01.13 ^[a]	Ongoing Charges Figure ^[b] 31.12.12	30.06.12
Sterling	p	p	%	%
Class 'A'	4.8370	10.7958	1.19%	1.20%
Class 'X'	1.5590	2.9179	1.69%	1.71%

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

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

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 31.12.12		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	1,351.44	3,026.75	1,240.16	2,767.74	+8.97	+9.36
Class 'X'	1,358.48	2,894.95	1,246.82	2,653.95	+8.96	+9.08

PERFORMANCE SINCE LAUNCH

	six months 02.07.12 %	one year 03.01.12 %	five years 02.01.08 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+9.5	+12.0	-1.0	+7.8 ^[c]
Class 'X'	+9.5	+12.0	-1.0	+7.9 ^[d]

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

^[b] Bid to bid excluding reinvested income.

^[c] 10 May 1968, the end of the initial offer period of the predecessor unit trust.

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

SINGLE YEAR PERFORMANCE (5 YEARS ENDING DECEMBER)

From To	30.12.11 31.12.12 %	31.12.10 30.12.11 %	31.12.09 31.12.10 %	31.12.08 31.12.09 %	31.12.07 31.12.08 %
Sterling					
Class 'A'	+12.1	-11.3	+23.1	+32.0	-39.2

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

PRICES

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

^[a] To 2 January 2013.

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

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

INCOME

Dividend income per share

	Calendar year	Interim	Distributed Final	Total	Reinvested
Sterling (net)		p	p	p	p
Class 'A'	2008	3.6700	3.7200	7.3900	15.8357
	2009	5.6190	7.1650	12.7840	27.6096
	2010	6.3560	6.4660	12.8220	28.0623
	2011	4.0800	4.0940	8.1740	18.0680
	2012	2.9780	3.4100	6.3880	14.2093
	2013 ^[a]	4.8370	-	4.8370	10.7958
Class 'X'	2008	nil	0.0940	0.0940	0.1968
	2009	3.0240	5.1010	8.1250	17.0500
	2010	3.6910	3.5280	7.2190	15.2746
	2011	1.0300	0.6620	1.6920	3.5981
	2012	nil	0.0440	0.0440	nil
	2013 ^[a]	1.5590	-	1.5590	2.9179

^[a] Up to interim: ex-distribution date 2 January 2013;
payment date 28 February 2013.

M&G Fund of Investment Trust Shares

FUND STATISTICS

NET ASSETS

	Period ended	Value per share Inc	Value per share Acc	Number of shares Inc	Number of shares Acc
Sterling		p	p		
Class 'A'	Jun 2010	1,134.30	2,503.62	904,617	661,560
	Jun 2011	1,369.83	3,041.70	873,617	620,210
	Jun 2012	1,240.16	2,767.74	845,117	600,540
	Dec 2012	1,351.44	3,026.75	824,017	577,025
Class 'X'	Jun 2010	1,140.58	2,424.80	32,653	10,114
	Jun 2011	1,377.01	2,931.41	34,253	10,869
	Jun 2012	1,246.82	2,653.95	33,353	12,794
	Dec 2012	1,358.48	2,894.95	33,353	11,804

Total net asset value of sub-fund	Period ended	£	€ [a]
	Jun 2010	27,442,000	33,559,000
	Jun 2011	31,622,000	34,971,000
	Jun 2012	27,858,000	34,552,000
	Dec 2012	29,396,000	36,043,000

[a] Based on the midday exchange rate on the last business day of each accounting period.

PORTFOLIO

PORTFOLIO STATEMENT

as at 31 December 2012

Holding [a]	Value £'000	31.12.12 %	30.06.12 %
Global growth		20.44	18.62
197,476 Alliance Trust	743	2.53	
31,000 Caledonia Investments	475	1.62	
460,000 Middlefield Canadian Income Trust Red. Pref. Shares	483	1.64	
447,855 Miton Worldwide Growth Investment Trust	584	1.99	
312,170 Monks Investment Trust	965	3.28	
950 Personal Assets Trust	325	1.11	
48,347 RIT Capital Partners	547	1.86	
171,493 Scottish Mortgage Investment Trust	1,283	4.36	
308,025 World Trust Fund	604	2.05	
Global growth & income		5.92	4.97
304,000 GCP Infrastructure 'C'	317	1.08	
350,000 Midas Income & Growth Trust	385	1.31	
523,321 Ruffer Investment Company Red. Pref. shares	1,039	3.53	
UK growth		7.67	8.10
201,737 Artemis Alpha Trust	565	1.92	
18,818 Artemis Alpha Trust (Subscription shares)	9	0.03	
250,000 Better Capital PCC	274	0.93	
76,000 Hansa Trust 'A' shares	546	1.86	
40,000 Keystone Investment Trust	530	1.80	
30,000 Mercantile Investment Trust	331	1.13	
UK growth & income		4.50	4.47
113,400 Finsbury Growth & Income Trust	443	1.51	
483,870 Troy Income & Growth Trust	267	0.91	
337,896 Value & Income Trust	612	2.08	

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding [a]	Value £'000	31.12.12 %	30.06.12 %
UK smaller companies		1.00	0.89
74,764 Montanaro UK Smaller Companies Investment Trust	293	1.00	
Europe		5.39	4.82
60,000 Fidelity European Values	770	2.62	
300,000 JPMorgan European Investment Trust (income shares)	264	0.90	
100,000 The European Investment Trust	549	1.87	
European smaller companies		2.29	2.05
92,661 JPMorgan European Smaller Companies Investment Trust	672	2.29	
North America		2.47	1.43
80,211 JPMorgan American Investment Trust	727	2.47	
North American smaller companies		2.45	2.04
55,000 North Atlantic Smaller Companies Investment Trust	720	2.45	
Global emerging markets		4.64	4.53
178,240 Advance Developing Markets Trust	785	2.67	
99,000 Templeton Emerging Markets Investment Trust	580	1.97	
Latin America		0.66	0.60
185,500 Aberdeen Latin American Income Fund	195	0.66	
Asia Pacific - excluding Japan		11.20	11.63
497,000 Aberdeen Asian Income Fund	1,092	3.72	
449,241 Edinburgh Dragon Trust	1,190	4.05	
550,000 Henderson Asian Growth Trust	1,009	3.43	
Japan		1.77	1.73
250,000 Baillie Gifford Japan Trust	521	1.77	
Japanese smaller companies		3.96	4.87
235,853 Baillie Gifford Shin Nippon	467	1.59	
319,008 JPMorgan Japanese Smaller Companies Investment Trust	453	1.54	
100,000 JPMorgan Japanese Smaller Companies Investment Trust (Subscription shares)	5	0.02	
450,000 Prospect Japan Fund	237	0.81	
Private equity		4.04	4.29
358,000 F&C Private Equity Trust	659	2.24	
60,000 Pantheon International Participations	528	1.80	
Property securities		2.48	2.29
422,262 TR Property Investment Trust (Sigma shares)	729	2.48	
Specialist		10.86	12.47
293,200 Biffinger Berger Global Infrastructure Fund	317	1.08	
227,061 Biotech Growth Trust	663	2.26	
161,296 BlackRock World Mining Trust	947	3.22	
338,873 CATCo Reinsurance 'C'	191	0.65	
519,643 Golden Prospect Precious Metals	442	1.50	
259,821 Golden Prospect Precious Metals (Subscription shares)	18	0.06	
750,229 Impax Asian Environmental Markets	615	2.09	
141,859 Impax Asian Environmental Markets (Subscription shares)	1	0.00	
Split capital		1.83	1.92
465,000 Ecofin Water & Power Opportunities	539	1.83	
AIM quoted		3.85	5.81
1,220,422 Advance Frontier Markets Fund	519	1.77	
300,000 India Capital Growth Fund	121	0.41	
300,000 Utilico Emerging Markets	492	1.67	
Warrants		0.01	0.20
69,000 World Trust Fund wts. 2011	4	0.01	

M&G Fund of Investment Trust Shares

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding ^[a]	Value £'000	31.12.12 %	30.06.12 %
Unquoted / unlisted		0.00	0.00
678,859 Battersea Power Station Shareholder Vehicle B	0	0.00	
509,521 Battersea Power Station wts. 2011	0	0.00	
75,000 Bioscience Investment Trust	0	0.00	
200,000 Biotechnology Investments 'D' ^[b]	0	0.00	
26,744 Thompson Clive Investment Trust	0	0.00	
Futures		(0.06)	0.02
18 E-Mini S&P 500 March 2013	(18)	(0.06)	
'AAA' rated money market funds ^[c]		2.53	2.53
743,000 Northern Trust Global Fund - Sterling	743	2.53	
Portfolio of investments	29,366	99.90	100.28
Net other assets / (liabilities)	30	0.10	(0.28)
Net assets attributable to shareholders	29,396	100.00	100.00

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

^[b] Delisted on 22 September 2010.

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

PORTFOLIO TRANSACTIONS

for the six months ended 31 December 2012

Purchases ^[a]	£'000
Middlefield Canadian Income Trust Red. Pref. Shares	474
JPMorgan American Investment Trust	325
GCP Infrastructure 'C'	304
TR Property Investment Trust (Sigma shares)	267
CATCo Reinsurance 'C'	248
Templeton Emerging Markets Investment Trust	107
RIT Capital Partners	100
Milton Worldwide Growth Investment Trust	60
Personal Assets Trust	53
Northern Trust Global Fund - Sterling ^[b]	1,462
Total purchases	3,400
Sales ^[a]	£'000
TR Property Investment Trust (Sigma shares)	390
Biotech Growth Trust	368
Advance Frontier Markets Fund	356
Aberdeen Asian Income Fund	256
F&C Private Equity Trust	229
CATCo Reinsurance 'C'	202
Utilico Emerging Markets	173
Edinburgh Dragon Trust	161
JPMorgan Japanese Smaller Companies Investment Trust	153
Hansa Trust 'A' shares	140
Advance Developing Markets Trust	128
Baillie Gifford Shin Nippon	92
World Trust Fund	69
Scottish Mortgage Investment Trust	62
Aberdeen Asian Income Fund wts. 2012	62
BlackRock Commodities Income Investment Trust	59
BlackRock World Mining Trust	56
Northern Trust Global Fund - Sterling ^[b]	1,424
Total sales	4,380

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

^[b] Cash management fund used to reduce risk and manage surplus cash.

INTERIM FINANCIAL STATEMENTS (unaudited)

For the six months ended 31 December 2012.

STATEMENT OF TOTAL RETURN

	2012 £'000	2011 £'000
Income		
Net capital gains / (losses)	2,448	(4,160)
Revenue	279	249
Expenses	(174)	(176)
Net revenue before taxation	105	73
Taxation	0	0
Net revenue after taxation	105	73
Total return before distributions	2,553	(4,087)
Finance costs: Distributions	(105)	(66)
Change in net assets attributable to shareholders from investment activities	2,448	(4,153)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2012 £'000	2011 £'000
Opening net assets attributable to shareholders	27,858	31,622
Amounts received on issue of shares	20	342
Amounts paid on cancellation of shares	(991)	(552)
Stamp Duty Reserve Tax	(971)	(210)
Change in net assets attributable to shareholders from investment activities (see above)	2,448	(4,153)
Retained distributions on Accumulation shares	62	40
Unclaimed distributions	0	2
Closing net assets attributable to shareholders	29,396	27,300

The opening net assets attributable to shareholders for 2012 differs to the closing position in 2011 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

M&G Fund of Investment Trust Shares

INTERIM FINANCIAL STATEMENTS (unaudited)

BALANCE SHEET

	as at 31 December 2012		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		29,384		27,936
Debtors	35		71	
Cash and bank balances	64		24	
Total other assets		99		95
Total assets		29,483		28,031
Liabilities				
Investment liabilities		(18)		0
Creditors				
Net distributions payable on				
Income shares	(40)		(29)	
Other creditors	(27)		(144)	
Bank overdrafts	(2)		0	
Total other liabilities		(69)		(173)
Total liabilities		(87)		(173)
Net assets attributable to shareholders		29,396		27,858

NOTE TO THE FINANCIAL STATEMENTS

Accounting policies

The interim financial statements have been prepared on the same basis as the audited annual financial statements for the year ended 30 June 2012. They are 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.

M&G Fund of Investment Trust Shares

This page is intentionally blank

M&G International Sovereign Bond Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective of the M&G International Sovereign Bond Fund

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

Investment policy of the M&G International Sovereign Bond Fund

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

Investment approach

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

Risk and reward profile*



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

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 2 January 2013, for the six months ended 31 December 2012

During the six months under review, we focused on bonds (interest-bearing loans) issued by governments from stronger economies. This was based on our concerns over the unresolved eurozone debt crisis and the uncertain outlook for the global economy. Consequently, we invested in government bonds from Germany and Sweden. On the other hand, we reduced the fund's holdings in US government bonds due to our belief that a recovery in the US housing market and the economy in general would put pressure on the prices of these assets.

Outside of 'safe haven' government debt, we put money into Italian government bonds as we expected these assets to gain from the European Central Bank's actions to improve banks' access to funding. The prices of these bonds rose during the review period, benefiting the fund's performance. We also established small positions in Tunisian government bonds (backed by the World Bank) and an issue from Temasek, an investment company owned by the Singaporean government, due to the attractive prices available.

In terms of currencies, we increased the fund's allocation to the US dollar on the back of our view that the currency would benefit from the pickup in the US economy. Conversely, we reduced the fund's holdings in the Japanese yen after strong performance, while maintaining positions in the Norwegian krone, Swedish krona and Canadian dollar, among other currencies.

Finally, we shortened the fund's duration, which measures the portfolio's sensitivity to changes in yields. Yield is a bond's prospective rate of return and moves in the opposite direction to the bond's price. We maintained a long duration on the portfolio at the start of the review period relative to the index, but went short in September as we expected yields to rise amid a more optimistic market environment, especially due to the recovery in the US economy. This shift in investor mood did indeed happen, and the short duration positioning was able to protect the fund's performance towards the end of the review period.

Mike Riddell
Fund manager

Mike Riddell 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 International Sovereign Bond Fund

FUND STATISTICS

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Final	01.07.13	31.08.13
Interim	02.01.14	28.02.14

	Interim distribution Inc 28.02.13 [a]	Acc 02.01.13 [a]	Ongoing Charges Figure [b] 31.12.12	30.06.12
Sterling	p	p	%	%
Class 'A'	0.2040	0.2596	1.17	1.20
Class 'I'	3.3360	3.3896	0.67 [c]	n/a
Class 'R'	0.3540	0.3540	0.92 [c]	n/a

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

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

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

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

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 31.12.12		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	83.43	107.34	84.20	108.06	-0.91	-0.67
Class 'I'	963.68	967.24	n/a	n/a	n/a	n/a
Class 'R'	96.39	96.75	n/a	n/a	n/a	n/a

PERFORMANCE SINCE LAUNCH

	six months 02.07.12 %	one year 03.01.12 %	five years 02.01.08 % p.a. [a]	since launch % p.a. [a]
Sterling [b]				
Class 'A'	-1.8	+0.2	+11.5	+5.8 [c]
Class 'I'	n/a	n/a	n/a	-4.4 [d]
Class 'R'	n/a	n/a	n/a	-4.4 [d]

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

[b] Bid to bid with net income reinvested.

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

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

SINGLE YEAR PERFORMANCE (5 YEARS ENDING DECEMBER)

From To	30.12.11 %	31.12.10 %	31.12.09 %	31.12.08 %	31.12.07 %
Sterling					
Class 'A'	+0.9	+10.7	+10.1	-9.0	+57.7

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

PRICES

	Calendar year	Income shares Highest	Lowest	Accumulation shares Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008 [a]	79.75	51.05	97.16	61.57
	2009	81.39	65.14	99.94	79.99
	2010	78.87	69.77	98.61	86.58
	2011	84.76	71.83	107.72	90.59
	2012	87.41	80.21	112.14	102.48
	2013 [b]	82.36	82.36	106.09	106.09
Class 'I'	2012 [c]	1,003.79	959.34	1,003.72	959.49
	2013 [b]	951.76	951.76	956.06	956.06
Class 'R'	2012 [c]	100.37	100.00	106.68	100.00
	2013 [b]	95.16	95.16	107.62	107.62

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

[b] To 2 January 2013.

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

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

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

INCOME

Interest income per share

	Calendar year	Interim	Distributed Final	Total	Reinvested
Sterling (net)		p	p	p	p
Class 'A'	2008	0.4860	0.5360	1.0220	1.2268
	2009	0.6276	0.2904	0.9180	1.1212
	2010	0.4400	0.5540	0.9940	1.2304
	2011	0.6600	0.6040	1.2640	1.5872
	2012	0.4420	0.3840	0.8260	1.0748
	2013 [a]	0.2040	-	0.2040	0.2596
Class 'I'	2013 [a]	3.3360	-	3.3360	3.3896
Class 'R'	2013 [a]	0.3540	-	0.3540	0.3540

[a] Up to interim: ex-distribution date 2 January 2013; payment date 28 February 2013.

NET ASSETS

	Period ended	Value per share Inc	Acc	Number of shares Inc	Acc
Sterling		p	p		
Class 'A'	Jun 2010	75.33	94.18	22,897,440	28,865,705
	Jun 2011	77.63	98.66	19,094,440	22,573,705
	Jun 2012	84.20	108.06	24,510,440	53,920,750
	Dec 2012	83.43	107.34	26,415,440	53,890,705
Class 'I'	Dec 2012	963.68	967.24	4,400	140,700
Class 'R'	Dec 2012	96.39	96.75	1,000	1,000

Total net asset value of sub-fund	Period ended	£	€ [a]
	Jun 2010	44,435,000	54,339,000
	Jun 2011	37,095,000	41,018,000
	Jun 2012	78,906,000	97,867,000
	Dec 2012	81,286,000	99,668,000

[a] Based on the midday exchange rate on the last business day of each accounting period.

M&G International Sovereign Bond Fund

PORTFOLIO

PORTFOLIO STATEMENT

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
'AAA' credit rated bonds		69.38	63.62
C\$3,500,000 Canada (Govt. of) 2.75% 2022	2,359	2.90	
C\$7,500,000 Canada (Govt. of) 3.25% 2021	5,236	6.44	
C\$750,000 Canada (Govt. of) 4.25% IL 2021	968	1.19	
C\$500,000 Canada (Govt. of) 5% 2037	462	0.57	
DKK50,000,000 Denmark (Kingdom of) 3% 2021	6,363	7.83	
€5,000,000 Germany (Federal Republic of) 0.75% IL 2018	4,733	5.82	
€3,500,000 Germany (Federal Republic of) 1.5% IL 2016	3,575	4.40	
€8,315,000 Germany (Federal Republic of) 1.75% 2022	7,068	8.70	
€1,700,000 Germany (Federal Republic of) 1.75% IL 2020	1,784	2.20	
€500,000 Germany (Federal Republic of) 4.75% 2034	595	0.73	
€1,000,000 Germany (Federal Republic of) 5.5% 2031	1,243	1.53	
€750,000 Germany (Federal Republic of) 5.625% 2028	914	1.12	
€3,000,000 Germany (Federal Republic of) 6.25% 2024	3,654	4.50	
€1,000,000 Germany (Federal Republic of) 6.5% 2027	1,311	1.61	
NOK5,000,000 KfW 5.25% 2017	619	0.76	
NOK80,000,000 Norway (Kingdom of) 2% 2023	8,753	10.77	
NOK7,000,000 Norway (Kingdom of) 3.75% 2021	883	1.09	
SEK28,800,000 Sweden (Kingdom of) 3.5% 2022	3,203	3.94	
SEK15,000,000 Sweden (Kingdom of) 3.5% 2039	1,751	2.15	
\$1,500,000 Temasek Financial I 2.375% 2023	921	1.13	
'AA' credit rated bonds		17.32	22.87
\$1,250,000 Bermuda (Govt. of) 4.138% 2023	823	1.01	
CLP700,000,000 Chile (Republic of) 5.5% 2020	1,002	1.24	
\$7,000,000 US Treasury 0.5% IL 2015	4,824	5.93	
\$650,000 US Treasury 1.75% 2022	407	0.50	
\$600,000 US Treasury 1.875% 2017	392	0.48	
\$850,000 US Treasury 2% 2021	547	0.67	
\$5,100,000 US Treasury 2% 2022	3,272	4.03	
\$170,000 US Treasury 2% IL 2016	136	0.17	
\$1,750,000 US Treasury 3.75% 2041	1,285	1.58	
\$1,500,000 US Treasury 6.125% 2027	1,388	1.71	
'A' credit rated bonds		11.15	10.70
€2,250,000 Italy (Republic of) 4.5% 2019	1,918	2.36	
€4,000,000 Italy (Republic of) 4.75% 2017	3,477	4.28	
¥105,150,000 Japan (Govt. of) 1.5% 2019	809	0.99	
¥10,100,000 Japan (Govt. of) 2.3% 2027	82	0.10	
MXN30,000,000 Mexico (United Mexican States) 7.75% 2017	1,585	1.95	
MXN20,000,000 Mexico (United Mexican States) 8.5% 2029	1,195	1.47	
'BBB' credit rated bonds		0.34	0.32
\$400,000 Iceland (Republic of) 5.875% 2022	276	0.34	
'BB' credit rated bonds		0.53	0.00
\$700,000 Tunisia (Govt. of) 1.686% 2019	431	0.53	
Forward currency contracts		(2.56)	1.46
¥2,160,000,000 Bought for \$27,180,615 (expires 21.02.13)	(1,303)	(1.60)	
\$5,947,726 Bought for A\$5,800,000 (expires 21.02.13)	(28)	(0.04)	
\$5,274,792 Bought for C\$5,250,000 (expires 21.02.13)	2	0.00	

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
Forward currency contracts (continued)			
\$1,490,769 Bought for CLP730,000,000 (expires 21.02.13)	(15)	(0.02)	
\$45,817,010 Bought for €35,500,000 (expires 21.02.13)	(624)	(0.77)	
\$6,684,370 Bought for ¥550,000,000 (expires 21.02.13)	185	0.23	
\$4,481,400 Bought for NZ\$5,500,000 (expires 21.02.13)	(16)	(0.02)	
\$6,360,120 Bought for NOK37,000,000 (expires 21.02.13)	(158)	(0.19)	
\$6,346,480 Bought £4,000,000 (expires 21.02.13)	(74)	(0.09)	
\$2,492,480 Bought for ZAR22,000,000 (expires 21.02.13)	(51)	(0.06)	
Interest rate futures contracts		0.05	0.00
(175) 10 Year US Treasury Note Mar 2013	40	0.05	
'AAA' rated money market funds ^[a]		1.05	0.00
855,000 Northern Trust Global Fund - Sterling	855	1.05	
Portfolio of investments	79,057	97.26	98.97
Net other assets	2,229	2.74	1.03
Net assets attributable to shareholders	81,286	100.00	100.00

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

M&G International Sovereign Bond Fund

PORTFOLIO

PORTFOLIO TRANSACTIONS

for the six months ended 31 December 2012

Purchases	£'000
10 Year US Treasury Note Dec 2012 ^[a]	29,016
10 Year US Treasury Note Mar 2013 ^[a]	14,527
Germany (Federal Republic of) 1.75% 2022 (€)	8,244
US Treasury 0.5% IL 2015 (\$)	4,883
Italy (Republic of) 5.5% 2022 (€)	4,855
Germany (Federal Republic of) 5.5% 2031 (€)	4,842
Germany (Federal Republic of) 2.5% 2044 (€)	3,358
Italy (Republic of) 4.75% 2017 (€)	3,230
Sweden (Kingdom of) 3.5% 2022 (SEK)	2,774
US Treasury 1.75% 2022 (\$)	1,688
Italy (Republic of) 2.1% 2016 (€)	1,612
United States of America Sep 2012 (\$)	1,605
Germany (Federal Republic of) 6.5% 2027 (€)	1,248
Temasek Financial I 2.375% 2023 (\$)	958
Tunisia (Govt. of) 1.686% 2019 (\$)	453
Northern Trust Global Fund - Sterling ^[b]	6,975
Total purchases	90,268
Sales	£'000
10 Year US Treasury Note Mar 2013 ^[a]	29,053
10 Year US Treasury Note Dec 2012 ^[a]	29,016
US Treasury 1.75% 2022 (\$)	6,647
Italy (Republic of) 5.5% 2022 (€)	4,969
Germany (Federal Republic of) 0.75% IL 2018 (€)	4,502
Germany (Federal Republic of) 5.5% 2031 (€)	3,607
Germany (Federal Republic of) 2.5% 2044 (€)	3,389
US Treasury 3% 2042 (\$)	3,041
Sweden (Kingdom of) 4% IL 2020 (SEK)	2,393
Italy (Republic of) 2.1% 2016 (€)	1,648
United States of America Sep 2012 (\$)	1,605
Germany (Federal Republic of) 1.75% 2022 (€)	1,507
Germany (Federal Republic of) 4.75% 2040 (€)	1,213
US Treasury 3.375% IL 2032 (\$)	1,097
Italy (Republic of) 4.5% 2019 (€)	1,007
Japan (Govt. of) 2.3% 2027 (¥)	631
Japan (Govt. of) 1.3% 2018 (¥)	421
US Treasury 2% 2022 (\$)	260
Sweden (Kingdom of) 3.5% IL 2015 (SEK)	191
Northern Trust Global Fund - Sterling ^[b]	6,120
Total sales	102,317

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

^[b] Cash management fund used to reduce risk and manage surplus cash.

INTERIM FINANCIAL STATEMENTS (unaudited)

For the six months ended 31 December 2012.

STATEMENT OF TOTAL RETURN

	2012		2011	
	£'000	£'000	£'000	£'000
Income				
Net capital (losses) / gains		(882)		3,138
Revenue	729		732	
Expenses	(480)		(349)	
Finance costs: Interest	(1)		(3)	
Net revenue before taxation	248		380	
Taxation	(2)		0	
Net revenue after taxation		246		380
Total return before distributions		(636)		3,518
Finance costs: Distributions		(247)		(380)
Change in net assets attributable to shareholders from investment activities		(883)		3,138

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2012		2011	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		78,906		37,095
Amounts received on issue of shares	12,890		39,359	
Amounts paid on cancellation of shares	(9,772)		(2,940)	
		3,118		36,419
Change in net assets attributable to shareholders from investment activities (see above)		(883)		3,138
Retained distributions on Accumulation shares		145		324
Closing net assets attributable to shareholders		81,286		76,976

The opening net assets attributable to shareholders for 2012 differs to the closing position in 2011 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

M&G International Sovereign Bond Fund

INTERIM FINANCIAL STATEMENTS (unaudited)

BALANCE SHEET

	as at 31 December 2012		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		81,326		78,122
Debtors	922		593	
Cash and bank balances	1,573		1,269	
Total other assets		2,495		1,862
Total assets		83,821		79,984
Liabilities				
Investment liabilities		(2,269)		(29)
Creditors				
Net distributions payable on				
Income shares	(54)		(94)	
Other creditors	(163)		(955)	
Bank overdrafts	(49)		0	
Total other liabilities		(266)		(1,049)
Total liabilities		(2,535)		(1,078)
Net assets attributable to shareholders		81,286		78,906

NOTE TO THE FINANCIAL STATEMENTS

Accounting policies

The interim financial statements have been prepared on the same basis as the audited annual financial statements for the year ended 30 June 2012. They are 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.

M&G International Sovereign Bond Fund

This page is intentionally blank

M&G Recovery Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G Recovery Fund

The Fund predominantly invests in a diversified range of securities issued by companies which are out of favour, in difficulty or whose future prospects are not fully recognised by the market. The sole aim of the Fund is capital growth. There is no particular income yield target.

Investment approach

The M&G Recovery Fund invests in companies that are out of favour with the stockmarket where a good management team is making concerted efforts to turn the business around. The fund manager takes a long-term view with a typical holding period of five years or more and aims to provide a diversified portfolio of up to 100 stocks. Developing a constructive dialogue with company management is a fundamental part of the investment process and the fund manager will not invest in a company unless he has met the management team first.

Risk and reward profile*



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

INVESTMENT REVIEW

As at 2 January 2013, for the six months ended 31 December 2012

Fund update

In an era of instant communication, with fund managers increasingly being called upon to comment on the short-term share price movements of their investments, I would like to take this opportunity to reiterate that the approach we take with the M&G Recovery Fund is a long-term one. I am convinced this strategy is aligned with the requirements of our investors, who are, in general, saving to meet long-term liabilities and also more compatible with the long-term strategic views of the companies we invest in. This encourages me to believe that the best way to meet the responsibility of producing returns for our investors over many years is to back underperforming businesses for the long haul, providing financial backing and advice where necessary, and giving them time to return to health.

While we are currently weathering a period of mildly adverse performance, our long-term policy remains intact. Recovery investing is inherently risky and we know that not all of our choices will turn out

as we hope. Nevertheless, we will continue to focus on finding companies with strong business franchises that are undervalued by other investors, as we have done for 43 years. We are confident that this strategy will reward patient investors with long-term capital growth.

Factors affecting performance

Although the extended period of economic adjustment continues, stockmarkets enjoyed a fairly substantial rally in the second half of 2012. With little concrete evidence that growth is about to resume, investors appeared ready to believe that central banks would take appropriate action to avert recession or the collapse of the euro. Despite the improvement in share prices, investors still appear wary of taking on much risk and remain focused on the short term. They have been seeking certainty of earnings and cashflow and are unprepared to give much, if any, credit for potential value. They have also been unforgiving if companies disappoint by, for example, failing to meet development targets.

Despite several holdings in the M&G Recovery Fund generating substantial value, these were, on balance, outweighed during the review period by some negative factors and the fund underperformed relative to the FTSE-All Share Index. From an asset allocation standpoint, our lack of presence in banks, which rallied strongly, albeit from a very low base, weighed on the fund. The main detractor to returns over the six months was, however, weak stock selection.

In the basic materials sector, signs of a pickup in the global economy towards the end of the year led to investors buying some of the biggest companies in the mining sector, which had come under severe pressure in the preceding year. We are inclined to avoid these huge businesses since they tend to be seen as plays on rising commodity prices and bought for economic rather than corporate recovery, but our lack of exposure to them had a detrimental impact on relative performance.

Several of our larger holdings experienced setbacks to their development plans, for instance, Kenmare Resources, which produces mineral sands from the Moma Mine in Mozambique, and Coal of Africa, which operates mines in South Africa; both encountered commissioning problems that caused delays in rolling out planned production increases. We have engaged extensively with the management teams of these businesses and are confident that the issues are temporary and surmountable.

Tullow Oil, one of our largest holdings, has been a member of the portfolio since 2000 and has often been a major contributor to performance but, in recent months, some disappointing exploration results have caused the shares to fall back from their premium rating. We remain confident that the company will generate further value by increasingly deploying cash from mature areas into developing assets, such as Kenya and Ethiopia, in the months ahead.

BTG's share price dropped when the development of a drug to treat blood poisoning was abandoned. Nevertheless, the biotechnology firm has other products, both in production and in the pipeline, which should enable it to grow in the medium term.

More encouragingly, the fund has had its fair share of successes too. Although companies who disappointed investors were sold heavily, those who delivered on their strategies enjoyed an improvement in their share prices. One such was budget airline easyJet, the largest individual contributor to performance over the review period. The establishment of a more rigorous capital allocation strategy and a progressive dividend policy, together with a well-received plan to

M&G Recovery Fund

INVESTMENT REVIEW

allocate seats, demonstrated that the relatively new management team has put the company on the right track, enabling the shares to be rewarded with a recovery in their price.

The last time we wrote to you, we mentioned our conviction that the portfolio contains much 'latent value', with investors failing, in our opinion, to give companies credit for the potential worth of their assets. We experienced an instance of such value being realised when engineering technology conglomerate Invensys agreed to sell its rail division, which generated around a third of the group's profits, for a price almost as great as the market value of the whole business. This allowed the removal of the pensions deficit that had overshadowed the firm for years. In our view, this is one of the best business deals we have seen for a long time, putting Invensys on an even keel and enabling the management team to focus on improving the remaining operations.

As the companies we work with improve and grow, we encourage them to seek a listing on the main London stockmarket, where they will receive greater attention, hopefully attracting more investors. Such a listing can act as a spur to superior share price performance, as with Irish pharmaceuticals distributor United Drug, which became a member of the FTSE 250 Index in October, a move that gave a substantial boost to its shares. The greater interest in the group was graphically demonstrated when we went to the latest investor day. While less than a dozen people turned up to meet the management in September 2011, there were more than 70 present a year later.

Pace, which makes digital receivers for satellite television, generated substantial value for the fund as well. The group was one of the main detractors to performance in 2011, as it suffered from supply chain problems sparked by floods in Thailand but, towards the end of that year, an impressive new chief executive was appointed, which encouraged us to increase our stake. During 2012, Pace became a more efficient, profitable and highly cash-generative company, recovering from the supply disruption and experiencing growing demand for its next generation products.

Changes to the portfolio

The reluctance of banks to supply companies with the finance that they require and the unwillingness of many investors to invest for anything other than the depressingly very short term, has presented us with several opportunities to support businesses that we expect to grow. Providing appropriate backing for both new and existing turnaround candidates is an integral part of our investment approach.

The largest new addition to the portfolio was Entertainment One, which owns the rights to films, television programmes, including children's favourite Peppa Pig, and music. We supported the group when it needed finance to buy Alliance Films in Canada, thereby creating the largest independent film distributor in both the UK and Canada. We are impressed by the management team of the merged entity and expect it to deliver strong results in the future.

Among other companies to receive the portfolio's support in fundraising exercises were Toumaz, a developer of ultra-low power communication microchips, international outsourcing company iEnergizer, Oxford Biomedica and previously mentioned Kenmare Resources. We also bought further shares in insurance group Aviva, cider maker C&C and Indus Gas.

Some of our more mature holdings, such as Vodafone and Rolls-Royce, were sold in their entirety, while exposure to Croda, Compass and Hunting, all of which had recovered strongly, was trimmed and the proceeds applied elsewhere. We took the painful decision to sell the remaining interest in Lonmin given the multiple problems that have overwhelmed the group in recent years. The main concern, however, was the vulnerability of the miner to further political deterioration in South Africa.

Outlook

It is important to note that, while we understand the recent performance of the fund has been somewhat disappointing, we do not believe it would be in our investors' interests to change our investment approach. Since launch in 1969, the M&G Recovery Fund has been through multiple economic and stockmarket cycles and we have learnt that taking a long-term approach can work. Although periods when markets are driven by economic concerns and changes in sentiment can prove testing for our strategy, we are convinced that it would be a mistake to alter it, in an attempt to chase short-term returns.

In general, the corporate environment seems to be in better financial health than the broader economy, which continues to struggle with the government's austerity programme, and many companies have repaired their balance sheets and built up large cash positions. This could augur well for an upturn in merger and acquisition activity, which remains at a remarkably low level. If businesses take the decision to reinvest some of their cash to purchase other companies, the portfolio could benefit tremendously, not only through constituents attracting bids, but from a wider recognition of the value available.

The ongoing economic uncertainty presents us with opportunities. We will continue to focus on discovering unloved businesses that we believe can, over time and with the appropriate levels of support, be guided back to health. We are confident that these new opportunities, together with our existing recovery holdings, will generate rewards for patient investors over the coming years.

Tom Dobell

Fund manager

Tom Dobell 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 Recovery Fund

FUND STATISTICS

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

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Final	01.07.13	31.08.13
Interim	02.01.14	28.02.14

	Interim distribution Inc 28.02.13 ^[a]	Acc 02.01.13 ^[a]	Ongoing Charges Figure ^[b] 31.12.12	30.06.12
Sterling	p	p	%	%
Class 'A'	0.4190	0.9221	1.65	1.65
Class 'C'	1.3190	3.2306	0.15	0.16
Class 'I'	0.8070	1.8000	1.00	1.01
Class 'R'	0.6450	0.6437	1.15 ^[c]	n/a
Class 'X'	0.4230	0.9099	1.65	1.65
Euro	¢	¢	%	%
Class 'A'	n/a	7.9059	1.65	1.65
Class 'C'	n/a	17.6359	0.90	0.90

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

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

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

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 31.12.12		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	118.32	260.27	112.63	246.89	+5.05	+5.42
Class 'C'	118.63	293.63	112.90	276.45	+5.08	+6.21
Class 'I'	118.26	265.31	112.56	250.86	+5.06	+5.76
Class 'R'	101.75	102.40	n/a	n/a	n/a	n/a
Class 'X'	119.10	257.53	113.37	244.30	+5.05	+5.42
Euro	€	€	€	€	%	%
Class 'A'	n/a	22.4364	n/a	21.5301	n/a	+4.21
Class 'C'	n/a	24.2414	n/a	23.1723	n/a	+4.61

PERFORMANCE SINCE LAUNCH

	six months 02.07.12 %	one year 03.01.12 %	five years 02.01.08 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+6.9	+7.5	+2.8	+12.4 ^[c]
Class 'C'	+6.9	+7.5	+2.8	+9.0 ^[d]
Class 'I'	+6.9	+7.5	n/a	+4.6 ^[e]
Class 'R'	n/a	n/a	n/a	+4.7 ^[f]
Class 'X'	+6.9	+7.5	+2.8	+10.5 ^[g]
Euro ^[h]				
Class 'A'	+6.3	+11.8	+2.1	+8.7 ^[i]
Class 'C'	+6.7	+12.7	+2.9	+9.5 ^[i]

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

^[b] Bid to bid excluding reinvested income.

^[c] 23 May 1969, the end of the initial offer period of the predecessor unit trust.

^[d] 1 July 2004, the launch date of the share class.

^[e] 15 January 2010, the launch date of the share class.

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

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

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

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

SINGLE YEAR PERFORMANCE (5 YEARS ENDING DECEMBER)

From To	30.12.11 31.12.12 %	31.12.10 30.12.11 %	31.12.09 31.12.10 %	31.12.08 31.12.09 %	31.12.07 31.12.08 %
Sterling					
Class 'A'	+8.7	-6.3	+16.5	+40.8	-27.5

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

M&G Recovery Fund

FUND STATISTICS

PRICES					
	Calendar year	Income shares Highest	Lowest	Accumulation shares Highest	Lowest
Sterling (net)					
		p	p	p	p
Class 'A'	2008	107.47	64.65	222.36	135.13
	2009	104.61	65.00	222.95	137.00
	2010	120.36	94.33	259.17	203.12
	2011	125.29	100.47	271.43	217.66
	2012	125.81	111.03	273.50	241.33
	2013 ^[a]	121.78	121.78	267.86	267.86
Class 'C'	2008	108.30	65.08	234.05	143.19
	2009	105.57	65.24	240.44	145.96
	2010	121.48	94.50	283.75	220.73
	2011	125.66	101.13	299.49	241.03
	2012	126.53	111.85	304.89	269.53
	2013 ^[a]	122.12	122.12	302.22	302.22
Class 'I'	2010 ^[b]	120.65	94.25	260.78	203.72
	2011	125.25	100.59	274.03	220.09
	2012	125.91	111.25	277.36	245.02
	2013 ^[a]	121.73	121.73	273.06	273.06
Class 'R'	2012 ^[c]	105.94	98.72	105.94	98.72
	2013 ^[a]	104.74	104.74	105.39	105.39
Class 'X'	2008	108.18	65.07	220.01	133.71
	2009	105.29	65.42	220.60	135.56
	2010	121.15	94.95	256.44	200.98
	2011	126.11	101.13	268.58	215.37
	2012	126.63	111.75	270.63	238.79
	2013 ^[a]	122.58	122.58	265.04	265.04
Euro (net)					
		€	€	€	€
Class 'A'	2008	n/a	n/a	20.8520	11.1171
	2009	n/a	n/a	17.5926	10.6446
	2010	n/a	n/a	21.3619	16.9549
	2011	n/a	n/a	22.3331	17.7338
	2012	n/a	n/a	23.4642	20.6102
	2013 ^[a]	n/a	n/a	23.1598	23.1598
Class 'C'	2008	n/a	n/a	21.6914	11.6554
	2009	n/a	n/a	18.5839	11.1762
	2010	n/a	n/a	22.7316	17.9250
	2011	n/a	n/a	23.7748	18.9651
	2012	n/a	n/a	25.2971	22.1026
	2013 ^[a]	n/a	n/a	25.0240	25.0240

^[a] To 2 January 2013.

^[b] From 15 January 2010 (the launch date of the share class).

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

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

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

INCOME

Dividend income per share

	Calendar year	Interim	Distributed Final	Total	Reinvested
Sterling (net)					
		p	p	p	p
Class 'A'	2008	0.2950	0.9750	1.2700	2.6261
	2009	0.6340	0.8990	1.5330	3.2202
	2010	0.4230	0.5840	1.0070	2.1512
	2011	0.0680	0.6710	0.7390	1.5920
	2012	0.3690	0.9610	1.3300	2.8833
	2013 ^[a]	0.4190	-	0.4190	0.9221
Class 'C'	2008	1.0880	1.7270	2.8150	6.0596
	2009	1.2620	1.4630	2.7250	6.0495
	2010	1.1460	1.3590	2.5050	5.7392
	2011	0.8930	1.5780	2.4710	5.7987
	2012	1.2090	1.8500	3.0590	7.3383
	2013 ^[a]	1.3190	-	1.3190	3.2306
Class 'I'	2010	n/a	0.9430	0.9430	2.0180
	2011	0.4250	1.0610	1.4860	3.2199
	2012	0.7310	1.3390	2.0700	4.5318
	2013 ^[a]	0.8070	-	0.8070	1.8000
Class 'R'	2013 ^[a]	0.6450	-	0.6450	0.6437
Class 'X'	2008	0.3080	0.9950	1.3030	2.6481
	2009	0.6420	0.9040	1.5460	3.1924
	2010	0.4260	0.5850	1.0110	2.1233
	2011	0.0720	0.6750	0.7470	1.5820
	2012	0.3710	0.9620	1.3330	2.8500
	2013 ^[a]	0.4230	-	0.4230	0.9099
Euro (net)					
		¢	¢	¢	¢
Class 'A'	2008	n/a	n/a	n/a	23.3520
	2009	n/a	n/a	n/a	25.0230
	2010	n/a	n/a	n/a	17.8630
	2011	n/a	n/a	n/a	12.2330
	2012	n/a	n/a	n/a	24.8020
	2013 ^[a]	n/a	n/a	n/a	7.9059
Class 'C'	2008	n/a	n/a	n/a	39.8380
	2009	n/a	n/a	n/a	36.6990
	2010	n/a	n/a	n/a	32.6860
	2011	n/a	n/a	n/a	28.9480
	2012	n/a	n/a	n/a	43.6873
	2013 ^[a]	n/a	n/a	n/a	17.6359

^[a] Up to interim: ex-distribution date 2 January 2013;
payment date 28 February 2013.

M&G Recovery Fund

FUND STATISTICS

NET ASSETS					
	Period ended	Value per share Inc	Value per share Acc	Number of shares Inc	Number of shares Acc
Sterling					
Class 'A'	Jun 2010	94.83	204.19	1,309,250,677	1,026,901,043
	Jun 2011	119.97	259.89	1,273,643,677	1,245,994,043
	Jun 2012	112.63	246.89	1,242,005,677	1,262,807,043
	Dec 2012	118.32	260.27	1,043,334,677	1,224,790,543
Class 'C'	Jun 2010	95.00	221.88	316,678,955	68,958,669
	Jun 2011	120.27	286.65	327,708,955	68,694,669
	Jun 2012	112.90	276.45	168,073,911	418,749,201
	Dec 2012	118.63	293.63	166,203,911	398,657,201
Class 'I'	Jun 2010	94.76	204.81	15,359,000	825,000
	Jun 2011	119.90	262.33	154,789,000	11,414,500
	Jun 2012	112.56	250.86	272,921,000	36,743,500
	Dec 2012	118.26	265.31	275,860,000	39,186,500
Class 'R'	Dec 2012	101.75	102.40	40,000	207,000
Class 'X'	Jun 2010	95.45	202.04	126,823,176	179,730,365
	Jun 2011	120.75	257.17	130,256,176	205,292,365
	Jun 2012	113.37	244.30	129,783,176	206,084,365
	Dec 2012	119.10	257.53	128,631,176	191,619,365
Euro					
		€	€		
Class 'A'	Jun 2010	n/a	17.5559	n/a	9,995,837
	Jun 2011	n/a	20.2070	n/a	8,404,137
	Jun 2012	n/a	21.5301	n/a	8,299,237
	Dec 2012	n/a	22.4364	n/a	5,176,737
Class 'C'	Jun 2010	n/a	18.6143	n/a	26,622,890
	Jun 2011	n/a	21.5853	n/a	23,835,290
	Jun 2012	n/a	23.1723	n/a	19,380,590
	Dec 2012	n/a	24.2414	n/a	15,279,990
Total net asset value of sub-fund					
	Period ended	£	€ [a]		
	Jun 2010	4,841,302,000	5,920,559,000		
	Jun 2011	6,876,905,000	7,604,674,000		
	Jun 2012	7,420,109,000	9,203,206,000		
	Dec 2012	7,263,952,000	8,906,542,000		

[a] Based on the midday exchange rate on the last business day of each accounting period.

PORTFOLIO

PORTFOLIO STATEMENT

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
Oil & gas producers		16.78	17.72
107,746,651 African Petroleum	76,022	1.05	
100,000,000 BP	425,750	5.86	
16,500,000 Royal Dutch Shell 'B'	360,443	4.96	
23,983,178 Tap Oil	9,538	0.13	
20,000,000 Tullow Oil	252,600	3.48	
15,262,450 Zhaikmunai GDR	94,502	1.30	
Oil equipment, services & distribution		1.27	1.57
16,125,192 Cape	33,823	0.47	
7,399,224 Hunting	58,158	0.80	
Alternative energy		0.13	0.10
6,080,987 Porvair	9,426	0.13	
Chemicals		1.57	2.73
3,500,000 Croda International	83,090	1.14	
1,307,815 Johnson Matthey	31,008	0.43	
Industrial metals & mining		2.36	2.00
13,000,000 First Quantum Minerals	171,205	2.36	
Mining		3.61	5.03
2,000,000 AngloGold Ashanti	38,124	0.52	
11,562,000 Great Eastern Energy GDR	29,483	0.41	
399,500,000 Kenmare Resources	124,125	1.71	
30,000,000 Petra Diamonds	33,750	0.46	
30,960,000 St Barbara	28,695	0.40	
55,536,586 White Energy Company	8,193	0.11	
Aerospace & defence		2.56	3.61
29,892,232 Cobham	65,942	0.91	
25,000,000 Meggitt	95,800	1.32	
12,868,735 QinetiQ Group	23,678	0.33	
Construction & materials		1.10	0.83
12,000,000 Kingspan Group	79,802	1.10	
Electronic & electrical equipment		0.93	0.91
14,930,398 Morgan Crucible	39,984	0.55	
15,000,000 Silex Systems	27,902	0.38	
General industrials		1.89	1.50
11,500,000 Smiths Group	137,540	1.89	
Industrial engineering		0.22	0.32
22,160,023 Renold	4,875	0.07	
11,000,000 Severfield-Rowen	10,670	0.15	
Industrial transportation		1.59	1.69
12,500,000 Groupe Eurotunnel	59,547	0.82	
38,726,760 Stobart Group	39,695	0.55	
5,389,325 UK Mail Group	15,737	0.22	
Support services		7.27	6.52
6,000,000 Aggreko	104,640	1.44	
5,905,231 DCC	117,996	1.62	
11,551,307 De La Rue	105,290	1.45	
27,542,697 Homeserve	65,331	0.90	
24,626,894 Lavendon Group	33,246	0.46	
93,231,830 Regus	101,343	1.40	
Beverages		0.91	0.44
17,953,897 C&C Group	66,258	0.91	
Food producers		4.80	4.28
10,000,000 Glanbia	68,622	0.94	
6,058,630 REA Holdings	25,446	0.35	
10,750,000 Unilever	254,883	3.51	

M&G Recovery Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
Healthcare equipment & services		0.64	0.52
5,414,928 Bioquell	8,122	0.11	
3,570,682 Synergy Health	38,206	0.53	
Pharmaceuticals & biotechnology		7.57	8.30
33,000,000 BTG	109,725	1.51	
28,500,000 GlaxoSmithKline	380,760	5.24	
16,000,000 Mesoblast	54,392	0.75	
230,311,338 Oxford Biomedica	5,182	0.07	
Food & drug retailers		2.19	1.62
70,790,139 Booker Group	68,985	0.95	
32,980,548 United Drug	90,037	1.24	
General retailers		2.92	2.08
29,261,239 Carphone Warehouse	61,156	0.84	
25,000,000 Inchcape	107,575	1.48	
13,167,971 Mothercare	43,882	0.60	
Media		2.43	1.46
15,700,000 British Sky Broadcasting Group	120,576	1.66	
33,333,333 Entertainment One	55,667	0.77	
Travel & leisure		4.96	4.46
18,500,000 Compass Group	134,125	1.85	
20,000,000 easyJet	153,300	2.11	
35,480,931 National Express	72,559	1.00	
Mobile telecommunications		0.00	1.69
Electricity		0.80	0.91
14,747,835 KSK Power Ventur	58,254	0.80	
Gas, water & multi-utilities		5.74	5.88
45,750,000 Centrica	153,080	2.11	
26,000,000 National Grid	182,650	2.51	
13,000,000 Pennon Group	81,510	1.12	
Banks		4.72	4.03
53,035,191 HSBC Holdings	342,766	4.72	
Financial services		0.13	0.12
95,869 Camellia	9,357	0.13	
Life insurance		4.78	3.54
33,000,000 Aviva	122,595	1.69	
23,500,000 Prudential	203,040	2.80	
4,959,571 St. James's Place	20,796	0.29	
Non-life insurance		0.44	0.41
8,181,970 Novae Group	32,319	0.44	
Real estate investment & services		0.10	0.15
4,987,946 Development Securities	7,133	0.10	
Real estate investment trusts		1.61	1.45
14,500,000 Land Securities Group	117,233	1.61	
Software & computer services		1.96	1.30
43,831,409 Invensys	142,496	1.96	
Technology hardware & equipment		2.44	2.16
22,698,296 Imagination Technologies Group	89,431	1.23	
46,959,674 Pace	87,862	1.21	
AIM quoted		9.37	8.43
63,377,270 Advanced Computer Software	47,216	0.65	
32,250,000 African Minerals	102,233	1.41	
21,790,683 Avanti Communications	53,169	0.73	
154,553,963 Coal of Africa	23,956	0.33	
60,871,428 Corac Group	7,609	0.10	
7,845,158 Eco Animal Health	19,378	0.27	
17,507,125 Greenko Group	22,584	0.31	

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
AIM quoted (continued)			
47,642,925 Gulf Keystone Petroleum	84,924	1.17	
18,861,389 GW Pharmaceuticals	11,128	0.15	
16,000,000 iEnergizer	57,600	0.79	
6,904,091 ImmuPharma	3,591	0.05	
12,400,000 Indus Gas	122,760	1.69	
57,538,948 Jubilee Platinum	4,603	0.06	
38,681,231 OPG Power Ventures	18,180	0.25	
38,048,599 Pursuit Dynamics	1,046	0.01	
4,421,122 Redhall Group	3,095	0.04	
100,732,791 Sierra Rutile	55,403	0.76	
82,116,122 SPARK Ventures	10,880	0.15	
29,205,250 Sylvania Platinum	2,774	0.04	
220,932,754 Toumaz	12,151	0.17	
44,113,908 Zambeef Products	17,204	0.24	
Unquoted / unlisted		0.00	0.00
39,868,814 Alizyme ^[a]	0	0.00	
3,094,020 Izodia ^[b]	41	0.00	
'AAA' rated money market funds ^[c]		0.14	2.18
10,400,000 Northern Trust Global Fund - Sterling	10,400	0.14	
Portfolio of investments	7,258,858	99.93	99.94
Net other assets	5,094	0.07	0.06
Net assets attributable to shareholders	7,263,952	100.00	100.00

^[a] Suspended on 24 July 2009.

^[b] Suspended on 16 December 2002.

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

M&G Recovery Fund

PORTFOLIO

PORTFOLIO TRANSACTIONS

for the six months ended 31 December 2012

Largest purchases	£'000
Johnson Matthey	60,659
Entertainment One	50,000
Kingspan Group	32,411
iEnergizer	27,673
St Barbara	27,284
QinetiQ Group	22,244
C&C Group	17,593
Aviva	17,364
Indus Gas	17,024
Zhaikunai GDR	15,864
Homeserve	11,008
Toumaz	11,000
Cobham	10,414
Coal of Africa	9,871
Carphone Warehouse	7,685
Kenmare Resources	7,360
Smiths Group	5,254
Royal Dutch Shell 'A'	4,835
Oxford Biomedica	3,650
Lavendon Group	3,541
Northern Trust Global Fund - Sterling ^[a]	412,868
Other purchases	20,155
Total purchases	795,757
Largest sales	£'000
Johnson Matthey	134,538
Vodafone Group	122,240
Rolls-Royce Holdings	96,592
Allied Gold Mining	52,901
Kingspan Group	32,411
Tullow Oil	32,376
Royal Dutch Shell 'B'	32,323
Hunting	29,187
Compass Group	23,806
Croda International	23,270
Lonmin	21,925
Meggitt	18,002
Inchcape	15,827
Aggreko	11,572
easyJet	9,979
First Quantum Minerals	9,505
Pennon Group	8,292
Glanbia	8,225
National Grid	7,554
Groupe Eurotunnel	6,420
Northern Trust Global Fund - Sterling ^[a]	564,569
Other sales	54,193
Total sales	1,315,707

^[a] Cash management fund used to reduce risk and manage surplus cash.

INTERIM FINANCIAL STATEMENTS (unaudited)

For the six months ended 31 December 2012.

STATEMENT OF TOTAL RETURN

	2012		2011	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		363,460		(535,007)
Revenue	99,886		84,950	
Expenses	(49,983)		(46,519)	
Net revenue before taxation	49,903		38,431	
Taxation	(485)		(37)	
Net revenue after taxation		49,418		38,394
Total return before distributions		412,878		(496,613)
Finance costs: Distributions		(41,106)		(33,380)
Change in net assets attributable to shareholders from investment activities		371,772		(529,993)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2012		2011	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		7,420,109		6,876,905
Amounts received on issue of shares	137,379		1,284,300	
Amounts paid on cancellation of shares	(692,649)		(556,240)	
		(555,270)		728,060
Stamp Duty Reserve Tax		(1,826)		(2,316)
Change in net assets attributable to shareholders from investment activities (see above)		371,772		(529,993)
Retained distributions on Accumulation shares		29,155		27,488
Unclaimed distributions		12		11
Closing net assets attributable to shareholders		7,263,952		7,100,155

The opening net assets attributable to shareholders for 2012 differs to the closing position in 2011 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

BALANCE SHEET

	as at 31 December 2012		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		7,258,858		7,415,537
Debtors	21,115		45,120	
Cash and bank balances	2,085		3,719	
Total other assets		23,200		48,839
Total assets		7,282,058		7,464,376
Liabilities				
Creditors				
Net distributions payable on Income shares	(9,334)		(19,948)	
Other creditors	(8,772)		(24,319)	
Total liabilities		(18,106)		(44,267)
Net assets attributable to shareholders		7,263,952		7,420,109

M&G Recovery Fund

INTERIM FINANCIAL STATEMENTS (unaudited)

NOTE TO THE FINANCIAL STATEMENTS

Accounting policies

The interim financial statements have been prepared on the same basis as the audited annual financial statements for the year ended 30 June 2012. They are 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.

M&G Smaller Companies Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G Smaller Companies Fund

The Fund invests in smaller companies, where good management can have most impact on earnings. Investment in such shares can offer prospects of above average capital growth. Income is not a major factor and the yield can be expected to be less than that of the FTSE All-Share Index.

Investment approach

The fund manager of the M&G Smaller Companies Fund uses a bottom-up approach to identify companies for inclusion within the fund's diversified portfolio. The investment approach specifically focuses on three areas: company management, structural growth opportunities and valuations. Company management is perhaps the most crucial variable in deciding whether a small company is likely to be successful or not and, in this regard, company meetings are key. The manager favours trustworthy, diligent and understated management teams.

In terms of assessing the company's structural growth opportunities, the manager analyses the buoyancy of end markets, barriers to entry and earnings growth visibility. Finally, for assessing whether a company's long-term prospects are undervalued by the market, she uses financial analysis, valuation metrics, tailored screens and broker research – this enables her to focus on good investments, not just good companies.

Generally, shares will be held for the long term, that is, between three and five years, as the manager will look to take advantage of the market's inability to focus on the long term. However, shares will be sold when a company is significantly overvalued, is taken over, or if the original reasons for buying no longer apply.

Risk and reward profile*



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

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 2 January 2013, for the six months ended 31 December 2012

Over the six months under review we identified a number of attractive investment opportunities that are likely to achieve sustainable growth and add value to the fund. These included Carclo, a global supplier of technical plastic products used in medical, telecommunication and electronics devices. Carclo has recently signed a lucrative 10-year partnership with Atmel, a leading provider of touchscreen interfaces and controls, for its conductive inkjet technology.

A new position was also established in online video search engine blinkx, which has demonstrated its robust business model in video advertising, the fastest growing segment within online advertising. The company also has medium-term growth opportunities in expanding new distribution channels, such as mobile and webTV.

We participated in a fund raising for Epistem Holdings, a small Manchester-based medical research and technology company that is about to introduce a potentially cutting-edge point-of-care diagnostic product. The Genedrive portable testing system is based on established DNA amplification technology with significant advantages in terms of speed, accuracy, flexibility and crucially cost. Initially, the product will be focused on the \$1 billion global tuberculosis testing market, with the possibility to expand into areas such as HIV/AIDS, malaria, dengue and a range of other diseases. Importantly, Epistem Holdings has established distribution partnerships with market leaders Xcelris (in India) and Becton Dickinson (rest of world).

Significant sales over the period included natural gas operator Cove Energy and oil firm Nautical Petroleum, which both left the fund following successful bid offers by PTT Exploration & Production and Cairn Energy respectively. The position in defence company Chemring Group was sold. Any hopes of a suitable bid from private equity house Carlyle have evaporated; the company issued two profit warnings and a number of senior managers have left the company. Finally, a large proportion of our holding in medical devices manufacturer, Consort Medical, was sold as we took advantage of a sharp increase in the share price following the disposal of subsidiary, King Systems.

Louise Nash

Fund manager

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

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

M&G Smaller Companies Fund

FUND STATISTICS

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

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Final	01.07.13	31.08.13
Interim	02.01.14	28.02.14

	Interim distribution Inc 28.02.13 ^[a]	Acc 02.01.13 ^[a]	Ongoing Charges Figure ^[b] 31.12.12	30.06.12
Sterling	p	p	%	%
Class 'A'	0.4080	0.9714	1.66	1.66
Class 'C'	1.9300	n/a	0.16	0.16
Class 'I'	6.0550	6.0550	0.91 ^[c]	n/a
Class 'R'	0.4880	0.4880	1.16 ^[c]	n/a
Class 'X'	0.4080	0.9586	1.67	1.66

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

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

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

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 31.12.12		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	203.86	486.71	181.86	433.35	+12.10	+12.31
Class 'C'	208.14	n/a	185.59	n/a	+12.15	n/a
Class 'I'	1,105.57	1,111.63	n/a	n/a	n/a	n/a
Class 'R'	110.56	111.05	n/a	n/a	n/a	n/a
Class 'X'	203.84	480.97	181.84	428.23	+12.10	+12.32

PERFORMANCE SINCE LAUNCH

	six months 02.07.12 %	one year 03.01.12 %	five years 02.01.08 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+14.4	+27.2	+5.6	+10.4 ^[c]
Class 'C'	+14.5	+27.3	+5.4	+7.6 ^[d]
Class 'I'	n/a	n/a	n/a	+13.9 ^[e]
Class 'R'	n/a	n/a	n/a	+13.9 ^[e]
Class 'X'	+14.4	+27.2	+5.6	+14.2 ^[f]

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

^[b] Bid to bid excluding reinvested income.

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

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

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

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

SINGLE YEAR PERFORMANCE (5 YEARS ENDING DECEMBER)

From To	30.12.11 31.12.12 %	31.12.10 30.12.11 %	31.12.09 31.12.10 %	31.12.08 31.12.09 %	31.12.07 31.12.08 %
Sterling					
Class 'A'	+26.9	-10.5	+30.1	+55.8	-41.4

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

PRICES

	Calendar year	Income shares Highest	Lowest	Accumulation shares Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008	165.40	84.29	379.35	194.19
	2009	143.98	85.52	336.63	198.48
	2010	185.06	135.17	435.26	317.92
	2011	198.69	154.28	469.35	364.46
	2012 ^[a]	207.43	165.06	494.23	390.62
	2013 ^[b]	209.98	209.98	501.31	501.31
Class 'C'	2008	171.29	86.52	n/a	n/a
	2009	147.44	87.37	n/a	n/a
	2010	190.09	137.81	n/a	n/a
	2011	202.84	158.08	n/a	n/a
	2012 ^[a]	213.32	168.49	n/a	n/a
	2013 ^[b]	214.43	214.43	n/a	n/a
Class 'I'	2012 ^[c]	1,128.84	999.24	1,128.84	999.24
	2013 ^[b]	1,138.88	1,138.88	1,145.06	1,145.06
Class 'R'	2012 ^[c]	112.76	99.92	112.76	99.92
	2013 ^[b]	113.89	113.89	114.38	114.38
Class 'X'	2008	165.45	84.26	374.88	191.90
	2009	143.93	85.49	332.66	196.14
	2010	184.99	135.12	430.13	314.18
	2011	198.61	154.22	463.82	360.16
	2012 ^[a]	207.41	165.04	488.40	386.02
	2013 ^[b]	209.96	209.96	495.39	495.39

^[a] The Prudential Small Companies Trust merged into the M&G Smaller Companies Fund immediately after 17 February 2012.

^[b] To 2 January 2013.

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

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

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

M&G Smaller Companies Fund

FUND STATISTICS

INCOME

Dividend income per share

	Calendar year	Interim	Distributed Final	Total	Reinvested
Sterling (net)		p	p	p	p
Class 'A'	2008	nil	0.6680	0.6680	1.5321
	2009	0.6730	0.8280	1.5010	3.4721
	2010	0.1290	0.6980	0.8270	1.9350
	2011	0.0730	0.7550	0.8280	1.9482
	2012	0.2550	1.2610	1.5160	3.5777
	2013 [a]	0.4080	-	0.4080	0.9714
Class 'C'	2008	nil	3.2460	3.2460	n/a
	2009	1.5600	1.6390	3.1990	n/a
	2010	1.1300	1.8220	2.9520	n/a
	2011	1.3140	2.2150	3.5290	n/a
	2012	1.5790	2.7080	4.2870	n/a
	2013 [a]	1.9300	-	1.9300	n/a
Class 'I'	2013 [a]	6.0550	-	6.0550	6.0550
Class 'R'	2013 [a]	0.4880	-	0.4880	0.4880
Class 'X'	2008	nil	0.7640	0.7640	1.7311
	2009	0.6730	0.8280	1.5010	3.4324
	2010	0.1230	0.7020	0.8250	1.9082
	2011	0.0750	0.7640	0.8390	1.9515
	2012	0.2550	1.2530	1.5080	3.5160
	2013 [a]	0.4080	-	0.4080	0.9586

[a] Up to interim: ex-distribution date 2 January 2013;
payment date 28 February 2013.

NET ASSETS

	Period ended	Value per share Inc	Value per share Acc	Number of shares Inc	Number of shares Acc
Sterling		p	p		
Class 'A'	Jun 2010	137.57	323.57	74,738,843	16,336,093
	Jun 2011	188.99	446.45	71,669,243	8,760,493
	Jun 2012	181.86	433.35	89,107,793	8,971,152
	Dec 2012	203.86	486.71	87,775,293	8,855,852
Class 'C'	Jun 2010	140.25	n/a	633,790	n/a
	Jun 2011	192.86	n/a	542,790	n/a
	Jun 2012	185.59	n/a	58,821,393	n/a
	Dec 2012	208.14	n/a	58,592,393	n/a
Class 'I'	Dec 2012	1,105.57	1,111.63	100	100
Class 'R'	Dec 2012	110.56	111.05	1,000	1,000
Class 'X'	Jun 2010	137.52	319.75	1,529,668	640,412
	Jun 2011	188.92	441.20	1,695,668	644,412
	Jun 2012	181.84	428.23	1,744,668	588,812
	Dec 2012	203.84	480.97	1,735,168	873,812

Total net asset value of sub-fund

Period ended	£	€ [a]
Jun 2010	160,715,000	196,543,000
Jun 2011	181,655,000	200,892,000
Jun 2012	315,781,000	391,664,000
Dec 2012	351,743,000	431,282,000

[a] Based on the midday exchange rate on the last business day of each accounting period.

PORTFOLIO

PORTFOLIO STATEMENT

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
Oil equipment, services & distribution		2.48	2.35
413,714 Hunting	3,252	0.93	
1,414,675 Kentz	5,451	1.55	
Chemicals		6.10	5.36
696,183 Carclo	2,771	0.79	
2,670,766 Elementis	6,159	1.75	
3,787,935 Synthomer (formerly Yule Catto)	7,087	2.01	
338,838 Victrex	5,449	1.55	
Mining		0.30	0.35
929,516 Petra Diamonds	1,046	0.30	
Aerospace & defence		3.83	4.70
4,525,650 Senior	8,906	2.53	
274,704 Ultra Electronics Holdings	4,571	1.30	
Construction & materials		3.06	3.14
623,536 Galliford Try	4,611	1.31	
11,749,036 Low & Bonar	6,168	1.75	
Electronic & electrical equipment		5.47	6.74
3,528,533 e2v Technologies	4,270	1.21	
1,861,203 Volex	1,712	0.49	
4,747,346 Xaar	13,269	3.77	
General industrials		0.52	0.00
900,000 DS Smith	1,832	0.52	
Industrial engineering		3.73	3.55
1,595,761 Fenner	6,276	1.78	
942,631 Hill & Smith Holdings	3,726	1.06	
137,750 Spirax-Sarco Engineering	3,123	0.89	
Industrial transportation		3.60	3.46
257,667 Clarkson	3,066	0.87	
1,194,133 James Fisher & Sons	9,613	2.73	
Support services		8.47	6.51
500,000 Ashtead Group	2,110	0.60	
260,242 DCC	6,376	1.81	
3,793,495 Howden Joinery Group	6,551	1.86	
905,234 Hyder Consulting	3,621	1.03	
1,178,044 Northgate	3,534	1.00	
2,954,373 Regus	3,211	0.91	
1,340,000 SThree	4,429	1.26	
Food producers		2.90	3.51
2,296,655 Devro	7,051	2.00	
643,380 New Britain Palm Oil	3,152	0.90	
Healthcare equipment & services		0.98	2.13
444,431 Consort Medical	3,462	0.98	
Pharmaceuticals & biotechnology		2.52	1.71
1,127,315 Dechra Pharmaceuticals	6,763	1.92	
389,523 Epistem Holdings	2,123	0.60	
Food & drug retailers		2.92	3.66
10,540,230 Booker Group	10,271	2.92	
General retailers		2.20	1.56
585,000 Halfords Group	1,940	0.55	
1,565,000 N Brown Group	5,783	1.65	
Media		4.85	3.92
4,656,768 Entertainment One	7,777	2.21	
988,348 Euromoney Institutional Investor	8,525	2.43	
490,500 Wilmington Group	741	0.21	

M&G Smaller Companies Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
Travel & leisure		2.79	2.39
1,551,245 bwin.party digital entertainment	1,737	0.50	
1,008,916 Restaurant Group	3,880	1.10	
7,824,764 Sportingbet	4,186	1.19	
Financial services		5.32	3.63
1,581,029 Brewin Dolphin Holdings	3,235	0.92	
509,799 Close Brothers Group	4,397	1.25	
2,725,153 Henderson Group	3,581	1.02	
706,538 International Personal Finance	2,642	0.75	
1,732,286 Jupiter Fund Management	4,847	1.38	
Real estate investment & services		1.97	1.83
1,870,000 LSL Property Services	4,825	1.37	
1,955,656 Safestore	2,112	0.60	
Real estate investment trusts		2.11	2.49
8,371,600 Hansteen Holdings	6,530	1.86	
3,678,850 The Local Shopping REIT	883	0.25	
Software & computer services		8.15	8.65
8,098,438 Anite	11,378	3.24	
179,000 AVEVA Group	3,897	1.11	
340,350 Fidessa Group	5,064	1.44	
1,432,569 Micro Focus	8,309	2.36	
Technology hardware & equipment		2.41	3.73
2,725,994 Spirent Communications	4,108	1.17	
2,195,400 Wolfson Microelectronics	4,347	1.24	
AIM quoted		19.38	22.26
4,876,632 blinkx	3,170	0.90	
3,182,945 Borders & Southern Petroleum	621	0.18	
3,306,364 Burford Capital	3,075	0.88	
2,672,600 Digital Barriers	3,944	1.12	
1,415,564 EMIS Group	12,174	3.46	
510,000 Endace	2,423	0.69	
3,377,465 Enteq Upstream	3,141	0.89	
1,234,934 Faroe Petroleum	1,670	0.48	
595,000 Geopark Holdings	3,838	1.09	
1,369,681 Hargreaves Services	8,691	2.47	
17,273,177 IQE	5,182	1.47	
1,696,640 LO-Q	6,532	1.86	
2,805,787 Max Property Group	3,086	0.88	
4,066,572 OPG Power Ventures	1,911	0.54	
1,171,796 Optimal Payments	1,277	0.36	
304,124 Providence Resources	1,873	0.53	
15,262,559 San Leon Energy	1,300	0.37	
385,191 Valiant Petroleum	1,541	0.44	
622,223 WANdisco	2,707	0.77	
Unquoted / unlisted		0.00	0.00
965,000 Betex Group ^[a]	0	0.00	
8,429 Black Lion Resources	0	0.00	
'AAA' rated money market funds ^[b]		4.04	2.80
14,194,000 Northern Trust Global Fund - Sterling	14,194	4.04	
Portfolio of investments	352,086	100.10	100.43
Net other liabilities	(343)	(0.10)	(0.43)
Net assets attributable to shareholders	351,743	100.00	100.00

^[a] Delisted on 19 October 2007.

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

PORTFOLIO TRANSACTIONS

for the six months ended 31 December 2012

Largest purchases	£'000
blinkx	3,670
Carclo	2,932
International Personal Finance	2,430
Hargreaves Services	2,411
Epistem Holdings	2,123
Entertainment One	2,000
Ashtead Group	1,787
DS Smith	1,783
Senior	1,471
Kentz	1,448
Optimal Payments	1,239
Digital Barriers	981
Henderson Group	884
Galliford Try	709
Spirent Communications	708
Wilmington Group	693
Jupiter Fund Management	635
Endace	523
New Britain Palm Oil	522
N Brown Group	352
Northern Trust Global Fund - Sterling ^[a]	17,801
Other purchases	2,994
Total purchases	50,096
Largest sales	£'000
Cove Energy	6,779
Nautical Petroleum	4,621
Consort Medical	4,093
Chemring Group	3,349
Psion	3,016
Emis Group	2,740
Booker Group	2,180
Elementis	1,795
Aurora Russia	1,171
Anite	1,165
Victrex	1,132
Wolfson Microelectronics	899
Kentz	870
IQE	843
Volex	693
Low & Bonar	632
Restaurant Group	568
James Fisher & Sons	546
Brewin Dolphin Holdings	478
Synthomer (formerly Yule Catto)	435
Northern Trust Global Fund - Sterling ^[a]	12,438
Other sales	1,957
Total sales	52,400

^[a] Cash management fund used to reduce risk and manage surplus cash.

M&G Smaller Companies Fund

INTERIM FINANCIAL STATEMENTS (unaudited)

For the six months ended 31 December 2012.

STATEMENT OF TOTAL RETURN

	2012		2011	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		38,045		(23,152)
Revenue	3,543		1,587	
Expenses	(1,937)		(1,334)	
Net revenue before taxation	1,606		253	
Taxation	(10)		(6)	
Net revenue after taxation		1,596		247
Total return before distributions		39,641		(22,905)
Finance costs: Distributions		(1,596)		(248)
Change in net assets attributable to shareholders from investment activities		38,045		(23,153)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2012		2011	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		315,781		181,655
Amounts received on issue of shares	6,213		558	
Amounts paid on cancellation of shares	(8,372)		(8,799)	
		(2,159)		(8,241)
Stamp Duty Reserve Tax		(18)		(8)
Change in net assets attributable to shareholders from investment activities (see above)		38,045		(23,153)
Retained distributions on Accumulation shares		94		55
Closing net assets attributable to shareholders		351,743		150,308

The opening net assets attributable to shareholders for 2012 differs to the closing position in 2011 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

BALANCE SHEET

	as at 31 December 2012		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		352,086		317,135
Debtors	1,957		1,764	
Cash and bank balances	374		1	
Total other assets		2,331		1,765
Total assets		354,417		318,900
Liabilities				
Creditors				
Net distributions payable on Income shares	(1,496)		(2,739)	
Other creditors	(1,178)		(380)	
Total liabilities		(2,674)		(3,119)
Net assets attributable to shareholders		351,743		315,781

NOTE TO THE FINANCIAL STATEMENTS

Accounting policies

The interim financial statements have been prepared on the same basis as the audited annual financial statements for the year ended 30 June 2012. They are 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.

M&G Smaller Companies Fund

This page is intentionally blank

M&G UK Select Fund

AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective and policy of the M&G UK Select Fund

The Fund invests in a range of UK equities. The aim is to maximise total return (the combination of income and growth of capital).

Investment approach

The M&G UK Select Fund is a risk-aware, actively-managed, focus fund. Stockpicking dominates the investment process and there is no predefined investment style or company size preference. The fund aims to exploit stock volatility and shifts in market sentiment. The number of holdings is limited to around 50 and careful attention is paid to risk, as it cannot be reduced by diversification in the usual manner.

Risk and reward profile*



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

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 2 January 2013, for the six months ended 31 December 2012

In view of the uncertain economic background, a fairly cautious stance has been maintained on the fund. However, holdings in more economically sensitive shares were increased selectively where value was perceived. Amongst these were an industrial stock, conveyor belt manufacturer Fenner, publisher and events provider Informa, as well as Anglo-Australian miner BHP Billiton.

Fenner's main clients include the power and mining industries. The company's shares had come down from a peak in 2011 on the back of misplaced concerns in our view about a decline in capital investment by mining companies. Informa's exposure to Europe had caused the shares to fall back to a level that represented significant value, and BHP Billiton, the largest and best run of the miners, replaced Anglo American which is facing union troubles in South Africa.

Within the fund's larger company holdings, three positions that were increased were drugs manufacturer Shire, construction firm Balfour Beatty and Lloyds Banking Group. Shire's attention deficit hyperactivity disorder drug is selling well in the US. Balfour Beatty issued a modest profit warning, presenting a buying opportunity in our opinion, as the sum of the company's parts was attractive, especially given the hidden value of its private finance initiative assets. Meanwhile, we felt that the environment for Lloyds Banking Group was slowly but surely getting better.

Amongst departures from the portfolio, Logica, the UK's largest software company, was taken over by Canadian rival CGI. In addition, industrial group Cookson was split into Alent, a speciality materials business, and Vesuvius, which retained Cookson's engineered ceramics division. In particular, the Alent side of the reformed business which, amongst other activities manufactures parts for smartphones and tablets, looked substantially under-rated when compared with similar companies in the electronics sector.

Mike Felton

Fund manager

Mike Felton 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 UK Select Fund

FUND STATISTICS

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

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Final	01.07.13	31.08.13
Interim	02.01.14	28.02.14

	Interim distribution Inc 28.02.13 ^[a]	Acc 02.01.13 ^[a]	Ongoing Charges Figure ^[b] 31.12.12	30.06.12
Sterling	p	p	%	%
Class 'A'	5.1130	8.0542	1.67	1.68
Class 'C'	14.0860	n/a	0.17	0.18
Class 'I'	8.3450	8.3450	0.92 ^[c]	n/a
Class 'R'	0.7150	0.7150	1.17 ^[c]	n/a
Class 'X'	5.1370	7.9616	1.67	1.67

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

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

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

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 31.12.12		Net asset value per share as at 30.06.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	1,217.95	1,922.14	1,129.11	1,774.64	+7.87	+8.31
Class 'C'	1,219.01	n/a	1,129.74	n/a	+7.90	n/a
Class 'I'	1,062.66	1,071.01	n/a	n/a	n/a	n/a
Class 'R'	106.27	106.98	n/a	n/a	n/a	n/a
Class 'X'	1,227.54	1,903.34	1,137.78	1,757.21	+7.89	+8.32

PERFORMANCE SINCE LAUNCH

	six months 02.07.12 %	one year 03.01.12 %	five years 02.01.08 % p.a. ^[a]	since launch % p.a. ^[a]
Sterling ^[b]				
Class 'A'	+9.2	+13.7	+0.6	+7.4 ^[c]
Class 'C'	+9.3	+13.7	+0.6	+3.0 ^[d]
Class 'I'	n/a	n/a	n/a	+8.4 ^[e]
Class 'R'	n/a	n/a	n/a	+8.4 ^[e]
Class 'X'	+9.3	+13.7	+0.6	+7.2 ^[f]

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

^[b] Bid to bid excluding reinvested income.

^[c] 3 February 1972, the end of the initial offer period of the predecessor unit trust.

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

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

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

SINGLE YEAR PERFORMANCE (5 YEARS ENDING DECEMBER)

From To	30.12.11 31.12.12 %	31.12.10 30.12.11 %	31.12.09 31.12.10 %	31.12.08 31.12.09 %	31.12.07 31.12.08 %
Sterling					
Class 'A'	+15.0	-3.5	+9.4	+21.0	-24.2

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

PRICES

	Calendar year	Income shares Highest	Lowest	Accumulation shares Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008	1,212.22	738.18	1,742.64	1,074.97
	2009	1,062.95	742.98	1,589.72	1,092.98
	2010	1,146.85	918.25	1,743.87	1,396.27
	2011	1,181.86	952.13	1,818.70	1,465.18
	2012	1,234.88	1,078.84	1,940.70	1,671.57
	2013 ^[a]	1,241.81	1,241.81	1,959.61	1,959.61
Class 'C'	2008	1,213.21	742.17	n/a	n/a
	2009	1,070.90	745.05	n/a	n/a
	2010	1,154.76	918.01	n/a	n/a
	2011	1,187.45	954.48	n/a	n/a
	2012	1,244.80	1,085.80	n/a	n/a
	2013 ^[a]	1,243.18	1,243.18	n/a	n/a
Class 'I'	2012 ^[b]	1,081.24	1,000.00	1,081.24	1,000.00
	2013 ^[a]	1,083.61	1,083.61	1,091.94	1,091.94
Class 'R'	2012 ^[b]	108.01	100.00	108.01	100.00
	2013 ^[a]	108.36	108.36	109.07	109.07
Class 'X'	2008	1,221.64	743.99	1,725.41	1,064.40
	2009	1,071.23	748.78	1,574.09	1,082.23
	2010	1,155.74	925.37	1,726.72	1,382.53
	2011	1,190.97	959.47	1,800.82	1,450.77
	2012	1,244.59	1,087.16	1,921.72	1,655.13
	2013 ^[a]	1,251.59	1,251.59	1,940.45	1,940.45

^[a] To 2 January 2013.

^[b] 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 UK Select Fund

FUND STATISTICS

INCOME

Dividend income per share

	Calendar year	Interim	Distributed Final	Total	Reinvested
Sterling (net)		p	p	p	p
Class 'A'	2008	4.1490	13.5780	17.7270	25.4630
	2009	9.0440	14.0160	23.0600	33.7887
	2010	5.0890	10.9670	16.0560	24.0924
	2011	1.7730	12.1820	13.9550	21.2479
	2012	7.4110	16.2640	23.6750	36.6617
	2013 [a]	5.1130	-	5.1130	8.0542
Class 'C'	2008	13.0760	21.9380	35.0140	n/a
	2009	16.3620	20.3660	36.7280	n/a
	2010	12.4520	18.8790	31.3310	n/a
	2011	9.8290	20.8100	30.6390	n/a
	2012	15.4540	24.9060	40.3600	n/a
	2013 [a]	14.0860	-	14.0860	n/a
Class 'I'	2013 [a]	8.3450	-	8.3450	8.3450
Class 'R'	2013 [a]	0.7150	-	0.7150	0.7150
Class 'X'	2008	4.1780	13.6320	17.8100	25.1339
	2009	9.1780	14.1320	23.3100	33.5558
	2010	5.1370	11.0920	16.2290	23.9261
	2011	1.8330	12.2740	14.1070	21.1053
	2012	7.4610	16.4240	23.8850	36.3188
	2013 [a]	5.1370	-	5.1370	7.9616

[a] Up to Interim: ex-distribution date 2 January 2013;
payment date 28 February 2013.

NET ASSETS

	Period ended	Value per share Inc	Value per share Acc	Number of shares Inc	Number of shares Acc
Sterling		p	p		
Class 'A'	Jun 2010	938.66	1,427.29	6,549,055	4,984,358
	Jun 2011	1,146.81	1,764.76	2,012,355	2,587,908
	Jun 2012	1,129.11	1,774.64	1,689,055	2,136,683
	Dec 2012	1,217.95	1,922.14	1,615,355	1,988,133
Class 'C'	Jun 2010	938.49	n/a	1,209,990	n/a
	Jun 2011	1,147.04	n/a	1,094,240	n/a
	Jun 2012	1,129.74	n/a	1,071,140	n/a
	Dec 2012	1,219.01	n/a	1,020,540	n/a
Class 'I'	Dec 2012	1,062.66	1,071.01	100	100
Class 'R'	Dec 2012	106.27	106.98	1,000	1,000
Class 'X'	Jun 2010	945.95	1,413.29	2,125,051	660,534
	Jun 2011	1,155.62	1,747.37	958,651	372,234
	Jun 2012	1,137.78	1,757.21	579,651	291,334
	Dec 2012	1,227.54	1,903.34	476,951	233,734

Total net asset value of sub-fund	Period ended	£	€ [a]
	Jun 2010	173,407,000	212,064,000
	Jun 2011	98,882,000	109,346,000
	Jun 2012	80,805,000	100,223,000
	Dec 2012	80,637,000	98,871,000

[a] Based on the midday exchange rate on the last business day of each accounting period.

PORTFOLIO

PORTFOLIO STATEMENT

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
Oil & gas producers		13.61	15.12
122,362 BG Group	1,239	1.54	
1,459,905 Borders & Southern Petroleum	285	0.35	
792,372 BP	3,374	4.18	
63,626 Ophir Energy	319	0.40	
195,562 Premier Oil	656	0.81	
174,365 Royal Dutch Shell 'B'	3,809	4.72	
102,537 Tullow Oil	1,295	1.61	
Oil equipment, services & distribution		3.03	2.84
95,495 John Wood Group	697	0.86	
108,072 Petrofac	1,752	2.17	
Chemicals		0.31	0.00
79,719 Alent	246	0.31	
Mining		8.06	6.68
115,828 BHP Billiton	2,484	3.08	
114,404 Rio Tinto	4,018	4.98	
Aerospace & defence		2.76	3.42
617,018 Cobham	1,361	1.69	
98,395 Rolls-Royce Holdings	863	1.07	
Electronic & electrical equipment		0.09	0.00
26,279 Morgan Crucible	70	0.09	
Construction & materials		1.94	1.93
571,238 Balfour Beatty	1,565	1.94	
General industrials		2.22	0.74
743,214 DS Smith	1,512	1.88	
79,719 Vesuvius	276	0.34	
Industrial engineering		1.91	0.62
177,839 Fenner	699	0.87	
44,709 Weir Group	835	1.04	
Industrial transportation		0.88	1.42
321,630 BBA Aviation	713	0.88	
Support services		3.54	5.50
84,049 Babcock International Group	814	1.01	
124,578 Experian	1,224	1.52	
333,564 Regus	363	0.45	
474,505 Rentokil Initial	452	0.56	
Food producers		2.22	1.78
234,271 Tate & Lyle	1,791	2.22	
Household goods & home construction		1.12	0.00
158,551 Bovis Homes Group	908	1.12	
Tobacco		4.84	5.29
164,505 Imperial Tobacco	3,899	4.84	
Healthcare equipment & services		3.91	3.61
462,730 Smith & Nephew	3,149	3.91	
Pharmaceuticals & biotechnology		9.09	9.86
68,352 AstraZeneca	1,993	2.47	
340,684 GlaxoSmithKline	4,552	5.64	
41,930 Shire	792	0.98	
Food & drug retailers		0.97	0.90
804,102 Booker Group	784	0.97	
General retailers		3.77	2.48
467,362 Carphone Warehouse	977	1.21	
4,279,707 Dixons Retail	1,211	1.50	
301,654 Kingfisher	854	1.06	

M&G UK Select Fund

PORTFOLIO

PORTFOLIO STATEMENT (continued)

as at 31 December 2012

Holding	Value £'000	31.12.12 %	30.06.12 %
Media		5.22	3.08
240,022 Informa	1,079	1.34	
1,327,533 ITV	1,407	1.74	
269,103 Reed Elsevier	1,722	2.14	
Travel & leisure		0.00	2.82
Fixed line telecommunications		1.47	1.60
509,123 TalkTalk Telecom	1,187	1.47	
Mobile telecommunications		3.20	4.86
1,665,363 Vodafone Group	2,579	3.20	
Gas, water & multi-utilities		2.80	2.86
673,850 Centrica	2,255	2.80	
Banks		8.23	6.04
607,680 HSBC Holdings	3,927	4.87	
5,629,567 Lloyds Banking Group	2,706	3.36	
Financial services		0.81	1.98
145,603 IG Group Holdings	652	0.81	
Life insurance		5.43	4.42
270,077 Prudential	2,333	2.89	
554,810 Resolution	1,377	1.71	
159,316 St. James's Place	668	0.83	
Non-life insurance		2.97	2.44
1,907,324 RSA Insurance Group	2,397	2.97	
Software & computer services		4.09	6.09
35,923 Fidessa Group	534	0.66	
240,620 Micro Focus	1,396	1.73	
465,405 Sage Group	1,374	1.70	
'AAA' rated money market funds ^[a]		1.94	1.83
1,562,000 Northern Trust Global Fund - Sterling	1,562	1.94	
Portfolio of investments	80,986	100.43	100.21
Net other liabilities	(349)	(0.43)	(0.21)
Net assets attributable to shareholders	80,637	100.00	100.00

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

PORTFOLIO TRANSACTIONS

for the six months ended 31 December 2012

Largest purchases	£'000
BHP Billiton	2,203
Resolution	1,193
Informa	949
Micro Focus	891
Bovis Homes Group	811
Carphone Warehouse	652
Fenner	650
Rio Tinto	534
DS Smith	518
Vesuvius	474
Rentokil Initial	418
Shire	388
Ophir Energy	354
Lloyds Banking Group	253
Weir Group	212
St. James's Place	186
Tate & Lyle	169
Regus	162
IG Group Holdings	152
Borders & Southern Petroleum	149
Northern Trust Global Fund - Sterling ^[a]	9,172
Other purchases	315
Total purchases	20,805
Largest sales	£'000
Anglo American	2,140
Ladbroke's	1,475
Aviva	1,264
Logica	1,245
Micro Focus	1,067
Compass Group	1,061
Vodafone Group	886
RPS Group	767
Experian	754
Tullet Prebon	625
Babcock International Group	606
GlaxoSmithKline	603
Hays	564
BBA Aviation	457
IG Group Holdings	436
Chemring Group	435
TalkTalk Telecom	354
Kingfisher	341
Permier Oil	330
Prudential	286
Northern Trust Global Fund - Sterling ^[a]	9,092
Other sales	1,856
Total sales	26,644

^[a] Cash management fund used to reduce risk and manage surplus cash.

M&G UK Select Fund

INTERIM FINANCIAL STATEMENTS (unaudited)

For the six months ended 31 December 2012.

STATEMENT OF TOTAL RETURN

	2012		2011	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		5,980		(5,859)
Revenue	1,171		1,379	
Expenses	(588)		(637)	
Net revenue before taxation	583		742	
Taxation	0		(1)	
Net revenue after taxation		583		741
Total return before distributions		6,563		(5,118)
Finance costs: Distributions		(452)		(708)
Change in net assets attributable to shareholders from investment activities		6,111		(5,826)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

	2012		2011	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		80,805		98,882
Amounts received on issue of shares	509		1,393	
Amounts paid on cancellation of shares	(6,958)		(9,846)	
		(6,449)		(8,453)
Stamp Duty Reserve Tax		(9)		(11)
Change in net assets attributable to shareholders from investment activities (see above)		6,111		(5,826)
Retained distributions on Accumulation shares		179		299
Closing net assets attributable to shareholders		80,637		84,891

The opening net assets attributable to shareholders for 2012 differs to the closing position in 2011 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

BALANCE SHEET

	as at 31 December 2012		as at 30 June 2012	
	£'000	£'000	£'000	£'000
Assets				
Investment assets		80,986		80,977
Debtors	149		937	
Cash and bank balances	1		1	
Total other assets		150		938
Total assets		81,136		81,915
Liabilities				
Creditors				
Net distributions payable on Income shares	(251)		(637)	
Other creditors	(248)		(473)	
Total liabilities		(499)		(1,110)
Net assets attributable to shareholders		80,637		80,805

NOTE TO THE FINANCIAL STATEMENTS

Accounting policies

The interim financial statements have been prepared on the same basis as the audited annual financial statements for the year ended 30 June 2012. They are 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.

Further Information

RISK FACTOR

Risk affecting all sub-funds

Within the M&G Investment Funds (3) range, although each sub-fund will be treated as being responsible for meeting its own liabilities, the Authorised Corporate Director (ACD) may reallocate these in a manner which is fair to all Company investors if each sub-fund is unable to meet its liabilities. A shareholder is not, however, 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.

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 Services Authority, allows the cost of dilution to be recovered from investors on the purchase or redemption of shares by means of a dilution adjustment to the dealing price, and this is the policy which has been adopted by the ACD.

Further information on the ACD's dilution adjustment policy is in the Prospectus, which is available free of charge from the ACD, M&G Securities Limited.

THE EU SAVINGS DIRECTIVE

The percentage of the following M&G sub-funds held in interest-bearing assets (as defined by the UK rules for the EU Savings Directive 2003/48/EC) is as follows:

M&G Corporate Bond Fund	99.11%
M&G Dividend Fund	0.30%
M&G Emerging Markets Bond Fund	99.63%
M&G European Corporate Bond Fund	98.13%
M&G European High Yield Bond Fund	98.11%
M&G Fund of Investment Trust Shares	2.74%
M&G International Sovereign Bond Fund	101.64%
M&G Recovery Fund	0.17%
M&G Smaller Companies Fund	4.14%
M&G UK Select Fund	1.94%

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 31.12.12	as at 30.06.12
M&G Corporate Bond Fund	107.06%	208.76%
M&G Emerging Markets Bond Fund	97.59%	155.51%
M&G European Corporate Bond Fund	37.50%	50.78%
M&G European High Yield Bond Fund	80.35%	82.40%
M&G Recovery Fund	6.94%	-5.69%

TOTAL EXPENSE RATIOS

The Total Expense Ratio (TER) is shown only for those share classes currently available in Switzerland. The TER shows the relevant annualised operating expenses of each share class from the most recent reporting period as a single percentage of the average net asset value for that share class over the same period.

The unaudited TERs for the sub-funds currently registered in Switzerland are as follows:

			Share class (Accumulation)	Total Expense Ratio 31.12.12	30.06.12
				%	%
M&G Corporate Bond Fund	Sterling	Class 'A'		1.16	1.16
M&G Emerging Markets Bond Fund	Euro	Class 'A'		1.47	1.45
		Class 'C'		0.97	0.95
	US dollar	Class 'A'		1.51	1.60
		Class 'C'		0.98	0.98
M&G European Corporate Bond Fund	Euro	Class 'A'		1.16	1.17
		Class 'C'		0.66	0.66
	Swiss franc	Class 'A-H'		1.22	n/a
		Class 'C-H'		0.72	n/a
M&G European High Yield Bond Fund	Euro	Class 'A'		1.48	1.46
		Class 'C'		0.99	0.96
M&G Recovery Fund	Sterling	Class 'A'		1.65	1.66
	Euro	Class 'A'		1.65	1.66
		Class 'C'		0.90	0.90

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

