

Interim Short Report June 2013 For the six months ended 30 April 2013

M&G Episode Balanced Fund

a sub-fund of M&G Investment Funds (4)

How to contact us



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

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

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AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective of the M&G Episode Balanced Fund

The Fund's objective is to maximise total return (the combination of income and growth of capital) through investment in a diversified range of asset types. Subject to this, the Fund aims to grow income in the long term.

Policy for achieving the objective of the M&G Episode Balanced Fund

The fund manager adopts a flexible approach to the allocation of capital between asset classes in response to changes in economic conditions and the valuation of assets. Central to this approach is the identification of episodes, which are periods of time during which, in the fund manager's view, asset prices become over- or under-stated, relative to objective valuation measures, due to the emotional reaction of investors to events. These episodes can exist over both the short and medium term.

The Fund invests in transferable securities, fixed income assets (including, but not limited to, corporate bonds and government and public securities), warrants, money market instruments, deposits, cash and near cash. Exposure to these assets, and to property, may be gained via collective investment schemes and derivatives (including equity index futures, currency forwards, interest rate swaps and other liquid derivatives). The fund will invest no more than 60% of the portfolio in equities. Derivatives may also be used for efficient portfolio management purposes.

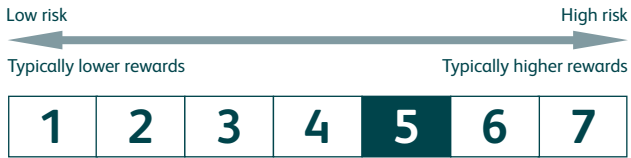
Investment approach

The fund seeks to outperform the IMA Mixed Investment 20-60% sector.

The fund managers believe the best approach for achieving this lies in the flexible allocation of capital between asset classes, guided by a robust valuation framework. In particular, they seek to respond where asset prices move away from a reasonable sense of 'fair' value due to investors reacting emotionally to events. They believe such episodes create opportunities because emotions should be less important than underlying fundamentals over the medium and long term.

The fund will typically hold between 20-60% in equity, 30-75% in fixed income (including cash), and up to 20% in other assets (primarily indirect exposure to commercial property). The fund managers will actively manage currency exposures to seek to enhance returns, with a minimum of 30% of the fund exposed to sterling and a minimum of 60% in established market currencies. The fund is likely to achieve its asset exposures through securities, collectives and derivative instruments.

Risk and reward profile*



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

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

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

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

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

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

- **Emerging markets** – The Fund can invest in emerging markets which tend to have larger price fluctuations than more developed countries. The Fund may encounter difficulties when buying and selling these investments or converting the proceeds of a sale or any income earned back into the base currency of the Fund.
- The Fund invests mainly in other funds and there is a risk that the fair value of the assets held is not at all times reflected in the Fund's reported value. The fund manager will not have control over the management of these funds or the fair pricing of the assets held in their portfolios.
- * Please note that this 'Risk and reward profile' section is based on Sterling Class 'A' shares, the nominated share class.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

As at 1 May 2013, for the six months ended 30 April 2013

Our approach to managing the portfolio lies in flexibly allocating capital between global asset classes. We attempt to look objectively at underlying economic conditions and asset valuations, seeking to find assets where investors' sentiment is overly negative or positive.

Due to our view that company shares, or equities, generally offered better value than bonds^[a] over the review period, we have sought to keep the fund invested in the former, while avoiding the least attractive areas of the bond market. However, divergent returns within asset classes serves to highlight that flexibility in maintaining the right blend of assets continues to be key. As such, during recent months, we have been actively recycling exposures within both the equity and bond allocations as different assets became more or less attractively valued. The majority of these trading strategies were executed through derivatives^[b], which offer greater efficiency in terms of the speed and ease of transactions, in our view.

At the start of the six months, we added to the positions in US and Japanese equities as well as high yield credit, which paid off as risk assets rallied over much of the rest of the period. However, in December, we also used some cash to slightly increase our UK government bond holdings as prices began to decline after a lengthy rally.

Elsewhere within equities, we initiated a position in Italian equity in January and added to it several times over the following months, while also gradually increasing our Korean equity exposure. In both cases we felt that cheap valuations were reflecting investors' focus on political tensions and other news stories rather than facts about the quality of these assets. In April, we recycled some UK equity exposure (which had performed well) into Indian equity and the technology sector, both of which we felt were undervalued.

Also in April, we reduced the UK government bond holding after some price gains alongside a cut in Spanish government bond holdings. The sale proceeds were used to establish a position in Irish government bonds at very attractive price levels.

We were also fairly active in the currency basket, the main change over the period being gradually increasing euro and sterling positions following weakness in both of these currencies relative to the US dollar.

Juan Nevado & Tony Finding

Co-fund managers

Juan Nevado and Tony Finding are employees of M&G Limited which is an associate of M&G Securities Limited.

[a] 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. Bonds issued by companies with a low credit rating from a recognised credit rating agency are known as high yield credit (bonds) as they typically provide a high level of interest to compensate investors for the higher risk of non-repayment.

[b] Derivatives are financial contracts between two parties whose value, and price, are dependent on one or more underlying asset(s). Derivatives can be used to gain exposure to, or to help protect against, expected changes in the future value of the underlying investments. Derivatives may be traded on a regulated exchange (standardised contracts available on the open market) or traded over-the-counter (bespoke contracts). The main types of derivatives used by M&G are futures contracts (an agreement to buy or sell a security/securities at a pre-determined price/prices on a specified date) and credit default swaps (insurance-like contracts that transfer the risk of default, or non-payment, on a fixed interest security (bond) to another investor).

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

FUND SUMMARY

DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Third interim	01.08.13	30.09.13
Final	01.11.13	31.12.13
First interim	03.02.14	31.03.14
Second interim	01.05.14	30.06.14

	Interim distribution Inc 30.06.13 ^[a]	Acc 01.05.13 ^[a]	Ongoing Charges Figure ^[b] 30.04.13	31.10.12
Sterling	p	p	%	%
Class 'A'	0.6760	0.7821	1.66	1.67
Class 'I'	6.0711	6.1444	0.98	0.97 ^[c]
Class 'R'	0.6115	0.6199	1.18	1.17 ^[c]
Class 'X'	0.6766	0.7823	1.66	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 comparative Ongoing Charges Figure is an estimate of the charges, as the share class had not been in existence for a full financial year.

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

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 30.04.13		Net asset value per share as at 31.10.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	120.65	140.56	110.68	127.52	+9.01	+10.23
Class 'I'	1,100.51	1,120.17	1,006.67	1,013.70	+9.33	+10.51
Class 'R'	109.92	111.96	100.62	101.33	+9.24	+10.50
Class 'X'	120.72	140.66	110.74	127.61	+9.01	+10.23

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

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

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008	100.13	79.29	102.03	82.73
	2009 ^[a]	105.33	84.07	113.82	89.11
	2010	113.25	102.16	125.01	110.93
	2011	113.33	102.00	125.39	114.23
	2012	113.93	105.30	131.28	119.89
	2013 ^[b]	121.84	114.49	141.15	131.92
Class 'I'	2012 ^[c]	1,037.22	992.33	1,043.90	992.33
	2013 ^[b]	1,111.27	1,042.42	1,124.88	1,049.13
Class 'R'	2012 ^[c]	103.66	99.22	104.32	99.22
	2013 ^[b]	111.00	104.18	112.45	104.84
Class 'X'	2008	100.21	79.35	102.11	82.80
	2009 ^[a]	105.40	84.13	113.88	89.18
	2010	113.32	102.22	125.09	110.99
	2011	113.40	102.06	125.47	114.31
	2012	114.00	105.36	131.36	119.97
	2013 ^[b]	121.91	114.56	141.26	132.01

^[a] The M&G Cautious Managed Portfolio merged into the M&G Episode Balanced Fund immediately after 13 March 2009.

^[b] To 1 May 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

Dividend income per share

	Calendar year	Interims	Distributed Final	Total	Reinvested
		p	p	p	p
Sterling (net)					
Class 'A'	2008	2.2190	0.6830	2.9020	2.9912
	2009	1.9533	0.5360	2.4893	2.6321
	2010	1.8320	0.4290	2.2610	2.4904
	2011	1.6160	0.7440	2.3600	2.6262
	2012	1.6930	0.6720	2.3650	2.6902
	2013 ^[a]	1.3170	-	1.3170	1.5191
Class 'I'	2012	n/a	7.0300	7.0300	7.0300
	2013 ^[a]	12.1921	-	12.1921	12.3098
Class 'R'	2012	n/a	0.7020	0.7020	0.7030
	2013 ^[a]	1.2055	-	1.2055	1.2165
Class 'X'	2008	2.2210	0.6830	2.9040	2.9932
	2009	1.9332	0.5340	2.4672	2.6388
	2010	1.8320	0.4300	2.2620	2.4871
	2011	1.6180	0.7440	2.3620	2.6280
	2012	1.6920	0.6830	2.3750	2.7079
	2013 ^[a]	1.3166	-	1.3166	1.5213

^[a] Up to interim: ex-distribution date 1 May 2013;
payment date 30 June 2013.

MAJOR HOLDINGS

The top ten holdings at the end of this period and the previous year end are shown below. ^[a]

	% of sub-fund as at 30.04.13		% of sub-fund as at 31.10.12
Northern Trust Global Fund - Sterling ^[b]	17.19	iShares FTSE 100	13.69
US Treasury 0% 2013 (\$)	12.09	US Treasury 0% 2012 (\$)	12.47
iShares FTSE 100	8.87	Northern Trust Global Fund - Sterling ^[b]	11.85
M&G Property Portfolio Sterling Class 'I' (Income)	5.79	M&G Property Portfolio Sterling Class 'S' (Income)	6.26
M&G Recovery Fund Sterling Class 'C' (Accumulation)	5.39	M&G Recovery Fund Sterling Class 'C' (Accumulation)	5.26
M&G High Yield Corporate Bond Fund Sterling Class 'X' (Accumulation)	4.69	M&G Global Leaders Fund	5.25
iShares MSCI Korea	4.22	M&G High Yield Corporate Bond Fund Sterling Class 'X' (Accumulation)	4.69
Ireland (Republic of) 3.9% 2023 (€)	4.09	iShares MSCI Korea	3.98
Treasury 4.25% 2039 (£)	3.75	Treasury 4.25% 2039 (£)	3.94
M&G Optimal Income Fund Sterling Class 'I' (Income)	3.67	iShares S&P 500	3.76

^[a] All holdings in M&G collective investment schemes are in Sterling Class 'A' (Income) shares / units unless otherwise stated.

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

CLASSIFICATION OF INVESTMENTS

The table below shows the percentage holding per sector.

	% of sub-fund as at	
	30.04.13	31.10.12
Equity portfolios		
Global	9.88	12.55
Japan	0.00	1.88
Equities		
Eire	0.17	0.25
Norway	0.00	0.12
United Kingdom	0.95	0.93
Australia	0.24	0.20
Canada	0.37	0.54
United States	1.42	1.28
Non-equity investments		
Russia	0.99	1.04
France	1.01	0.00
United Kingdom	15.01	18.50
Far East	4.22	3.98
Property portfolios	5.79	6.26
Bond portfolios	10.42	10.44
Bonds		
'AAA' credit rated bonds	3.75	3.94
'AA' credit rated bonds	12.09	12.47
'A' credit rated bonds	4.95	7.57
'BBB' credit rated bonds	6.50	2.70
'BB' credit rated bonds	2.28	2.29
Credit default swaps	0.60	(0.07)
Forward currency contracts	0.08	0.16
Equity index futures contracts	0.87	(0.07)
'AAA' rated money market funds ^[a]	17.19	11.85

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

OTHER INFORMATION

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

Short Reports

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

Investment Report and Financial Statements

A copy of the ACD's Interim Investment Report and Financial Statements for M&G Investment Funds (4), which incorporates all the sub-fund's interim investment reports and unaudited financial statements, or a copy of the ACD's Annual Investment Report and Financial Statements for M&G Investment Funds (4), which incorporates all the sub-fund's annual investment reports and audited financial statements is available free of charge on request from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations on 0800 390 390.

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Co-fund managers

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

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

M&G Securities Limited is authorised and regulated by the Financial Conduct Authority
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