

Interim Investment Report and unaudited Financial Statements  
November 2012

---



## M&G Investment Funds (10)



# Contents

<b>Introduction</b>	<b>Page</b>	<b>1</b>
Company Information <sup>[a]</sup>	Page	1
Authorised Corporate Director's Report <sup>[a]</sup>	Page	2
<b>M&amp;G Investment Funds (10)</b>	<b>Page</b>	<b>3</b>
Aggregated Financial Statements (unaudited)	Page	3
Directors' Statement	Page	3
<b>Investment Report <sup>[a]</sup> and Financial Statements for:</b>		
M&G UK Inflation Linked Corporate Bond Fund	Page	5
<b>Further Information <sup>[a]</sup></b>	<b>Page</b>	<b>11</b>
Risk Factor	Page	11
Liquidity	Page	11
Dilution	Page	11
The EU Savings Directive	Page	11

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

# Introduction

## COMPANY INFORMATION

### Company

M&G Investment Funds (10)

### 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)

### Co-fund managers

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

#### **M&G UK Inflation Linked Corporate Bond Fund**

Jim Leaviss & Ben Lord

### Registrar

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

### Depositary

National Westminster Bank Plc, Trustee & Depositary Services,  
The Broadstone, 50 South Gyle Crescent, Edinburgh EH12 9LD  
(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.

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

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

# Introduction

## AUTHORISED CORPORATE DIRECTOR'S REPORT

The Authorised Corporate Director (ACD) presents its interim investment report and unaudited financial statements for the six months ended 30 September 2012.

The sub-fund in this report is part of an umbrella Open-Ended Investment Company (OEIC), M&G Investment Funds (10). 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 (10), as an umbrella OEIC, contains one sub-fund 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 UK Inflation Linked Corporate Bond Fund

The Company was authorised on 26 August 2010 and the sub-fund was launched on 16 September 2010.

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 interim investment report and unaudited financial statements for the M&G UK Inflation Linked Corporate Bond Fund for the six months ended 30 September 2012 are set out in detail on pages 5 to 9.

J R Talbot  
Director of M&G Securities Limited

G W MacDowall  
Director of M&G Securities Limited

14 November 2012

# M&G Investment Funds (10)

## AGGREGATED FINANCIAL STATEMENTS

As this umbrella Open-Ended Investment Company contains only one sub-fund there are no aggregated financial statements.

The accounts of the sub-fund are the accounts of the company.

## 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

14 November 2012

# M&G Investment Funds (10)

This page is intentionally blank

# M&G UK Inflation Linked Corporate Bond Fund

## AUTHORISED CORPORATE DIRECTOR'S REPORT

### Investment objective of the M&G UK Inflation Linked Corporate Bond Fund

The Fund aims to protect the value of capital and income from inflation by generating a return consistent with or greater than UK inflation over the medium to long term.

### Investment policy of the M&G UK Inflation Linked Corporate Bond Fund

The fund invests mainly in investment grade corporate bonds, including inflation-linked corporate bonds, floating rate notes (including asset backed securities) and other fixed income instruments (including bonds not linked to inflation). Derivatives may be used in pursuit of the fund objective and for efficient portfolio management purposes. Corporate bond exposure may be achieved either directly or by investing in a combination of assets, including government securities and credit derivatives. Inflation strategies may, at times, result in a return profile different to that of corporate bonds not linked to inflation. If deemed appropriate by the investment manager, the associated currency risks may be hedged.

The fund may also invest in other assets including collective investment schemes, other transferable securities and debt instruments (including high yield debt, convertible and preference stocks), cash and near cash, deposits, warrants and money market instruments.

### Investment approach

The M&G UK Inflation Linked Corporate Bond Fund invests in a range of fixed interest securities that should perform well when inflation is high or rising. The fund will be mainly exposed to investment grade credit but can also invest in inflation-linked government bonds, floating rate notes (FRNs), senior secured loans, conventional corporate and government bonds, cash and derivatives such as credit default swaps (CDS). The fund managers may also form assets out of a combination of government bonds and derivatives, whose returns behave in a similar way to inflation-linked corporate bonds. The aim of the fund is to provide returns that are consistent with or exceed inflation, as measured by the Consumer Prices Index (CPI) over the medium to long term.

### 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 1 October 2012, for the six months ended 30 September 2012

Overall, we maintain a cautious outlook for the global economy and we added to the fund's investments in UK index-linked gilts\*. Investors' expectations for future UK inflation fell over the period under review. We believe these expectations are too low and do not take into account the risk of future inflationary pressures. We therefore think that index-linked gilts offer attractively valued protection against a future rise in prices.

We also reduced the fund's position in high yield corporate bonds, which are loans issued by companies that pay relatively high rates of interest to compensate investors for the greater risk that they might default, that is, fail to repay the money they have borrowed. These instruments have performed strongly over the past six months and continue to provide an attractive level of income, although we believe they are now closer to fair value.

Compared to Europe, we have a more positive outlook for the US economy and we increased the fund's allocation to bonds issued by high quality US companies. Although we are generally wary of banks, due to their high levels of indebtedness, we view some of the stronger US banks more favourably and invested further in names such as JPMorgan and Wells Fargo.

While many governments are in a financially poor state, companies are generally in a much better position, having made efforts to reduce the levels of debt on their balance sheets. Over the period, we made additional purchases of inflation-linked bonds issued by some of our preferred companies, such as automaker Toyota and energy company National Grid. We continue to favour debt with a short maturity date\*\*, typically less than five years.

### Jim Leaviss & Ben Lord Co-fund managers

Jim Leaviss and Ben Lord are employees of M&G Limited which is an associate of M&G Securities Limited.

\* These are interest-bearing loans issued by the UK government where both the value of the loan and the interest payments are adjusted in line with inflation until they expire.

\*\* The date at which a loan or bond is contracted to be repaid.

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 Inflation Linked Corporate Bond Fund

## FUND STATISTICS

### DISTRIBUTION DATES AND FUND FACTS

Distribution type	xd	payment
Final	01.04.13	31.05.13
Interim	01.10.13	30.11.13

	Interim distribution Inc 30.11.12 [a]	Acc 01.10.12 [a]	Ongoing Charges Figure [b] 30.09.12	31.03.12
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>%</b>	<b>%</b>
Class 'A'	0.5400	0.5452	1.16	1.17
Class 'I'	0.7540	0.7628	0.66	0.67
Class 'R' [c]	0.1020	0.1008	0.92	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 30.09.12		Net asset value per share as at 31.03.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
<b>Sterling</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>	<b>%</b>	<b>%</b>
Class 'A'	105.52	107.05	104.68	105.65	+0.80	+1.33
Class 'I'	105.81	107.96	104.96	106.34	+0.81	+1.52
Class 'R'	100.82	100.92	n/a	n/a	n/a	n/a

### PERFORMANCE SINCE LAUNCH

	six months 02.04.12 %	one year 03.10.11 %	five years 01.10.07 % p.a. [a]	since launch % p.a. [a]
<b>Sterling [b]</b>				
Class 'A'	+1.2	+5.7	n/a	+3.7 [c]
Class 'I'	+1.4	+6.2	n/a	+4.1 [c]
Class 'R'	n/a	n/a	n/a	+1.5 [d]

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

[b] Bid to bid with net income reinvested.

[c] 16 September 2010, the launch date of the fund.

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

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

From To	30.09.11 28.09.12 %	30.09.10 30.09.11 %	30.09.09 30.09.10 %	30.09.08 30.09.09 %	28.09.07 30.09.08 %
<b>Sterling</b>					
Class 'A'	+5.3	+1.7	n/a	n/a	n/a

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

## PRICES

	Calendar year	Income shares Highest	Lowest	Accumulation shares Highest	Lowest
<b>Sterling (net)</b>		<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
Class 'A'	2010 [a]	101.56	100.00	101.56	100.00
	2011	105.51	100.37	106.08	101.29
	2012 [b]	107.20	102.39	108.19	103.33
Class 'I'	2010 [a]	101.63	100.00	101.66	100.00
	2011	105.68	100.39	106.48	101.66
	2012 [b]	107.69	102.51	109.10	103.85
Class 'R'	2012 [b] [c]	101.99	100.00	101.99	100.00

[a] From 16 September 2010 (the launch date of the fund).

[b] To 1 October 2012.

[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	Final	Distributed Interim	Total	Reinvested
<b>Sterling (net)</b>		<b>p</b>	<b>p</b>	<b>p</b>	<b>p</b>
Class 'A'	2011	0.5540	0.3520	0.9060	0.9104
	2012 [a]	0.0000	0.5400	0.5400	0.5452
Class 'I'	2011	0.7660	0.5600	1.3260	1.3300
	2012 [a]	0.0000	0.7540	0.7540	0.7628
Class 'R'	2012 [a]	n/a	0.1020	0.1020	0.1008

[a] Up to interim: ex-distribution date 1 October 2012;  
payment date 30 November 2012.

## NET ASSETS

	Period ended	Value per share Inc	Acc	Number of shares Inc	Acc
<b>Sterling</b>		<b>p</b>	<b>p</b>		
Class 'A'	Mar 2011	102.35	102.90	12,777,000	32,420,000
	Mar 2012	104.68	105.65	36,857,000	74,130,000
	Sep 2012	105.52	107.05	49,951,000	86,543,000
Class 'I'	Mar 2011	102.37	103.14	81,250,000	51,225,000
	Mar 2012	104.96	106.34	138,114,000	84,550,000
	Sep 2012	105.81	107.96	181,206,000	95,710,000
Class 'R'	Sep 2012	100.82	100.92	1,000	1,000

### Total net asset value of sub-fund

Period ended	£	€ [a]
Mar 2011	182,447,000	206,671,000
Mar 2012	351,780,000	422,408,000
Sep 2012	440,419,000	551,747,000

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



# M&G UK Inflation Linked Corporate Bond Fund

## PORTFOLIO

### PORTFOLIO STATEMENT

as at 30 September 2012

Holding	Value £'000	30.09.12 %	31.03.12 %
<b>'AAA' credit rated bonds</b>		<b>47.18</b>	<b>42.46</b>
£2,076,605 Alba FRN 2042	2,101	0.48	
£1,807,609 Alba FRN 2051	1,805	0.41	
£1,755,000 European Investment Bank 2.6% IL 2013	2,491	0.57	
£1,489,000 Isobel Finance FRN 2038	1,489	0.34	
£460,000 Network Rail Infrastructure Finance 1.75% IL 2027	668	0.15	
£200,000 Network Rail Infrastructure Finance 1.9618% IL 2025	327	0.07	
£2,222,079 Paragon Mortgages FRN 2039	2,255	0.51	
£2,025,000 Treasury 1.25% IL 2017	2,911	0.66	
£25,000 Treasury 1.875% IL 2022	38	0.01	
£40,215,000 Treasury 2.5% IL 2013	112,904	25.63	
£23,470,000 Treasury 2.5% IL 2016	80,639	18.31	
£25,000 Treasury 2.5% IL 2020	92	0.02	
£25,000 Treasury 2.5% IL 2024	83	0.02	
<b>'AA' credit rated bonds</b>		<b>5.85</b>	<b>7.61</b>
£28,139 Baglan Moor Healthcare 3.92% IL 2029	48	0.01	
£1,030,802 Epic FRN 2016	806	0.18	
£8,171 Moyle Interconnector Financing 2.9376% IL 2033	13	0.00	
£5,350,000 Rabobank Nederland 2.324% IL 2013	7,208	1.64	
£13,450,000 Toyota Motor Credit 2.413% IL 2017	17,711	4.02	
<b>'A' credit rated bonds</b>		<b>29.12</b>	<b>29.47</b>
£3,750,000 Abbey National Treasury Services FRN 2014	2,235	0.51	
£1,050,000 Anglian Water Services Financing 3.666% IL 2024	1,831	0.42	
£3,289,000 Anglian Water Services Financing 4.125% IL 2020	6,008	1.36	
£4,950,000 ASIF III (Jersey) 5.375% 2016	5,411	1.23	
£12,000,000 Bank of America 5.3% 2017	8,047	1.83	
£3,500,000 Close Brothers Group 6.5% 2017	3,812	0.87	
£101,000 Dwr Cymru Financing 3.514% IL 2030	185	0.04	
£1,239,000 Dwr Cymru Financing 4.377% IL 2026	2,465	0.56	
£295,944 Eddystone Finance FRN 2021	213	0.05	
£1,200,000 Eddystone Finance FRN 2021	906	0.21	
£2,000,000 Granite Master Issuer FRN 2054 07-2	1,785	0.41	
£900,000 Granite Master Issuer FRN 2054 M4	767	0.17	
£576,014 Granite Mortgages FRN 2043	289	0.07	
£500,000 Granite Mortgages FRN 2044 04-1	467	0.11	
£71,122 Granite Mortgages FRN 2044 04-3A	69	0.02	
£1,550,000 Granite Mortgages FRN 2044 04-3B	1,356	0.31	
£11,500,000 JPMorgan Chase Bank 5.375% 2016	12,594	2.86	
£1,000,000 Morgan Stanley FRN 2016	736	0.17	
£1,942,517 Mortgages FRN 2038	1,781	0.40	
£1,200,000 Munich Finance Var. Rate 2028	1,408	0.32	
£4,000,000 National Grid Electricity Transmission 2.983% IL 2018	6,589	1.50	
£3,685,000 National Grid Gas 4.1875% IL 2022	7,335	1.67	
£2,000,000 Nationwide Building Society 3.875% IL 2021	5,805	1.32	
£395,316 Newgate Funding FRN 2050	376	0.09	
£644,009 RMAC FRN 2037	370	0.08	
£4,000,000 Santander International Debt 3.16% 2015	3,836	0.87	
£915,000 SNAM 4.375% 2016	767	0.17	
£1,452,000 Southern Water Services Finance 3.816% IL 2023	2,357	0.54	
£11,147,000 Tesco 4% IL 2016	18,399	4.18	

### PORTFOLIO STATEMENT (continued)

as at 30 September 2012

Holding	Value £'000	30.09.12 %	31.03.12 %
<b>'A' credit rated bonds (continued)</b>			
£3,152,000 Thames Water Utilities Finance 3.375% IL 2021	5,339	1.21	
£222,000 UBS London 6.375% 2016	254	0.06	
£14,500,000 US Bank National Association Var. Rate 2017	10,928	2.48	
£10,450,000 Wells Fargo Bank 5.25% 2023	12,043	2.73	
£957,000 Yorkshire Water Services Bradford Finance 2.718% IL 2039	1,308	0.30	
<b>'BBB' credit rated bonds</b>		<b>5.11</b>	<b>6.38</b>
£1,418,000 BG Energy Capital Var. Rate 2072	1,496	0.34	
£2,178,000 British Telecommunications 3.5% IL 2025	3,871	0.88	
£250,000 Channel Link Enterprises Finance FRN 2050	234	0.05	
£1,403,000 Firstgroup 8.125% 2018	1,657	0.38	
£2,000,000 Granite Master Issuer FRN 2054	1,233	0.28	
£3,000,000 Granite Master Issuer FRN 2054 1A	1,427	0.32	
£634,000 Granite Master Issuer FRN 2054 1X	303	0.07	
\$1,500,000 Granite Master Issuer FRN 2054 3	713	0.16	
£33,000 HSBC Capital Funding Var. Rate Perp.	35	0.01	
£500,000 Intesa Sanpaolo Var. Rate 2017	484	0.11	
£500,000 Lloyds TSB Bank 9.625% 2023	599	0.14	
£500,000 Lloyds TSB Bank Var. Rate 2020	463	0.10	
£1,000,000 London Power Networks 3.125% IL 2032	1,649	0.37	
£280,000 Scottish Power 3.494% IL 2024	446	0.10	
£1,000,000 Severn Trent 1.3% IL 2022	1,010	0.23	
£2,944,000 South Eastern Power Networks 3.053% IL 2023	4,575	1.04	
£450,000 Southern Gas Networks FRN 2015	419	0.09	
£1,000,000 Virgin Media Secured Finance 7% 2018	1,081	0.25	
£725,000 Western Power Distribution East Midlands 2.671% IL 2043	839	0.19	
<b>'BB' credit rated bonds</b>		<b>1.89</b>	<b>2.06</b>
£280,000 British Airways 8.75% 2016	300	0.07	
£1,660,831 Coventry & Rugby Hospital 3.246% IL 2040	2,600	0.59	
£700,000 Enterprise Inns 6.5% 2018	612	0.14	
£963,000 Interger 8.5% 2017	732	0.17	
£500,000 Lafarge Cement UK 10.75% 2013	546	0.12	
£1,790,000 Matterhorn Mobile FRN 2019	1,435	0.33	
£1,540,000 Sunrise Communications International FRN 2017	1,235	0.28	
£1,000,000 Unitymedia Hessen 8.125% 2017	857	0.19	
<b>'B' credit rated bonds</b>		<b>1.22</b>	<b>1.24</b>
£1,000,000 Ardagh Packaging Finance 7.375% 2017	847	0.19	
£1,788,000 Elli Finance 8.75% 2019	1,928	0.44	
£2,500,000 Ontex IV FRN 2018	1,901	0.43	
£200,000 Schaeffler Finance 7.75% 2017	137	0.03	
£700,000 Telenet Finance V Luxembourg 6.25% 2022	562	0.13	
<b>Bonds with no credit rating</b>		<b>7.47</b>	<b>8.74</b>
£1,304,680 Annes Gate Property 3.237% IL 2030	2,095	0.47	
£2,900,000 Bristol Water 2.701% IL 2041	3,354	0.76	
£518,868 Exchequer Partnership 3.582% IL 2035	914	0.21	
£2,755,260 Hospital Company (Dartford) Issuer 3.003% IL 2031	4,193	0.95	
£800,000 John Lewis 8.375% 2019	1,046	0.24	
£893,637 King's College Hospital 3.443% 2036	1,413	0.32	
£622,000 Kommunalbanken 2.6225% IL 2016	997	0.23	
£300,000 Lloyds TSB Bank FRN 2016	262	0.06	
£600,000 Nationwide Building Society 4.25% IL 2024	1,523	0.35	
£7,861,530 Severn River Crossing 6.125% IL 2013	14,626	3.32	

# M&G UK Inflation Linked Corporate Bond Fund

## PORTFOLIO

### PORTFOLIO STATEMENT (continued)

as at 30 September 2012

Holding	Value £'000	30.09.12 %	31.03.12 %
<b>Bonds with no credit rating (continued)</b>			
£200,000 Severn Trent Utilities Finance 3.86% IL 2028	361	0.08	
£311,523 THFC Indexed 2 5.5% IL 2024	669	0.15	
£599,462 THFC Indexed 5.65% IL 2020	1,471	0.33	
<b>Credit default swaps <sup>[a]</sup></b>			
		<b>(0.08)</b>	<b>(0.16)</b>
€(5,500,000) Anheuser-Busch InBev Jun 2016	60	0.01	
€(1,700,000) Anheuser-Busch InBev Sep 2016	18	0.00	
€(5,000,000) BAA Airports Jun 2016	(42)	(0.01)	
€(2,300,000) BAA Airports Sep 2016	(23)	(0.01)	
€(500,000) British Airways Mar 2016	(8)	0.00	
€1,250,000 British Telecom Jun 2021	16	0.00	
€(3,500,000) BskyB Sep 2016	36	0.01	
\$(129,100,000) CDX North American Investment Grade Series 18 Jun 2017	352	0.08	
€(1,500,000) EDF Sep 2016	7	0.00	
€(6,750,000) Ericsson Jun 2016	(57)	(0.01)	
€(500,000) Finmeccanica Mar 2013	0	0.00	
€(1,000,000) Finmeccanica Sep 2013	(1)	0.00	
€(2,000,000) Heineken Mar 2016	21	0.00	
€(2,000,000) Imperial Tobacco Sep 2016	12	0.00	
€(500,000) International Consolidated Airlines Group Jun 2016	(10)	0.00	
€(3,000,000) Intesa Sanpaolo Mar 2015	0	0.00	
\$5,000,000 National Australian Bank Jun 2017	45	0.01	
\$7,500,000 National Australian Bank Mar 2017	51	0.01	
€(8,500,000) Nokia Jun 2013	(48)	(0.01)	
€(1,750,000) Nokia Sep 2013	(21)	0.00	
\$(3,250,000) Republic of Italy Jun 2017	(203)	(0.05)	
€(4,000,000) Telecom Italia Jun 2014	(44)	(0.01)	
€(5,000,000) Telefónica Sep 2017	(420)	(0.10)	
€(5,000,000) Vivendi Jun 2016	(41)	(0.01)	
\$6,000,000 Westpac Banking Corporation Jun 2017	55	0.01	
<b>Forward currency contracts</b>			
		<b>0.03</b>	<b>0.03</b>
€(1,586,697) Bought for £1,266,814 (expires 18.10.12)	1	0.00	
€180,000 Sold for £145,174 (expires 20.12.12)	1	0.00	
€31,795,775 Sold for £25,389,089 (expires 18.10.12)	3	0.00	
\$(767,610) Bought for £474,100 (expires 18.10.12)	0	0.00	
\$22,716,817 Sold for £14,173,103 (expires 18.10.12)	140	0.03	
\$290,000 Sold for £178,585 (expires 20.12.12)	(1)	0.00	
<b>Interest rate futures contracts</b>			
		<b>(0.02)</b>	<b>0.03</b>
(720) UK Long Gilt Bond Dec 2012	(83)	(0.02)	
<b>'AAA' rated money market funds <sup>[b]</sup></b>			
		<b>0.28</b>	<b>0.54</b>
£1,226,000 Northern Trust Global Fund - Sterling	1,226	0.28	
<b>Portfolio of investments</b>	<b>431,852</b>	<b>98.05</b>	<b>98.40</b>
<b>Net other assets</b>	<b>8,567</b>	<b>1.95</b>	<b>1.60</b>
<b>Net assets attributable to shareholders</b>	<b>440,419</b>	<b>100.00</b>	<b>100.00</b>

<sup>[a]</sup> Unlisted.

<sup>[b]</sup> 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 30 September 2012

<b>Largest purchases</b>	<b>£'000</b>
Treasury 2.5% IL 2013 (£)	123,528
UK Long Gilt Bond Jun 2012 <sup>[a]</sup>	112,145
UK Long Gilt Bond Sep 2012 <sup>[a]</sup>	68,657
Treasury 2.5% IL 2016 (£)	45,524
Germany (Federal Republic of) 2.25% 2013 (€)	18,358
US Bank National Association Var. Rate 2017 (€)	8,222
Toyota Motor Credit 2.413% IL 2017 (£)	5,320
Treasury 1.875% IL 2022 (£)	5,014
Bank of America 5.3% 2017 (£)	4,833
Germany (Federal Republic of) 0.75% 2018 (€)	4,686
National Grid Electricity Transmission 2.983% IL 2018 (£)	4,188
Wells Fargo Bank 5.25% 2023 (£)	4,121
Severn River Crossing 6.125% IL 2013 (£)	4,043
Tesco 4% IL 2016 (£)	3,907
JPMorgan Chase Bank 5.375% 2016 (£)	3,702
Santander International Debt 3.16% 2015 (£)	3,649
Close Brothers Group 6.5% 2017 (£)	3,620
Citigroup 5.125% 2018 (£)	2,941
Treasury 1.25% IL 2017 (£)	2,890
Italy (Republic of) 2.1% 2016 (€)	2,419
Northern Trust Global Fund - Sterling <sup>[b]</sup>	54,343
<b>Other purchases</b>	<b>28,592</b>
<b>Total purchases</b>	<b>514,702</b>
<b>Largest sales</b>	
	<b>£'000</b>
UK Long Gilt Bond Dec 2012 <sup>[a]</sup>	86,816
Treasury 2.5% IL 2016 (£)	68,008
UK Long Gilt Bond Sep 2012 <sup>[a]</sup>	67,139
Treasury 2.5% IL 2013 (£)	46,207
Germany (Federal Republic of) 2.25% 2013 (€)	18,241
UK Long Gilt Bond Jun 2012 <sup>[a]</sup>	13,844
Treasury 1.875% IL 2022 (£)	5,076
Germany (Federal Republic of) 0.75% 2018 (€)	4,708
US Treasury 0.625% IL 2013 (\$)	3,474
Royal Bank of Scotland 6.375% 2014 (£)	3,180
CPUK Finance 4.811% 2042 (£)	3,071
Citigroup 5.125% 2018 (£)	3,053
Lloyds TSB Bank 6.375% 2014 (£)	2,649
BNP Paribas 3.25% 2015 (\$)	2,520
UBS London 6.375% 2016 (£)	2,480
Italy (Republic of) 2.1% 2016 (€)	2,477
National Westminster Bank 7.875% 2015 (£)	2,114
Hannover Finance Luxembourg Var. Rate 2024 (€)	2,027
ING Bank 3.75% 2017 (\$)	1,951
Bank of Scotland 1.835% IL 2016 (£)	1,929
Northern Trust Global Fund - Sterling <sup>[b]</sup>	55,029
<b>Other sales</b>	<b>25,888</b>
<b>Total sales</b>	<b>421,881</b>

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

<sup>[b]</sup> Cash management fund used to reduce risk and manage surplus cash.

# M&G UK Inflation Linked Corporate Bond Fund

## INTERIM FINANCIAL STATEMENTS (unaudited)

For the six months ended 30 September 2012.

### STATEMENT OF TOTAL RETURN

	2012		2011	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		850		(5,591)
Revenue	7,111		2,764	
Expenses	(1,641)		(1,195)	
Finance costs: Interest	(2)		(3)	
Net revenue before taxation	5,468		1,566	
Taxation	0		0	
Net revenue after taxation		5,468		1,566
<b>Total return before distributions</b>		<b>6,318</b>		<b>(4,025)</b>
Finance costs: Distributions		(3,156)		(1,565)
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>3,162</b>		<b>(5,590)</b>

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

	2012		2011	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>351,780</b>		<b>182,447</b>
Amounts received on issue of shares	101,130		186,238	
Amounts paid on cancellation of shares	(16,855)		(63,750)	
		84,275		122,488
Stamp Duty Reserve Tax		0		(12)
Change in net assets attributable to shareholders from investment activities (see above)		3,162		(5,590)
Retained distributions on Accumulation shares		1,202		719
<b>Closing net assets attributable to shareholders</b>		<b>440,419</b>		<b>300,052</b>

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 30 September 2012		as at 31 March 2012	
	£'000	£'000	£'000	£'000
<b>Assets</b>				
Investment assets		432,854		347,302
Debtors	6,948		16,868	
Cash and bank balances	5,740		3,166	
<b>Total other assets</b>		<b>12,688</b>		<b>20,034</b>
<b>Total assets</b>		<b>445,542</b>		<b>367,336</b>
<b>Liabilities</b>				
Investment liabilities		(1,002)		(1,166)
Creditors				
Net distributions payable on Income shares	(1,636)		0	
Other creditors	(2,485)		(14,390)	
<b>Total other liabilities</b>		<b>(4,121)</b>		<b>(14,390)</b>
<b>Total liabilities</b>		<b>(5,123)</b>		<b>(15,556)</b>
<b>Net assets attributable to shareholders</b>		<b>440,419</b>		<b>351,780</b>

## 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 31 March 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 UK Inflation Linked Corporate Bond Fund

This page is intentionally blank

# Further Information

## RISK FACTOR

### Risk affecting all sub-funds

Within the M&G Investment Funds (10) range, although the 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 the 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-fund 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-fund in accordance with its objective. 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 the 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 M&G UK Inflation Linked Corporate Bond Fund held in interest-bearing assets (as defined by the UK rules for the EU Savings Directive 2003/48/EC) is 99.40%.



