

Interim Short Report September 2013 For the six months ended 31 July 2013

M&G Global Convertibles Fund

a sub-fund of M&G Investment Funds (7)

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AUTHORISED CORPORATE DIRECTOR'S REPORT

Investment objective of the M&G Global Convertibles Fund

The Fund aims to maximise long term total return to investors by investing mainly in global convertible assets.

Investment policy of the M&G Global Convertibles Fund

The Fund seeks to maximise the risk-reward profile through investment in convertible assets whose issuers may be in any country, including emerging markets. Global convertible assets includes all assets that either directly or via a combination of instruments achieve exposure of a convertible bond nature. Such exposure can be achieved by investing directly or through the use of derivative instruments. Additionally, derivative instruments may be used to manage the risk characteristics of the Fund. The remainder of the Fund may be invested in securities in support of the fund objective, such as, equities, bonds, collective investment schemes, derivative instruments, money market instruments, cash and near cash.

Investment approach

The manager of the M&G Global Convertibles Fund aims to take advantage of the special characteristics of convertibles as these financial instruments can participate in the rise of share prices whilst providing an amount of protection against share price falls. He looks for the fund to participate in the equity upside whilst also benefiting from the unique protection features of convertibles. Convertibles are bonds that are issued with an option that allows investors to convert them into shares of the issuing company within a set time period and at a specified price, called the conversion price. So, as the share price of the company increases, convertibles become more and more valuable (as investors can exchange their convertible bonds for shares in the company). But because they are not pure equity, they offer investors some protection against falls in share prices: if the share price goes down, the option can become worthless but the investor still keeps the value of the bond.

The fund is managed without reference to any benchmark, expected yield or target return. Instead, the investment process focuses purely on delivering the best possible risk-adjusted returns over the cycle. The fund aims to invest in convertibles that provide the best risk-reward features. For these convertibles, the potential gain from the option on the share price exceeds the potential loss from the share price falling back to the value of the bond. Risk is also managed by

minimising the potential loss that the convertible might suffer if the share price of the company declined markedly and the value of the embedded option fell to zero.

Key to the performance of the fund is a bottom-up, global approach to stockpicking among convertibles based on the assessment of company fundamentals. The fund manager has no set geographical guidelines or limits determined by macroeconomic or sector views.

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. The Fund may also use derivatives to generate exposure to investments exceeding the net asset value of the Fund. This will expose the Fund to a higher degree of risk and may cause your investment to experience larger than average price fluctuations.

The Fund may take short positions through the use of derivatives which are not backed by equivalent physical assets. Short positions reflect an investment view that the price of the underlying asset is expected to fall in value. Accordingly, if this view is incorrect and the asset rises in value, the short position could involve greater risk due to the theoretical possibility of an unlimited rise in its value.

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.

- **Liquidity** – In difficult market conditions the value of certain fund investments may be less predictable than normal. In some cases this may make such investments harder to sell at the last quoted market price, or at a price considered to be fair. Such conditions could result in unpredictable changes in the value of your holding.
- **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 one area of the market. It is therefore more vulnerable to the market sentiment of that specific area. This type of fund can carry a higher risk and can experience larger than average price fluctuations when compared to a fund with a broader investment universe.

- * 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 August 2013, for the six months ended 31 July 2013

Both of the largest acquisitions during the review period were convertibles^[a] issued by real estate developers. This, however, does not imply a positive view on the sector as a whole since we allocate capital on a 'bottom-up' basis, investing purely on the individual characteristics of particular convertibles. The biggest purchase was a convertible from SL Green Realty, a US real estate investment trust (REIT) that owns and operates office buildings in Manhattan. We had a target price for the company's shares some way above the prevailing level and, in our view, the convertible would participate well in the anticipated share price strength.

The other notable purchase was British Land, a UK REIT that owns and manages commercial properties worth some £16.9 billion. Its convertible provided a good combination of exposure to moves in the underlying share price and downside protection.

Other convertibles to join the portfolio, all of which satisfy our criteria of providing lower risk exposure to companies we believe are undervalued, included issues from Subsea 7, a Norwegian group that is one of the world's leading engineering and construction companies serving the oil & gas industry, and Shutterfly, a US online photo services provider.

We also initiated a position in a convertible from Marine Harvest, a Norwegian fish farmer, but sold it when we developed concerns over the group's expansion plans. In our opinion, a change in the group's strategy threatened the credit quality of the company.

Other convertibles that left the fund included one from Dutch property developer Wereldhave, which had a very short time to maturity, and Medtronic, which reached its redemption date. Elsewhere, both Aegis and Virgin Media were taken over by other companies, leading us to sell their convertibles.

Following sustained periods of good performance, we were able to realise some profits by reducing the size of our holdings in convertibles from ORIX and KDDI in Japan, and Endo Pharmaceutica, Gilead Sciences and Micron Technologies in the US, amongst others.

Léonard Vinville

Fund manager

Léonard Vinville is an employee of M&G Limited which is an associate of M&G Securities Limited.

^[a] Convertibles are interest-bearing loans that can be exchanged for predetermined amounts of company shares at the option of the holder.

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
Final	03.02.14	31.03.14
	Ongoing Charges Figure ^[a]	
	31.07.13	31.01.13
Sterling	%	%
Class 'A'	1.67	1.67
Class 'A-H'	1.68	1.73 ^[b]
Class 'I'	0.92	0.92
Class 'I-H'	0.94	0.98 ^[b]
Class 'R'	1.17	1.17 ^[b]
Class 'R-H'	1.18	1.23 ^[b]
Euro	%	%
Class 'A'	1.67	1.67
Class 'A-H'	1.69	1.71
Class 'B'	2.20 ^[c]	n/a
Class 'B-H'	2.21 ^[c]	n/a
Class 'C'	0.92	0.92
Class 'C-H'	0.94	0.98
Swiss franc	%	%
Class 'A-H'	1.71	1.73 ^[b]
Class 'C-H'	0.95	0.98 ^[b]
US dollar	%	%
Class 'A-H'	1.69	1.73 ^[b]
Class 'C-H'	0.95	0.98 ^[b]

[a] 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.

[b] The comparative 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.

[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.

The M&G Global Convertibles Fund distributes annually, therefore there is no interim distribution.

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.

FUND PERFORMANCE

Performance of share classes

	Net asset value per share as at 31.07.13		Net asset value per share as at 31.01.13		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	141.07	156.04	129.81	143.62	+8.67	+8.65
Class 'A-H'	n/a	110.08	n/a	103.84	n/a	+6.01
Class 'I'	1,155.63	161.73	1,060.35	148.40	+8.99	+8.98
Class 'I-H'	n/a	110.64	n/a	104.06	n/a	+6.32
Class 'R'	115.47	116.63	106.06	107.14	+8.87	+8.86
Class 'R-H'	n/a	110.46	n/a	103.98	n/a	+6.23
Euro	€	€	€	€	%	%
Class 'A'	12.4312	12.4329	n/a	11.6017	n/a	+7.16
Class 'A-H'	12.1638	12.1698	n/a	11.4902	n/a	+5.91
Class 'B'	n/a	9.9234	n/a	n/a	n/a	n/a
Class 'B-H'	n/a	9.9356	n/a	n/a	n/a	n/a
Class 'C'	n/a	13.0079	n/a	12.0945	n/a	+7.55
Class 'C-H'	n/a	12.5746	n/a	11.8316	n/a	+6.28
Swiss franc	CHF	CHF	CHF	CHF	%	%
Class 'A-H'	n/a	10.9430	n/a	10.3613	n/a	+5.61
Class 'C-H'	n/a	11.0527	n/a	10.4088	n/a	+6.19
US dollar	\$	\$	\$	\$	%	%
Class 'A-H'	n/a	10.9706	n/a	10.3631	n/a	+5.86
Class 'C-H'	n/a	11.0312	n/a	10.3920	n/a	+6.15

PRICES

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008	109.27	87.30	110.18	88.02
	2009	124.73	99.29	128.06	101.93
	2010 ^[a]	135.17	117.58	141.85	123.38
	2011	134.85	119.07	143.52	127.15
	2012	126.81	116.74	137.83	126.89
	2013 ^[b]	142.23	126.09	157.33	137.04
Class 'A-H'	2012 ^[c]	n/a	n/a	102.10	99.07
	2013 ^[b]	n/a	n/a	111.10	102.27
Class 'I'	2008	n/a	n/a	111.08	88.60
	2009	n/a	n/a	129.88	103.04
	2010 ^[a]	n/a	n/a	144.74	125.40
	2011	n/a	n/a	146.67	130.49
	2012	1,028.67 ^[d]	994.28 ^[d]	142.33	130.55
	2013 ^[b]	1,165.16	1,022.91	163.06	141.53
Class 'I-H'	2012 ^[c]	n/a	n/a	102.25	99.16
	2013 ^[b]	n/a	n/a	111.66	102.43
Class 'R'	2012 ^[e]	102.81	99.41	102.81	99.41
	2013 ^[b]	116.40	102.23	117.60	102.23
Class 'R-H'	2012 ^[c]	n/a	n/a	102.20	99.13
	2013 ^[b]	n/a	n/a	111.47	102.38

Continued overleaf

PRICES (continued)

		Income shares		Accumulation shares	
	Calendar year	Highest	Lowest	Highest	Lowest
Euro (gross)		€	€	€	€
Class 'A'	2008	n/a	n/a	9.5010	7.5143
	2009	n/a	n/a	9.7191	7.7345
	2010 ^[a]	n/a	n/a	11.4295	9.7426
	2011	n/a	n/a	11.5877	10.0435
	2012	n/a	n/a	12.0101	10.5597
	2013 ^[b]	12.6214 ^[f]	12.4993 ^[f]	12.8075	11.5796
Class 'A-H'	2010 ^[a] ^[g]	n/a	n/a	11.1760	9.8296
	2011	n/a	n/a	11.6135	9.9433
	2012	n/a	n/a	11.3048	10.1270
	2013 ^[b]	12.2758 ^[f]	12.1316 ^[f]	12.2801	11.3228
Class 'B'	2013 ^[b] ^[h]	n/a	n/a	10.0235	9.9767
Class 'B-H'	2013 ^[b] ^[h]	n/a	n/a	10.0258	9.9855
Class 'C'	2008	n/a	n/a	9.5249	7.5957
	2009	n/a	n/a	9.9008	7.8206
	2010 ^[a]	n/a	n/a	11.7298	9.9255
	2011	n/a	n/a	11.8979	10.3576
	2012	n/a	n/a	12.4771	10.9199
	2013 ^[b]	n/a	n/a	13.3817	12.0716
Class 'C-H'	2010 ^[a] ^[g]	n/a	n/a	11.3463	9.8305
	2011	n/a	n/a	11.8292	10.1569
	2012	n/a	n/a	11.6315	10.3560
	2013 ^[b]	n/a	n/a	12.6889	11.6516
Swiss franc (gross)		CHF	CHF	CHF	CHF
Class 'A-H'	2012 ^[c]	n/a	n/a	10.1949	9.8992
	2013 ^[b]	n/a	n/a	11.0569	10.2095
Class 'C-H'	2012 ^[c]	n/a	n/a	10.2344	9.9286
	2013 ^[b]	n/a	n/a	11.1538	10.2506
US dollar (gross)		\$	\$	\$	\$
Class 'A-H'	2012 ^[c]	n/a	n/a	10.1870	9.8850
	2013 ^[b]	n/a	n/a	11.0708	10.2045
Class 'C-H'	2012 ^[c]	n/a	n/a	10.2119	9.8985
	2013 ^[b]	n/a	n/a	11.1324	10.2308

^[a] The Scottish Amicable Insurance Fund merged into the M&G Global Convertibles Fund immediately after 22 September 2010.

^[b] To 1 August 2013.

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

^[d] From 3 August 2012 (the launch date of the Income shares).

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

^[f] From 12 July 2013 (the launch date of the Income shares).

^[g] From 21 May 2010 (the launch date of the share class).

^[h] From 26 July 2013 (the launch date of the share class).

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

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

INCOME			
Interest income per share			
	Calendar year	Distributed	Reinvested
Sterling (net)		p	p
Class 'A'	2009	1.8896	1.9053
	2010	2.5960	2.6656
	2011	2.3000	2.4148
	2012	2.1820	2.3308
	2013 <i>[a]</i>	2.3300	2.5320
Class 'A-H'	2013 <i>[a]</i>	n/a	0.5780
Class 'I'	2009	n/a	2.5148
	2010	n/a	3.3680
	2011	n/a	3.2692
	2012	n/a	3.2212
	2013 <i>[a]</i>	12.3080	3.4520
Class 'I-H'	2013 <i>[a]</i>	n/a	0.7824
Class 'R'	2013 <i>[a]</i>	1.1200	1.0820
Class 'R-H'	2013 <i>[a]</i>	n/a	0.7140
Euro (gross)		¢	¢
Class 'A'	2009	n/a	17.1870
	2010	n/a	27.8596
	2011	n/a	23.9979
	2012	n/a	23.9787
	2013 <i>[a]</i>	n/a	25.3937
Class 'A-H'	2011	n/a	15.2935
	2012	n/a	23.7808
	2013 <i>[a]</i>	n/a	24.5589
Class 'B'	2013 <i>[a]</i>	n/a	n/a
Class 'B-H'	2013 <i>[a]</i>	n/a	n/a
Class 'C'	2009	n/a	23.8000
	2010	n/a	34.6836
	2011	n/a	32.7048
	2012	n/a	33.3566
	2013 <i>[a]</i>	n/a	34.8186
Class 'C-H'	2011	n/a	20.9261
	2012	n/a	33.0084
	2013 <i>[a]</i>	n/a	33.2558
Swiss franc (gross)		¢	¢
Class 'A-H'	2013 <i>[a]</i>	n/a	6.8270
Class 'C-H'	2013 <i>[a]</i>	n/a	9.7736
US dollar (gross)		¢	¢
Class 'A-H'	2013 <i>[a]</i>	n/a	6.8763
Class 'C-H'	2013 <i>[a]</i>	n/a	9.6187

[a] The M&G Global Convertibles Fund distributes annually, therefore there is no interim distribution.

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 31.07.13		% of sub-fund as at 31.01.13
Northern Trust Global Fund - Sterling ^[b] (£)	6.35	Lukoil International Finance 2.625% 2015 (Lukoil ADR) (\$)	3.46
Lukoil International Finance 2.625% 2015 (Lukoil ADR) (\$)	2.78	TUI Travel 6% 2014 (TUI Travel) (£)	2.70
Holdgrove 1% 2017 (Holdgrove) (\$)	2.75	Elekta 2.75% 2017 (Elekta) (SEK)	2.66
Elektra 2.75% 2017 (Elektra) (SEK)	2.31	Billion Express Investment 0.75% 2015 (China Unicom) (\$)	2.61
Salix Pharmaceutical 1.5% 2019 (Salix Pharmaceuticals) (\$)	2.25	Holdgrove 1% 2017 (Severstal) (\$)	2.51
Lam Research 1.25% 2018 (\$)	2.25	ORIX 1% 2014 (ORIX) (¥)	2.31
SL Green Realty 3% 2017 (SL GreenRealty) (\$)	2.24	KDDI 0% 2015 (KDDI) (¥)	2.30
General Cable 4.5% 2029 (General Cable) (\$)	2.02	Endo Pharmaceutica 1.75% 2015 (Endo Pharmaceutica) (\$)	2.25
Billion Express Investment 0.75% 2015 (China Unicom) (\$)	2.01	Golden Agri-Resources 2.5% 2017 (Golden Agri Resources) (\$)	2.24
British Land 1.5% 2017 (British (British Land) (£)	1.98	AtoS 2.5% 2016 (AtoS) (€)	1.96

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

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

GEOGRAPHIC SPREAD OF INVESTMENTS

The table below shows the percentage holding per country.

	% of sub-fund as at 31.07.13	% of sub-fund as at 31.01.13
Equities	5.70	4.30
France	1.71	0.52
Germany	0.69	0.48
Italy	0.00	0.21
Netherlands	0.00	0.55
Russia	0.58	0.00
Spain	0.00	0.04
Sweden	0.50	0.00
United Kingdom	0.49	0.43
Hong Kong	0.64	0.12
Bermuda	0.00	0.75
United States	1.09	1.20
Bonds	86.01	91.88
Belgium	0.45	0.00
Cyprus	0.00	2.51
Finland	0.55	0.54
France	10.79	10.42
Germany	1.55	1.21
Italy	1.73	0.96
Jersey	1.75	4.41
Luxembourg	0.00	0.37
Netherlands	6.36	7.66
Norway	1.53	0.00
Sweden	2.31	2.66
Switzerland	0.50	0.00
United Kingdom	10.31	6.06
Hong Kong	0.81	0.62

GEOGRAPHIC SPREAD OF INVESTMENTS (continued)

The table below shows the percentage holding per country (continued)

	% of sub-fund as at	
	31.07.13	31.01.13
Bonds (continued)		
India	0.23	2.34
Japan	2.27	5.18
Mauritius	1.82	2.24
Singapore	2.78	1.93
South Korea	0.93	1.46
Australia	1.73	1.85
Bermuda	1.00	1.53
British Virgin Islands	2.01	4.34
Cayman Islands	0.63	0.69
United States	33.97	32.90
Forward currency contracts	0.21	0.47
Options	0.09	0.30
'AAA' rated money market funds ^[a]	6.35	0.09

^[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 Global Convertibles 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 (7), 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 (7), 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.

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