

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

M&G European Strategic Value Fund

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

How to contact us



Customer Relations*
0800 390 390



Write to us at:**
M&G Securities Limited
PO Box 9039, Chelmsford CM99 2XG



Our website:
www.mandg.co.uk



Email us with queries:†
info@mandg.co.uk

* 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 European Strategic Value Fund

The Fund aims to maximise long term total return to investors by investing predominantly in undervalued European equities.

Investment policy of the M&G European Strategic Value Fund

The Fund seeks to maximise total return to investors through investment in European equities of companies whose share prices do not, in the opinion of the Investment Manager, fully reflect their potential value. The Fund will invest across a wide range of geographies, sectors and market capitalisations. The Fund may also invest in other assets including other non EU transferable securities, collective investment schemes, money market instruments, cash and near cash, deposits and derivative instruments. Derivative instruments may be used in support of achieving the Fund's investment objective.

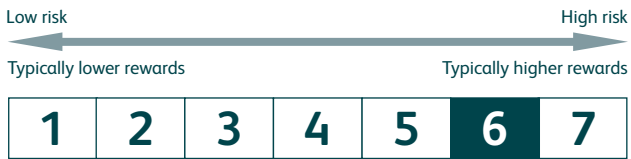
Investment approach

The M&G European Strategic Value Fund is a well diversified fund that invests in companies across Europe (including the UK). The investment strategy is based on the observation that value investing – buying cheap, out-of-favour companies – outperforms the market over time. Despite attractive valuations, many investors feel reluctant to buy these cheap stocks as they often focus on short-term news rather than long-term fundamentals, providing true value investors with the opportunity to buy these stocks at a significant discount to the market.

The fund managers use a two-stage process. The first step is a quantitative-driven screen to identify the stocks in the cheapest quartile in each sector of the European investment universe. In the second, the fund managers analyse the financial, business and management characteristics of the stocks they have short-listed. This is with a view to avoid companies with material barriers to mean reversion, otherwise known as 'value traps'. If a company fails these criteria, it is very unlikely that fund managers would consider the stock for inclusion in the portfolio.

To stay within the fund’s value remit, the fund managers have a well-defined sell discipline. When a company’s shares no longer appear undervalued, they consider the investment rationale for this holding with a view to selling the position and moving into more attractively valued stocks. Another reason for selling a stock is if it no longer meets the above-described fundamental criteria. Risk management plays a major role in the running of the portfolio and the fund managers work closely with the risk management team to ensure that the primary driver of performance is stock selection. The risk management team uses a range of tools to expose the intended and unintended biases resulting from the fund managers’ active stockpicking approach. The portfolio has a true value bias.

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 simulated 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.

- The Fund invests mainly in one geographic region or country. It is therefore more vulnerable to the market sentiment of that specific geographic region or country. 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

Several new holdings were added to the portfolio during the review period. Notable among them were Securitas, Elisa and Royal Bank of Scotland. Swedish-based global security firm Securitas is cash-generative, has a sound balance sheet and a management team with a disciplined approach to capital allocation.

Finland's Elisa is very attractively valued in our opinion, as we believe investors are overly pessimistic about the competitive nature of the telecommunications industry. However, unlike most other European markets, the Finnish mobile sector only has three providers, which in our view should support Elisa's solid profitability.

Royal Bank of Scotland has been extensively restructured over the past five years. The bank has achieved a large part of this ahead of schedule, which has helped to stabilise its business.

Sizable inflows led to significant increases in most of the existing holdings, including Novartis, Sanofi and Total. Swiss healthcare group Novartis has recently announced a change in management, which we regard as a positive move and has a strong product pipeline over the next two years that should help to offset patent expirations.

Another healthcare stock, French-based Sanofi, is attractively valued and has been successful in controlling costs and developing its pharmaceutical product pipeline. The high dividend yield^[a] of French oil major Total, provides an element of safety in an uncertain environment. We believe concerns about the sustainability of the dividend are overdone and continue to regard the shares as cheap.

Only one position was closed during the period under review, which was RSA Insurance. In February, RSA slashed its dividend and announced a strategic shift. As a result, we decided to sell the holding, because of concerns about its capital discipline.

Richard Halle & Daniel White

Co-fund managers

Richard Halle and Daniel White are employees of M&G Limited which is an associate of M&G Securities Limited.

[a] 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. The yield refers to the dividends received annually expressed as a percentage based on the investment's cost, its current market value or face value.

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'	1.69	1.84 ^[b]
Class 'I'	0.95	0.96
Class 'R'	1.16	1.20 ^[c]
Euro	%	%
Class 'A'	1.69	1.86 ^[b]
Class 'C'	0.93	0.97

[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] With effect from 14 September 2012 the ACD's annual remuneration for Sterling Class 'A' and Euro Class 'A' shares was reduced from 1.75% to 1.5%.

[c] 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.

The M&G European Strategic Value Fund distributes annually, therefore there is no interim distribution.

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'	112.08	132.12	109.31	119.63	+2.53	+10.44
Class 'I'	121.31	137.58	109.46	125.29	+10.83	+9.81
Class 'R'	132.33	132.78	119.56	119.83	+10.68	+10.81
Euro	€	€	€	€	%	%
Class 'A'	n/a	11.3406	n/a	10.4334	n/a	+8.70
Class 'C'	n/a	11.9283	n/a	10.9239	n/a	+9.19

PRICES

		Income shares		Accumulation shares	
	Calendar year	Highest	Lowest	Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008 ^[a]	112.07	68.71	112.07	68.71
	2009	108.49	65.82	111.56	67.68
	2010	109.60	89.23	114.17	92.95
	2011	115.61	86.57	121.65	91.10
	2012	104.16	85.44	111.95	91.83
	2013 ^[b]	122.23	104.41	133.78	112.23
Class 'I'	2008 ^[a]	112.32	69.09	112.32	69.09
	2009	108.89	65.77	113.08	68.30
	2010	110.28	89.50	117.03	94.98
	2011	116.06	87.11	125.56	94.23
	2012	104.93	85.66	117.16	95.65
	2013 ^[b]	122.74	105.20	140.59	117.46
Class 'R'	2012 ^[c]	112.02	100.00	112.02	100.00
	2013 ^[b]	134.00	112.31	134.30	112.31
Euro (net)		€	€	€	€
Class 'A'	2008 ^[a]	n/a	n/a	10.5611	6.3659
	2009	n/a	n/a	9.0188	5.5885
	2010	n/a	n/a	9.8961	8.3270
	2011	n/a	n/a	10.4691	7.8228
	2012	n/a	n/a	10.2245	8.5491
	2013 ^[b]	n/a	n/a	11.6106	10.3440
Class 'C'	2008 ^[a]	n/a	n/a	10.5822	6.4027
	2009	n/a	n/a	9.1419	5.6373
	2010	n/a	n/a	10.1499	8.4910
	2011	n/a	n/a	10.7556	8.0794
	2012	n/a	n/a	10.6973	8.9004
	2013 ^[b]	n/a	n/a	12.1848	10.8132

^[a] From 1 February 2008 (the launch date of the fund).

^[b] To 1 August 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	Distributed	Reinvested
Sterling (net)		p	p
Class 'A'	2009	2.1370	2.1370
	2010	1.2760	1.3121
	2011	1.1140	1.1604
	2012	2.0700	2.1780
	2013 <i>[a]</i>	1.9895	2.1419
Class 'I'	2009	2.9060	2.9060
	2010	2.1400	2.2224
	2011	2.1350	2.2656
	2012	3.1280	3.3590
	2013 <i>[a]</i>	2.8506	3.1685
Class 'R'	2013 <i>[a]</i>	0.2660	0.2660
Euro (net)		¢	¢
Class 'A'	2009	n/a	18.0490
	2010	n/a	11.3300
	2011	n/a	10.0850
	2012	n/a	19.7390
	2013 <i>[a]</i>	n/a	18.2620
Class 'C'	2009	n/a	24.1460
	2010	n/a	18.4100
	2011	n/a	19.6770
	2012	n/a	29.8970
	2013 <i>[a]</i>	n/a	28.5870

[a] The M&G European Strategic Value 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.

	% of sub-fund as at 31.07.13		% of sub-fund as at 31.01.13
Northern Trust Global Fund - Sterling <i>[a]</i>	6.75	Northern Trust Global Fund - Sterling <i>[a]</i>	4.72
Novartis (Regd.)	3.94	Novartis (Regd.)	4.58
BP	3.76	BP	4.28
Total	3.60	Bayer	3.73
Sanofi	3.50	Sanofi	3.63
Royal Dutch Shell 'B'	2.66	Total	3.44
Bayer	2.66	Royal Dutch Shell 'B'	2.81
Investor 'B'	2.62	Repsol	2.68
Repsol	2.53	Vodafone Group	2.67
Vivendi	2.40	Svenska Cellulosa 'B'	2.58

[a] 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	
	31.07.13	31.01.13
Oil & gas producers	12.56	13.24
Oil equipment, services & distribution	0.84	0.86
Chemicals	3.25	4.42
Forestry & paper	1.06	1.15
Industrial metals & mining	0.57	0.00
Construction & materials	0.48	0.85
General industrials	0.30	0.75
Electronic & electrical equipment	0.53	0.44
Industrial engineering	0.14	0.53
Industrial transportation	2.56	2.20
Support services	0.74	0.00
Automobiles & parts	2.98	3.43
Beverages	1.61	2.14
Food producers	2.80	3.34
Household goods & home construction	1.66	2.14
Leisure goods	1.46	1.36
Personal goods	1.51	2.58
Pharmaceuticals & biotechnology	13.32	13.58
Food & drug retailers	2.52	2.61
General retailers	3.30	4.07
Media	4.58	3.73
Travel & leisure	0.88	1.56
Fixed line telecommunications	2.02	1.12
Mobile telecommunications	4.20	4.71
Electricity	0.77	0.79
Gas, water & multi-utilities	0.83	0.83
Banks	9.01	7.86
Non-life insurance	5.77	6.73
Life insurance	3.91	2.64
Financial services	3.23	3.08
Technology hardware & equipment	2.82	2.54
'AAA' rated money market funds ^[a]	6.75	4.72

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

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.

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 European Strategic Value 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.

Authorised Corporate Director

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

Investment Manager

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

Fund manager

Richard Halle & Daniel White (employees of M&G Limited which
is an associate of M&G Securities Limited)

Registrar

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

Depository

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

Independent Auditors

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

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.

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

