

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

M&G Episode Growth 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 Growth Fund

The Fund's objective is to maximise total return (the combination of income and growth of capital).

Policy for achieving objective of the M&G Episode Growth 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 a minimum of 50% in collective investment schemes. Derivatives may also be used for efficient portfolio management purposes.

Investment approach

The fund seeks to outperform the IMA Mixed Investment 40-85% sector, with a lower volatility than company shares on average.

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 40-80% in equity, 15-50% in fixed income (including cash), and up to 10% 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 25% of the fund exposed to sterling and a minimum of 50% in established market currencies. The fund is likely to achieve its asset exposures through securities, collectives and derivative instruments.

Risk and reward profile*



1	2	3	4	5	6	7
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- The above risk number is based on the rate at which the value of the Fund has moved up and down in the past.
- This risk number is based on historical data and may not be a reliable indicator of the future risk profile of the Fund.
- The risk number shown is not guaranteed and may change over time.
- The lowest risk number does not mean risk free.

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 'X' shares, the nominated share class.

INVESTMENT ACTIVITIES OVER THE REPORT PERIOD

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

We use a valuation framework with a behavioural overlay in the management of the fund. This means we look at underlying economic conditions and asset valuations in an attempt to ascertain their fundamental worth, without being distracted by investors' sometimes misplaced or unrealistic expectations. In our opinion, this approach is the best way to assess the potential on offer in various markets, which should in turn help to generate positive returns over the longer term.

In our view, favourable value is still evident in equities, or company shares, and we maintained a relatively large presence in UK, European, Asian and US equities.

We expanded our presence in European stockmarkets by starting a position in the Italian stockmarket via equity index futures ^[a]. In our view, Italian equities are attractively valued with the potential for healthy gains. We subsequently took the opportunity to increase our exposure to Italian equities because of temporary weakness in these assets.

We sold the position in the GLG Japan CoreAlpha Fund, as we prefer to gain exposure to the Japanese stockmarket through equity index futures; we feel these instruments represent a more efficient and economical way of accessing markets than directly holding the assets. Similarly, we cut back the holding in the M&G Pan European Fund, preferring instead to gain access to the European market via equity index futures.

As well as reducing our allocation to US high yield corporate credit ^[b], we took some profits on selected UK government debt following strong performance.

Juan Nevado & Jenny Rodgers

Co-fund managers

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

^[a] The fund can invest in equities and bonds either directly or via futures. A future is a contract between two parties to buy or sell a particular financial instrument at a pre-determined price at a future date. Futures are traded on a regulated exchange. Futures can generally be bought and sold more quickly than individual shares or bonds, hence we view them as very efficient and make frequent use of them.

^[b] High yield corporate credit refers to interest-bearing loans issued by companies with a low credit rating from a recognised credit rating agency. They typically provide a high level of income or interest to compensate investors for the higher risk of non-repayment, or default.

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

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'	0.2182	0.2744	1.81	1.84
Class 'C'	0.2175	n/a	0.31	0.34
Class 'I'	5.0256	5.0430	0.98	1.00 ^[c]
Class 'R'	0.4968	0.6158	1.16	1.20 ^[c]
Class 'X'	0.2175	n/a	1.81	1.84

^[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'	48.03	60.90	43.29	54.38	+10.95	+11.99
Class 'C'	49.30	n/a	44.16	n/a	+11.64	n/a
Class 'I'	1,134.82	1,152.04	1,019.22	1,025.35	+11.34	+12.36
Class 'R'	113.41	115.10	101.94	102.51	+11.25	+12.28
Class 'X'	47.88	n/a	43.16	n/a	+10.94	n/a

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008	45.72	29.93	51.12	34.33
	2009 ^[a]	40.78	30.04	47.91	34.62
	2010	45.45	38.22	54.70	45.68
	2011	45.84	38.32	55.78	46.94
	2012	44.78	40.69	56.19	50.44
	2013 ^[b]	48.71	45.00	61.50	56.51
Class 'C'	2011 ^[c]	45.99	38.63	n/a	n/a
	2012	45.72	41.29	n/a	n/a
	2013 ^[b]	49.91	46.00	n/a	n/a
Class 'I'	2012 ^[d]	1,054.81	994.12	1,060.53	995.68
	2013 ^[b]	1,149.76	1,061.09	1,162.09	1,066.83
Class 'R'	2012 ^[d]	105.47	99.40	106.01	99.55
	2013 ^[b]	114.93	106.09	116.15	106.64
Class 'X'	2008	45.59	29.84	n/a	n/a
	2009 ^[a]	40.65	29.95	n/a	n/a
	2010	45.31	38.11	n/a	n/a
	2011	45.70	38.20	n/a	n/a
	2012	44.64	40.57	n/a	n/a
	2013 ^[b]	48.57	44.87	n/a	n/a

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

^[b] To 1 May 2013.

^[c] From 17 June 2011 (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

Dividend income per share

	Calendar year	Interims	Distributed Final	Interim	Total	Reinvested
Sterling (net)		p	p	p	p	p
Class 'A'	2008	0.5000	0.5280	nil	1.0280	1.1566
	2009	0.5000	0.4330	0.0380	0.9710	1.1222
	2010	0.7750	0.0776	0.0260	0.8786	1.0460
	2011	0.7780	0.0620	0.0770	0.9170	1.1154
	2012	0.8160	0.1050	n/a	0.9210	1.1414
	2013 ^[a]	0.4502	-	n/a	0.4502	0.5654
Class 'C'	2011	0.2949	0.0610	0.0760	0.4319	n/a
	2012	0.8300	0.1070	n/a	0.9370	n/a
	2013 ^[a]	0.4545	-	n/a	0.4545	n/a
Class 'I'	2012	3.4220	2.6540	n/a	6.0760	6.0840
	2013 ^[a]	10.6316	-	n/a	10.6316	10.6801
Class 'R'	2012	0.3380	0.2690	n/a	0.6070	0.6082
	2013 ^[a]	1.0528	-	n/a	1.0528	1.1716
Class 'X'	2008	0.5000	0.5270	nil	1.0270	n/a
	2009	0.5000	0.4310	0.0370	0.9680	n/a
	2010	0.7730	0.0777	0.0250	0.8757	n/a
	2011	0.7770	0.0610	0.0770	0.9150	n/a
	2012	0.8130	0.1050	n/a	0.9180	n/a
	2013 ^[a]	0.4485	-	n/a	0.4485	n/a

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

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]	18.29	Northern Trust Global Fund - Sterling ^[b]	13.51
US Treasury 0% 2013 (23 May) (\$)	9.26	iShares FTSE 100	9.38
iShares FTSE 100	8.24	US Treasury 0% 2012 (\$)	7.56
iShares S&P 500	6.90	iShares S&P 500	6.39
M&G Smaller Companies Fund	5.31	M&G Smaller Companies Fund	4.95
M&G Recovery Fund Sterling Class 'C' (Accumulation)	4.37	M&G Recovery Fund Sterling Class 'C' (Accumulation)	4.30
Treasury 0% 2013 (7 May) (£)	3.95	M&G UK Growth Fund	3.41
		M&G High Yield Corporate Bond Fund Sterling Class 'X' (Accumulation)	3.34
M&G UK Growth Fund	3.52	GLG Japan CoreAlpha Fund (Accumulation)	3.22
M&G High Yield Corporate Bond Fund Sterling Class 'X' (Accumulation)	3.32	iShares MSCI Korea	3.20
iShares MSCI Korea	3.24		

^[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	% of sub-fund as at 31.10.12
Equity portfolios		
Continental Europe	2.69	6.68
United Kingdom	13.84	13.22
Far East	2.86	2.64
Global	7.13	10.05
Japan	0.00	3.22
Equities		
Eire	0.12	0.18
Norway	0.00	0.08
United Kingdom	0.97	0.72
Australia	0.14	0.12
Canada	0.25	0.40
United States	2.06	1.12
Non-equity investments		
Russia	0.97	1.02
United Kingdom	15.14	15.77
Far East	3.24	3.20
Property portfolios	4.98	5.19
Bond portfolios	5.34	5.33
Bonds		
'AAA' credit rated bonds	5.67	2.89
'AA' credit rated bonds	9.26	7.56
'A' credit rated bonds	2.12	3.22
'BBB' credit rated bonds	0.97	1.05
'BB' credit rated bonds	1.82	1.78
Credit default swaps	0.12	(0.05)
Forward currency contracts	(0.01)	0.05
Equity index futures contracts	1.20	(0.07)
'AAA' rated money market funds ^[a]	18.29	13.51

^[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 Growth 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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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
and provides investment products. The company's registered office is Laurence
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