

Interim Short Report April 2013 For the six months ended 28 February 2013

M&G Strategic Corporate Bond Fund

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.

† Please note that information contained within an email cannot be guaranteed as secure. We advise that you do not include any sensitive information when corresponding with M&G in this way.

INVESTMENT OBJECTIVE, POLICY AND APPROACH

Investment objective of the M&G Strategic Corporate Bond Fund

The fund aims to maximise total return (the combination of income and growth of capital).

Investment policy of the M&G Strategic Corporate Bond Fund

The Fund invests mainly in investment grade bonds. The Fund may invest in derivatives in pursuit of the fund objective and for the purposes of efficient portfolio management. The Fund may also invest in other assets including collective investment schemes, other transferable securities and other debt instruments (including corporate, high yield and government debt, convertible and preference stocks), cash, and near cash, deposits, warrants and money market instruments.

Investment approach

The M&G Strategic Corporate Bond Fund is invested primarily in sterling-denominated investment grade debt. However, up to 20% of the portfolio may be invested in higher yielding corporate bonds, government debt, convertibles and preference stocks, as well as money market instruments. The fund's exposure to corporate debt may be gained through the use of derivatives.

The investment approach is very much 'top-down', therefore, the fund manager's economic outlook will determine the portfolio's duration, and in which asset classes and sectors it is concentrated.

The fund manager uses proprietary research, rather than external research. M&G's in-house team of credit analysts provides bottom-up analysis of the corporate bond markets, which complements the fund manager's top-down 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.
- 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, in comparison to equivalent funds that cannot invest in derivatives.

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.

* 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 March 2013, for the six months ended 28 February 2013

We adjust the positioning of the M&G Strategic Corporate Bond Fund to reflect changes in our outlook regarding interest rates and credit risk (companies' ability to repay their debts).

One such adjustment was to the fund's positioning in financials. We have maintained a longstanding underweight position in financials, because of our concerns about the risks to the sector posed by Europe's sovereign debt crisis. However, in the latter stages of the period, we began to find that bonds* issued by certain institutions became more attractive, as the near-term risk of a eurozone break-up receded. We chose to participate in new issues from Italian and Spanish banks Intesa Sanpaolo and BBVA, as well as those from JP Morgan Chase and Bank of Ireland.

Towards the end of the review period, we began reducing investments in index-linked bonds – bonds issued by the UK government that are designed to protect investors from rising inflation. Index-linked government bonds are different to conventional government bonds because both the semi-annual coupon payments and the capital repayment are adjusted in line with movements in the Retail Prices Index. While we have been finding these bonds attractive, they comfortably outperformed conventional bonds during the reporting period, and so we believed it was a good opportunity to switch allocation.

One of the key drivers of the fund's performance is the ability to reduce or increase the portfolio's sensitivity to changes in bond yields, otherwise known as 'duration'. Given the current historically low level of returns on government bonds – and our expectation that these will fall further in the medium term – we reduced our duration position over the six months under review.

Richard Woolnough

Fund manager

Richard Woolnough is an employee of M&G Limited which is an associate of M&G Securities Limited.

* 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.

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	03.06.13	31.07.13
Final	02.09.13	31.10.13
First interim	02.12.13	31.01.14
Second interim	03.03.14	30.04.14

	Interim distribution Inc 30.04.13 ^[a]	Acc 01.03.13 ^[a]	Ongoing Charges Figure ^[b] 28.02.13	31.08.12
Sterling	p	p	%	%
Class 'A'	0.3964	0.5324	1.16	1.16
Class 'I'	6.5608	6.6696	0.66	0.65 ^[c]
Class 'R'	0.6152	0.6212	0.91	0.90 ^[c]
Class 'X'	0.3612	0.4784	1.41	1.41

^[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 28.02.13		Net asset value per share as at 28.08.12		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling	p	p	p	p	%	%
Class 'A'	70.12	94.97	68.81	92.17	+1.90	+3.04
Class 'I'	1,017.02	1,032.25	998.06	999.91	+1.90	+3.23
Class 'R'	101.70	103.11	99.81	99.98	+1.89	+3.13
Class 'X'	70.10	93.35	68.79	90.69	+1.90	+2.93

PRICES ^[a]

	Calendar year	Income shares		Accumulation shares	
		Highest	Lowest	Highest	Lowest
Sterling (net)		p	p	p	p
Class 'A'	2008	51.48	47.21	60.01	55.28
	2009	60.66	49.65	74.02	58.73
	2010	65.22	59.96	82.11	73.62
	2011	65.94	61.86	85.85	78.53
	2012	71.19	65.32	95.64	85.67
	2013 ^[b]	70.83	69.87	95.39	94.09
Class 'I'	2012 ^[c]	1,033.34	1,000.00	1,038.88	1,000.00
	2013 ^[b]	1,027.95	1,014.05	1,036.60	1,022.57
Class 'R'	2012 ^[c]	103.30	100.00	103.80	100.00
	2013 ^[b]	102.76	101.37	103.55	102.15
Class 'X'	2008	51.45	47.18	59.48	54.81
	2009	60.62	49.62	73.22	58.21
	2010	65.19	59.94	81.09	72.82
	2011	65.90	61.82	84.58	77.50
	2012	71.15	65.29	94.04	84.41
	2013 ^[b]	70.79	69.82	93.78	92.50

^[a] Including prices from the merging fund up to 31 August 2009.

^[b] To 1 March 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.

CLASSIFICATION OF INVESTMENTS

The table below shows the percentage holding per sector.

	% of fund as at	
	28.02.13	31.08.12
'AAA' credit rated bonds	9.05	14.52
'AA' credit rated bonds	8.86	8.99
'A' credit rated bonds	35.94	32.90
'BBB' credit rated bonds	35.69	33.00
'BB' credit rated bonds	4.19	3.58
'B' credit rated bonds	1.31	1.17
'CCC' credit rated bonds	0.08	0.02
Bonds with no credit rating	2.73	2.65
Credit default swaps	0.01	0.10
Forward currency contracts	(0.79)	0.16
Interest rate futures contracts	(0.35)	0.04
'AAA' rated money market funds ^[a]	0.16	0.78

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

INCOME ^[a]

Interest income per share

	Calendar year	Interims	Distributed Final	Total	Reinvested
Sterling (net)		p	p	p	p
Class 'A'	2008	1.3348	0.4892	1.8240	2.2214
	2009	1.4821	0.5820	2.0641	2.4772
	2010	1.5200	0.5260	2.0460	2.5844
	2011	1.5920	0.4940	2.0860	2.6636
	2012	1.5060	0.4300	1.9360	2.3968
	2013 ^[b]	0.7836	-	0.7836	0.5324
Class 'I'	2012	n/a	1.8320	1.8320	8.4708
	2013 ^[b]	13.1848	-	13.1848	6.6696
Class 'R'	2012	n/a	0.1680	0.1680	0.7812
	2013 ^[b]	1.2272	-	1.2272	0.6212
Class 'X'	2008	1.2576	0.4628	1.7204	2.0875
	2009	1.4069	0.5520	1.9589	2.3249
	2010	1.4300	0.4940	1.9240	2.4036
	2011	1.4960	0.4640	1.9600	2.4700
	2012	1.4068	0.3960	1.8028	2.1828
	2013 ^[b]	0.7132	-	0.7132	0.4784

^[a] Including distributions from the merging fund up to 31 August 2009.

^[b] Up to interim: ex-distribution date 1 March 2013;
payment date 30 April 2013.

MAJOR HOLDINGS

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

% of fund as at 28.02.13		% of fund as at 31.08.12	
Treasury 3.75% 2052 (£)	2.35	Treasury 2.5% IL 2016 (£)	3.11
Treasury 3.25% 2044 (£)	2.03	Treasury 3.75% 2052 (£)	2.96
Imperial Tobacco Finance 9% 2022 (£)	0.95	Treasury 2.5% IL 2020 (£)	1.34
Lloyds TSB Bank 5.125% 2025 (£)	0.93	Lloyds TSB Bank 5.125% 2025 (£)	1.16
Wells Fargo Bank 5.25% 2023 (£)	0.92	Deutsche Telekom 6.5% 2022 (£)	0.99
EDF 5.5% 2041 (£)	0.88	EDF 5.5% 2041 (£)	0.90
Deutsche Telekom 6.5% 2022 (£)	0.85	Imperial Tobacco Finance 9% 2022 (£)	0.86
Virgin Media Secured Finance 7% 2018 (£)	0.77	Wal-Mart Stores 5.625% 2040 (\$)	0.84
Amgen 5.5% 2026 (£)	0.73	Wells Fargo Bank 5.25% 2023 (£)	0.83
AT&T 4.875% 2044 (£)	0.71	US Treasury 1.75% 2022 (\$)	0.82

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 Strategic Corporate Bond 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 Strategic Corporate Bond Fund, which incorporates the fund's interim investment report and unaudited financial statements, or a copy of the ACD's Annual Investment Report and Financial Statements for M&G Strategic Corporate Bond Fund, which incorporates the fund's annual investment report 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.

Important information

The investment objective and policy of the M&G Strategic Corporate Bond Fund are the same in substance as the predecessor OEIC sub-fund (the merging fund) and therefore when reporting performance of the M&G Strategic Corporate Bond Fund the history of the merging fund is included.

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 Woolnough (an employee 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.