



# M&G Investment Funds (10)

Interim Long Report and unaudited Financial Statements  
for the six months ended 30 September 2017



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# M&G Investment Funds (10)

## Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Investment Funds (10) presents its Interim Long Report and unaudited Financial Statements for the six months ended 30 September 2017.

The unaudited financial statements of M&G Investment Funds (10) and the investment reports and unaudited financial statements and notes of the sub-funds are presented in their individual sections of this report as set out in the contents page.

Please note that we have included an explanation of key investment terminology in the 'Glossary' (at the back of this report).

### Company information

M&G Investment Funds (10) is an umbrella Open-Ended Investment Company (OEIC) and contains two sub-funds, hereinafter referred to as 'funds' in the rest of this report. Each fund 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 Financial Conduct Authority (FCA). 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 FCA under the Financial Services and Markets Act 2000.

The Company was authorised on 26 August 2010, the M&G UK Inflation Linked Corporate Bond Fund was launched on 16 September 2010, the M&G Absolute Return Bond Fund was launched on 13 December 2016 and the M&G Global Listed Infrastructure Fund was launched on 5 October 2017.

The Company's principal activity is to carry on business as an OEIC. The Company is structured as an umbrella company, and different funds may be established by the ACD from time to time with the agreement of the Depositary and approval from the FCA. The funds are operated separately and the assets of each fund are managed in accordance with the investment objective and policy applicable to that fund.

As at 30 September 2017, none of the funds held shares of the other funds within this OEIC.

A shareholder is not 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.

#### Fund managers

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

##### **M&G Absolute Return Bond Fund**

Jim Leaviss & Wolfgang Bauer

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

Ben Lord

#### ACD

M&G Securities Limited,  
Laurence Pountney Hill, London EC4R 0HH, UK  
Telephone: 0800 390 390 (UK only)

(Authorised and regulated by the Financial Conduct Authority. M&G Securities Limited is a member of the Investment Association and of the Tax Incentivised Savings Association.)

#### Directors of the ACD

W J Nott (Chief Executive),  
G N Cotton, N M Donnelly\*, P R Jelfs, G W MacDowall, L J Mumford

\* Appointed 9 June 2017.

#### Investment manager

M&G Investment Management Limited,  
Laurence Pountney Hill, London EC4R 0HH, UK  
Telephone: +44 (0)20 7626 4588  
(Authorised and regulated by the Financial Conduct Authority)

#### Registrar

DST Financial Services Europe Ltd\*,  
DST House, St. Nicholas Lane, Basildon, Essex SS15 5FS, UK  
(Authorised and regulated by the Financial Conduct Authority)

\* International Financial Data Services (UK) Ltd changed its name to DST Financial Services Europe Ltd on 14 August 2017.

#### Depositary

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

#### Independent auditor

Ernst & Young LLP  
Ten George Street, Edinburgh EH2 2DZ, UK

### Important information

Please note that on 5 October 2017, the M&G Global Listed Infrastructure Fund was launched as a sub-fund of M&G Investment Funds (10).

### Investor information

The Prospectus, Instrument of Incorporation, Key Investor Information Documents, the latest Annual or Interim Investment Report and Financial Statements as well as a list of purchases and sales are available free of charge on request from the following addresses. The Instrument of Incorporation can also be inspected at our offices or at the office of the Depositary.

#### Customer services and administration for UK clients:

M&G Securities Limited,  
PO Box 9039, Chelmsford CM99 2XG, UK  
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 (UK only)  
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 Investment Funds (10)

## Financial statements and notes

### Authorised Corporate Director's Responsibilities

The Authorised Corporate Director (ACD) is required to prepare annual and interim long reports for the Company. The ACD must ensure that the financial statements, contained in the Long Report, for each of the funds are prepared in accordance with the Investment Association Statement of Recommended Practice for Financial Statements of UK Authorised Funds (SORP) and UK Financial Reporting Standards, and give a true and fair view of the net revenue or expenses and net capital gains or losses for the accounting period, and the financial position at the end of that period.

The ACD is required to keep proper accounting records, and to manage the Company in accordance with the Collective Investment Schemes sourcebook, as issued (and amended) by the FCA, the Instrument of Incorporation and the Prospectus, and to take reasonable steps for the prevention and detection of fraud or other irregularities.

The financial statements for M&G Investment Funds (10) comprise the individual financial statements for each fund and the notes below.

### Notes to the financial statements

#### Accounting policies

The interim financial statements have been prepared on the same basis as the audited financial statements for the year ended 31 March 2017. They are prepared under the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice (SORP) for Authorised Funds issued by the Investment Association in May 2014.

### 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 Conduct Authority.

G W MACDOWALL

L J MUMFORD

} Directors

14 November 2017

# M&G Absolute Return Bond Fund

## Authorised Corporate Director's Report

### Investment objective

The fund aims to achieve a total return (the combination of income and capital growth) of at least 2.5% per annum above the 3-month GBP LIBOR rate, before any charges are taken, in any market condition and over any three-year period. LIBOR is the rate at which banks borrow money from each other.

The fund aims to achieve this while seeking to minimise the degree to which the value of the fund fluctuates over time (volatility), while also seeking to limit monthly losses. Managing the Fund in this way reduces its ability to achieve returns significantly above 3-month GBP LIBOR plus 2.5%.

There is no guarantee that the fund will achieve a positive return over three years, or any other period, and investors may not get back the original amount they invested.

### Investment policy

The fund invests at least 70% in fixed and variable rate securities (including, but not limited to, corporate bonds and government and public securities), currencies, cash, near cash and deposits. These may be from anywhere in the world and denominated in any currency.

The fund's exposure to these investments may also be gained through the use of derivatives, which are financial contracts whose value is derived from an underlying asset. The fund may take short positions (holding derivatives with the aim of delivering a positive return when the assets they are linked to fall in value) in markets, currencies, securities, and groups of securities. The fund also has the flexibility to gain exposure to investments exceeding the net asset value of the fund in order to increase potential returns in both rising and falling markets.

Derivatives may be used to meet the fund's objective and for efficient portfolio management purposes. The fund may also invest in other funds.

### Investment approach

The fund managers take a flexible approach, investing across a broad range of fixed income and currency markets according to where they identify value. A dynamic investment approach is followed, allowing the fund managers to change the blend of duration, credit and currency exposures based on their outlook. The fund will typically aim to have a high level of diversification in individual credit selection and across investment themes and sources of return. The managers will aim to achieve the performance objective while managing the fund's volatility and limiting losses during difficult market conditions.

### Risk profile

The fund is a flexible bond fund which invests in a range of fixed income securities and in currencies. The fund is therefore subject to the price volatility of global bond markets and fluctuations in currency exchange rates.

The fund's exposure to fixed income securities may be gained through the use of derivatives. In association with the use of derivatives, including those instruments not traded through an exchange, collateral is deposited in order to mitigate the risk that a counterparty may default on its obligations or become insolvent.

Portfolio diversification is key in managing liquidity and default risks as well as reducing market risk. The blend of assets held in the fund is regularly adjusted depending on where the managers see the most value and to manage risks, including liquidity, credit, currency and market risks. The fund's risks are measured and managed as an integral part of the investment process.

The following table shows the risk number associated with the fund and is based on Sterling Class 'A' shares.



The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has not changed during this period.

### Investment review

**As at 2 October 2017, for the six months ended 30 September 2017**

#### Market review

The M&G Absolute Return Bond Fund was launched in December 2016 and is designed to deliver steady positive returns, with a specific focus on managing volatility and limiting losses during difficult market conditions. A highly diversified portfolio, the fund provides exposure to a broad range of fixed income strategies across global corporate bond, government bond and currency markets. Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'.

The fund draws on the best ideas of M&G's Retail Fixed Interest team, giving investors access to an extensive range of investment knowledge across global bond markets. The team has long-running experience in managing flexible bond strategies, and has demonstrated the ability to manage risk during periods of heightened volatility, such as during

# M&G Absolute Return Bond Fund

## Authorised Corporate Director's Report

### Investment review

#### Market review (continued)

the global financial crisis and the eurozone debt crisis. A disciplined investment process is employed, combining macroeconomic analysis, conviction stock selection and robust risk management.

The fund is currently cautiously positioned with a low sensitivity to movements in interest rates as we believe that rising global interest rates will push government bond prices lower over the medium term. However, we see good value in select areas of the corporate bond market, with the improving global economic backdrop expected to provide a support for these assets.

The fund invests in a diverse range of fixed income assets. Aside from corporate and government bonds, the fund also has an allocation to asset-backed securities (ABS), a type of bond whose income is derived from a pool of underlying assets, such as mortgages, credit cards or student loans. Within currencies, the fund has modest positions in the Japanese yen, US dollar and Swiss franc, primarily as a way to lessen the negative impact of any future weakness in sterling.

#### Jim Leaviss & Wolfgang Bauer

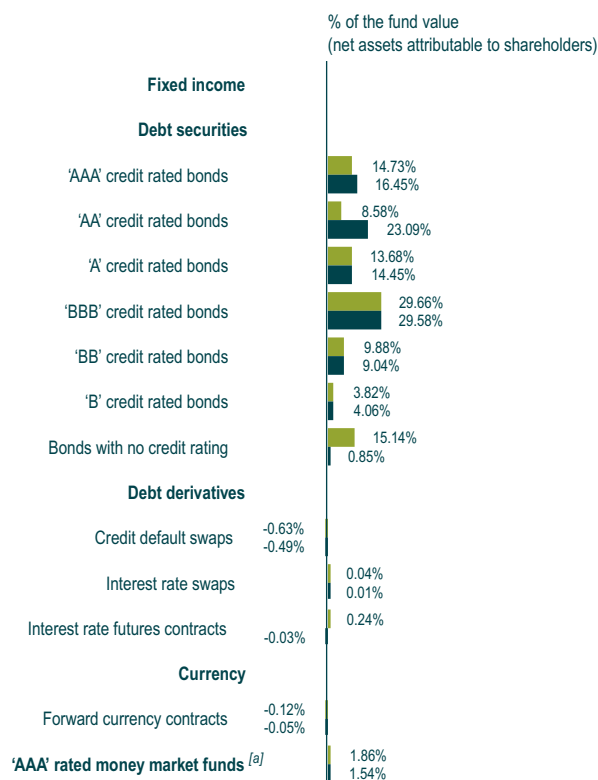
Co-fund managers

Employees of M&G Limited which is an associate of M&G Securities Limited.

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.

### Investments

#### Classification of investments



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

30 September 2017  
31 March 2017

Source: M&G

# M&G Absolute Return Bond Fund

## Authorised Corporate Director's Report

### Investments

#### Portfolio statement

as at Holding	30.09.17 £'000	30.09.17 %	31.03.17 %
<b>FIXED INCOME</b>	<b>24,963</b>	<b>95.14</b>	<b>97.01</b>
<b>Debt securities</b>	<b>25,056</b>	<b>95.49</b>	<b>97.52</b>
<b>'AAA' credit rated bonds</b>	<b>3,866</b>	<b>14.73</b>	<b>16.45</b>
£174,223 Dukinfield FRN 2052	176	0.67	
£683,000 European Investment Bank 0.625% 2020	682	2.60	
€203,000 Harvest CLO VIII FRN 2026	179	0.68	
£171,951 Hawksmoor Mortgages FRN 2053	174	0.66	
£500,000 Inter-American Development Bank 0.625% 2021	493	1.88	
€150,000 Johnson & Johnson 0.25% 2022	133	0.51	
£550,000 KfW 1.125% 2019	556	2.12	
£204,627 Paragon Mortgages No.14 FRN 2039	198	0.75	
£92,981 Residential Mortgage Securities FRN 2046	94	0.36	
£216,000 Residential Mortgage Securities FRN 2050	216	0.82	
£235,161 Resimac UK RMBS No.1 FRN 2045	235	0.90	
£193,632 Ripon Mortgages FRN 2056	194	0.74	
£96,948 THRONES 2015-1 FRN 2050	97	0.37	
£288,950 Towd Point Mortgage Funding FRN 2045	289	1.10	
£148,009 Warwick Finance Residential Mortgage FRN 2049	150	0.57	
<b>'AA' credit rated bonds</b>	<b>2,252</b>	<b>8.58</b>	<b>23.09</b>
£198,872 First Flexible No 6 FRN 2035	194	0.74	
£226,000 New York Life Global Fund 1% 2021	224	0.85	
£243,000 Towd Point Mortgage Funding FRN 2046	245	0.93	
£167,000 Toyota Motor Credit 1.125% 2021	166	0.63	
£750,000 Treasury 0% 2017	750	2.86	
£215,000 Treasury 1.875% IL 2022	349	1.33	
\$250,000 US Treasury 0.125% 2021	194	0.74	
\$175,000 US Treasury 0.125% 2026	130	0.50	
<b>'A' credit rated bonds</b>	<b>3,589</b>	<b>13.68</b>	<b>14.45</b>
£100,000 ABN AMRO Bank 1% 2020 (Jul 17)	100	0.38	
£100,000 ABN AMRO Bank 1% 2020 (Sep 17)	101	0.39	
£184,424 Alba FRN 2038	177	0.67	
£200,000 Banque Fed Cred Mutuel 0.875% 2020	198	0.75	
£200,000 BMW International Investment 1% 2021	197	0.75	
€186,000 BNP Paribas FRN 2024	166	0.63	
£300,000 Canadian Imperial Bank of Commerce FRN 2022	302	1.15	
£358,412 Greene King Finance FRN 2033	354	1.35	
€106,000 HSBC Holdings FRN 2022	95	0.36	
£184,000 LVMH Moët Hennessy Louis Vuitton 1% 2022	182	0.69	
\$70,946 Mitchells & Butlers Finance FRN 2030	49	0.19	
£250,000 Munich Re Finance Var. Rate 2028 (7.625%)	261	1.00	
£300,000 Newgate Fund FRN 2050	275	1.05	
£163,445 RMAC 2003-Ns4 FRN 2044	156	0.59	
\$248,611 S-JETS 2017-1 3.967% 2042	185	0.71	
£150,000 Total Var. Rate Perp. (3.369%)	138	0.53	
€100,000 Total Var. Rate Perp. (3.875%)	97	0.37	
€200,000 UBS FRN 2022	179	0.68	
€100,000 United Technologies 1.125% 2021	91	0.35	
£289,000 Wells Fargo & Company 1.375% 2022	286	1.09	

#### Portfolio statement (continued)

as at Holding	30.09.17 £'000	30.09.17 %	31.03.17 %
<b>'BBB' credit rated bonds</b>	<b>7,781</b>	<b>29.66</b>	<b>29.58</b>
£200,000 AA Bond Company 2.875% 2043	202	0.77	
£149,000 Akelius Residential Property 2.375% 2025	145	0.55	
£150,000 América Móvil Var. Rate 2073 (6.375%)	165	0.63	
€100,000 American International Group 1.875% 2027	89	0.34	
€250,000 American International Group FRN	208	0.79	
\$125,000 Anadarko Petroleum 5.55% 2026	104	0.40	
£159,000 Annington Funding 2.646% 2025	160	0.61	
€100,000 Arion Bank 0.75% 2020	89	0.34	
\$157,000 AT&T 5.25% 2037	123	0.47	
\$300,000 AT&T 5.3% 2058	225	0.86	
€100,000 ATF Netherlands 1.875% 2026	88	0.34	
£100,000 Aviva Var. Rate 2036 (6.125%)	117	0.45	
£100,000 Aviva Var. Rate Perp. (6.125%)	113	0.43	
€200,000 Bank of America FRN 2023	178	0.68	
\$150,000 Bat Capital Corp 4.54% 2047	113	0.43	
€200,000 Bayer Var. Rate 2075 (2.375%)	181	0.69	
€150,000 Bayer Var. Rate 2075 (3%)	139	0.53	
€100,000 CaixaBank 1.125% 2023	88	0.34	
\$150,000 Capital One Financial FRN 2022	112	0.43	
€250,000 Channel Link Enterprises Finance 1.761% IL 2050	224	0.85	
€100,000 Coentreprise de Transport d'Electricité 1.5% 2028	88	0.34	
£200,000 Credit Suisse Group Funding Var. Rate 2025 (2.125%)	197	0.75	
£100,000 Digital Stout Holding 2.75% 2024	101	0.38	
\$145,000 Energy Transfer Partners 6.125% 2045	118	0.45	
\$100,000 Express Scripts 4.8% 2046	78	0.30	
€100,000 Fastighets AB Balder 1.875% 2025	90	0.34	
€100,000 Fastighets AB Balder 1.875% 2026	88	0.34	
€100,000 GKN Holdings 3.375% 2032	99	0.38	
€200,000 Goldman Sachs Group FRN 2023	176	0.67	
\$100,000 HCA 5.5% 2047	77	0.29	
€100,000 Holcim Finance (Luxembourg) 1.75% 2029	87	0.33	
£150,000 HSBC Holdings Var. Rate 2022 (6.375%)	150	0.57	
€100,000 ING Group Var. Rate 2029 (1.625%)	87	0.33	
\$150,000 International Paper 4.8% 2044	118	0.45	
\$150,000 KPN 8.375% 2030	156	0.59	
€72,466 Lusitano Mortgages No.5 FRN 2059	59	0.22	
\$100,000 LyondellBasell Industries 4.625% 2055	76	0.29	
€150,000 Morgan Stanley FRN 2019	133	0.51	
\$200,000 Morocco (Kingdom of) 5.5% 2042	166	0.63	
\$125,000 MPLX LP 4.125% 2027	95	0.36	
€100,000 MPT Operating Partnership 3.325% 2025	91	0.35	
\$100,000 Mylan 5.4% 2043	81	0.31	
€237,000 Nationwide Building Society Var. Rate 2029 (2%)	210	0.80	
€100,000 Nielsen Norman Group Var. Rate 2044 (4.625%)	100	0.38	
€200,000 Orange Var. Rate Perp. (5%)	202	0.77	
€100,000 Portugal (Republic of) 5.65% 2024	110	0.42	
£103,958 ResLoC UK FRN 2043	99	0.38	
€150,000 Romania (Republic of) 3.875% 2035	140	0.53	
£350,000 Royal Bank of Scotland 6.625% 2018	368	1.40	
\$100,000 Sabine Pass Liquef 5.625% 2025	82	0.31	



# M&G Absolute Return Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at Holding	30.09.17 £'000	30.09.17 %	31.03.17 %	
<b>'BBB' credit rated bonds</b> (continued)				
€100,000 Santander UK FRN 2023	89	0.34		
€200,000 Société Générale FRN 2024	179	0.68		
£200,000 Student Finance 2.6663% 2024	199	0.76		
€250,000 Teva Pharmaceutical Finance 1.125% 2024	207	0.79		
£100,000 Thames Water Utilities Cayman 2.375% 2023	99	0.38		
€200,000 Thermo Fisher Scientific 2.875% 2037	178	0.68		
\$67,961 US Bancorp Var. Rate Perp. (5.3%)	55	0.21		
\$160,000 Verizon Communications 4.672% 2022	113	0.43		
\$100,000 Western Gas Partner 4.65% 2026	77	0.29		
<b>'BB' credit rated bonds</b>	<b>2,593</b>	<b>9.88</b>	<b>9.04</b>	
€100,000 Arrow Global Finance FRN 2023	92	0.35		
€150,000 Arrow Global Finance FRN 2025	132	0.50		
€200,000 Barclays Bank Var. Rate 2028 (2%)	174	0.66		
€129,000 Belden 3.375% 2027	114	0.44		
\$100,000 CCO Holdings Capital 5.125% 2027	76	0.29		
€100,000 Credit Agricole Var. Rate Perp. (6.5%)	98	0.37		
\$200,000 CSC Holdings 5.5% 2047	155	0.59		
€100,000 Enel Var. Rate 2075 (5%)	96	0.37		
£200,000 Enel Var. Rate 2076 (6.625%)	226	0.86		
\$50,000 Energy Transfer Partners FRN 2066	34	0.13		
€200,000 KBC Groep 5.625% Perp.	183	0.70		
£200,000 Lloyds Bank Var. Rate Perp. (7%)	208	0.79		
€100,000 Nomad Foods 3.25% 2024	91	0.35		
\$170,000 Petrobras Global Finance 7.25% 2044	131	0.50		
€147,000 QuintilesIMS 3.25% 2025	132	0.50		
€100,000 Silgan Holdings 3.25% 2025	91	0.35		
\$99,000 Sirius XM Holdings 5% 2027	76	0.29		
€100,000 Smurfit Kappa Acquisitions 2.375% 2024	92	0.35		
£200,000 Telefonica (Europe) 6.75% Perp.	221	0.84		
\$106,000 Tenet Healthcare 4.625% 2024	78	0.30		
€100,000 Unitymedia 4% 2025	93	0.35		
<b>'B' credit rated bonds</b>	<b>1,003</b>	<b>3.82</b>	<b>4.06</b>	
€100,000 Argentina (Republic of) 5% 2027	87	0.33		
£100,000 Aston Martin Capital 5.75% 2022	106	0.40		
€170,000 Cabot Financial Luxembourg FRN 2021	156	0.59		
\$50,000 Community Health Systems 5.125% 2021	37	0.14		
£24,739 Iceland Bondco FRN 2020	25	0.10		
€194,524 Matterhorn Telecom FRN 2023	172	0.66		
€250,000 Numericable Group 5.625% 2024	238	0.91		
€100,000 Nuovo Trasporto Viaggiatori FRN 2023	90	0.34		
€100,000 Wind Acquisition Finance 7% 2021	92	0.35		

### Portfolio statement (continued)

as at Holding	30.09.17 £'000	30.09.17 %	31.03.17 %
<b>Bonds with no credit rating</b>	<b>3,972</b>	<b>15.14</b>	<b>0.85</b>
£200,000 Admiral 5.5% 2024	223	0.85	
€200,000 Ahold Delhaize 0.875% 2024	176	0.67	
€200,000 Altarea 2.25% 2024	177	0.67	
€100,000 Cote d'Ivoire 5.125% 2025	91	0.35	
£500,000 Deutsche Pfandbriefbank FRN 2020	501	1.91	
\$100,000 DP World 6.85% 2037	92	0.35	
€112,000 Eurofins Scientific 2.125% 2024	100	0.38	
£157,000 Finsbury Square FRN 2065	157	0.60	
€300,000 Groupe Bruxelles Lambert 1.375% 2024	267	1.02	
€100,000 Lagardère 1.625% 2024	88	0.33	
£250,000 London Wall Mortgage Capital FRN 2049	250	0.95	
£492,332 Oat Hill No1 FRN 2046	490	1.87	
£325,000 Old Mutual 8% 2021	372	1.42	
£100,000 PCL Funding II FRN 2022	100	0.38	
£161,000 Pennon Var. Rate Perp. (2.875%)	162	0.62	
€100,000 SEB 1.5% 2024	90	0.34	
£107,000 Shaftesbury 2.348% 2027	104	0.40	
€100,000 Suez Environnement 2.50% Perp.	91	0.35	
€200,000 Suez Environnement Var. Rate Perp. (2.875%)	181	0.69	
£250,000 Yorkshire Building Society Var. Rate 2024 (4.125%)	260	0.99	
<b>Debt derivatives</b>	<b>(93)</b>	<b>(0.35)</b>	<b>(0.51)</b>
<b>Credit default swaps</b>	<b>(166)</b>	<b>(0.63)</b>	<b>(0.49)</b>
€250,000 Anglo American Capital June 2022	38	0.14	
€200,000 Anheuser-busch Inbev Dec 2021	5	0.02	
€200,000 Glencore Finance Europe Dec 2021	29	0.11	
€100,000 Glencore Finance Europe June 2022	15	0.06	
\$(4,300,000) Markit CDX North American Investment Grade Series 27 5 Year Dec 2021	(74)	(0.28)	
€(2,000,000) Markit iTraxx Europe Series 26 5 Year Dec 2021	(43)	(0.16)	
€(2,500,000) Markit iTraxx Europe Series 27 5 Year Jun 2022	(68)	(0.26)	
€550,000 Markit iTraxx Europe Series 27 10 Year Jun 2027	4	0.01	
€(500,000) Markit iTraxx Europe Xover Series 26 5 Year Dec 2021	(56)	(0.21)	
€(100,000) Markit iTraxx Europe Xover Series 27 5 Year Jun 2022	(11)	(0.04)	
\$(200,000) Pfizer June 2022	(5)	(0.02)	
<b>Interest rate swaps</b>	<b>9</b>	<b>0.04</b>	<b>0.01</b>
£150,000 Pay 0.649% Receive VAR Jun 2022	3	0.01	
£150,000 Pay 0.786% Receive VAR Feb 2022	2	0.01	
£150,000 Pay 0.7975% Receive VAR Mar 2022	2	0.01	
£200,000 Pay 0.799% Receive VAR May 2022	2	0.01	
<b>Interest rate futures contracts</b>	<b>64</b>	<b>0.24</b>	<b>(0.03)</b>
(4) 5 Year US Treasury Note Dec 2017	2	0.01	
(4) 10 Year US Treasury Note Dec 2017	4	0.02	
(10) Euro Bobl Dec 2017	3	0.01	
(12) Euro Bund Dec 2017	9	0.03	
(8) Euro Schatz Dec 2017	0	0.00	
(7) UK Long Gilt Bond Dec 2017	22	0.08	
(4) US Long Bond Dec 2017	8	0.03	
(6) US Ultra Long Treasury Bond Dec 2017	16	0.06	



# M&G Absolute Return Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at		30.09.17	30.09.17	31.03.17
Holding		£'000	%	%
	<b>CURRENCY</b>	(31)	(0.12)	(0.05)
	<b>Forward currency contracts</b>	(31)	(0.12)	(0.05)
€(9,193,800)	Sold for £8,123,148 (expires 18.10.17)	6	0.02	
¥69,000,000	Bought for £457,785 (expires 18.10.17)	1	0.00	
CHF147,066	Bought for €130,000 (expires 18.10.17)	(1)	0.00	
\$(4,029,977)	Sold for £2,973,971 (expires 18.10.17)	(37)	(0.14)	
<b>Portfolio of investments</b>		<b>24,932</b>	<b>95.02</b>	<b>96.96</b>
	<b>Cash equivalent</b>			
	<b>'AAA' rated money market funds [a]</b>	<b>487</b>	<b>1.86</b>	<b>1.54</b>
487,000	Northern Trust Global Fund - Sterling	487	1.86	
<b>Total portfolio</b>		<b>25,419</b>	<b>96.88</b>	<b>98.50</b>
<b>Net other assets / (liabilities)</b>		<b>819</b>	<b>3.12</b>	<b>1.50</b>
<b>Net assets attributable to shareholders</b>		<b>26,238</b>	<b>100.00</b>	<b>100.00</b>

Portfolio summary	
<b>Investment assets</b>	
Debt securities	25,056
Unrealised gains on futures contracts	64
Unrealised gains on forward currency contracts	7
Unrealised gains on swap contracts	100
<b>Total investment assets</b>	<b>25,227</b>
<b>Investment liabilities</b>	
Unrealised losses on forward currency contracts	(38)
Unrealised losses on swap contracts	(257)
<b>Total investment liabilities</b>	<b>(295)</b>
<b>Portfolio of investments</b>	<b>24,932</b>
'AAA' rated money market funds [a]	487
<b>Total portfolio</b>	<b>25,419</b>
Net other assets / (liabilities)	819
<b>Net assets attributable to shareholders</b>	<b>26,238</b>

All securities are on an official stock exchange listing except where referenced.

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

Portfolio transactions	
for the six months to 30 September	2017
<b>Portfolio transactions</b>	<b>£'000</b>
Total purchases	17,527
Total sales	9,307

Purchases and sales exclude the cost and proceeds of 'AAA' rated money market funds.

# M&G Absolute Return Bond Fund

## Financial highlights

### Fund performance

Please note past performance is not a guide to future performance and the value of 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.

The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (10), which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

### Fund level performance

Fund net asset value		
as at	30.09.17 £'000	31.03.17 £'000
Fund net asset value (NAV)	26,238	17,126

### Performance since launch

As the fund has not yet operated for a 12 month period, the performance since launch graph and long-term performance figures have not been calculated.

## Operating charges and portfolio transaction costs

We explain below the payments made to meet the ongoing costs of investing and managing the fund, comprised of operating charges and portfolio transaction costs.

### Operating charges

Operating charges include payments made to M&G and to providers independent of M&G:

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.

The operating charges paid by each share class of the fund are shown in the following performance tables. Operating charges do not include portfolio transaction costs or any entry and exit charges (also known as initial and redemption charges). The charging structures of share classes may differ, and therefore the operating charges may differ.

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

For this fund there is no difference between operating charges and ongoing charges figures, unless disclosed under the specific share class performance table.

### Portfolio transaction costs

Portfolio transaction costs are incurred by funds when buying and selling investments. These costs vary depending on the types of investment, their market capitalisation, country of exchange and method of execution. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission and taxes.
- **Indirect portfolio transaction costs:** 'Dealing spread' – the difference between the buying and selling prices of the fund's investments; some types of investment, such as fixed interest securities, have no direct transaction costs and only the dealing spread is paid.

Investments are bought or sold by a fund when changes are made to the investment portfolio and in response to net flows of money into or out of the fund from investors buying and selling shares in the fund.

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. As the fund invests mainly in fixed interest securities, the direct transaction costs paid on other investments are too small to be reflected in the table below. To give an indication of the indirect portfolio dealing costs the table below shows the average portfolio dealing spread.

Further information on this process is in the Prospectus, which is available free of charge on request either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

Portfolio transaction costs			
as at	30.09.17	31.03.17	Average <sup>[a]</sup>
	%	%	%
Indirect portfolio transaction costs			
Average portfolio dealing spread	0.43	0.46	0.45

[a] Average of first two columns.

Please see the section above this table for an explanation of dilution adjustments.

# M&G Absolute Return Bond Fund

## Financial highlights

### Specific share class performance

The following tables show the performance of each share class. All 'Performance and charges' percentages represent an annual rate except for the 'Return after operating charges' which is calculated as a percentage of the opening net asset value per share (NAV). 'Dilution adjustments' are only in respect of direct portfolio transaction costs.

#### Sterling Class 'A' Income share performance

The share class was launched on 13 December 2016.

Change in NAV per share	Six months to 30.09.17 UK p	Period to 31.03.17 UK p
Opening NAV	100.35	100.00
Return before operating charges and after direct portfolio transaction costs	1.88	1.18
Operating charges	(0.43)	(0.31)
Return after operating charges	1.45	0.87
Distributions	(1.00)	(0.52)
Closing NAV	100.80	100.35
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00
Operating charges	0.84	1.10*
Return after operating charges	+1.44	+0.87
Distribution yield	2.07	2.26
Effect on yield of charges offset against capital	0.80	0.80
<b>Other information</b>		
Closing NAV (£'000)	529	211
Closing NAV percentage of total fund NAV (%)	2.02	1.23
Number of shares	524,483	210,000
Highest share price (UK p)	102.28	101.37
Lowest share price (UK p)	100.80	99.89

\* The operating charge shown is an estimate of the charges, as the share class has not been in existence for a full financial year.

#### Sterling Class 'A' Accumulation share performance

The share class was launched on 13 December 2016.

Change in NAV per share	Six months to 30.09.17 UK p	Period to 31.03.17 UK p
Opening NAV	100.87	100.00
Return before operating charges and after direct portfolio transaction costs	1.85	1.18
Operating charges	(0.44)	(0.31)
Return after operating charges	1.41	0.87
Distributions	(0.59)	(0.28)
Retained distributions	0.59	0.28
Closing NAV	102.28	100.87
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00
Operating charges	0.88*	1.04**
Return after operating charges	+1.40	+0.87
Distribution yield	1.30	1.40
Effect on yield of charges offset against capital	0.00	0.00
<b>Other information</b>		
Closing NAV (£'000)	75	20
Closing NAV percentage of total fund NAV (%)	0.29	0.12
Number of shares	73,327	20,000
Highest share price (UK p)	102.80	101.38
Lowest share price (UK p)	101.32	99.89

\* As the share class has not been in existence for the full period, 0.84% is a more reliable estimate of the operating charge.

\*\* The operating charge shown is an estimate of the charges, as the share class has not been in existence for a full financial year.

#### Sterling Class 'I' Income share performance

The share class was launched on 13 December 2016.

Change in NAV per share	Six months to 30.09.17 UK p	Period to 31.03.17 UK p
Opening NAV	100.41	100.00
Return before operating charges and after direct portfolio transaction costs	1.87	1.18
Operating charges	(0.34)	(0.25)
Return after operating charges	1.53	0.93
Distributions	(0.97)	(0.52)
Closing NAV	100.97	100.41
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00
Operating charges	0.68*	0.89**
Return after operating charges	+1.52	+0.93
Distribution yield	2.06	2.26
Effect on yield of charges offset against capital	0.60	0.60
<b>Other information</b>		
Closing NAV (£'000)	2,216	186
Closing NAV percentage of total fund NAV (%)	8.44	1.08
Number of shares	2,195,044	185,000
Highest share price (UK p)	102.43	101.42
Lowest share price (UK p)	100.86	99.89

\* As the share class has not been in existence for the full period, 0.64% is a more reliable estimate of the operating charge.

\*\* The operating charge shown is an estimate of the charges, as the share class has not been in existence for a full financial year.

# M&G Absolute Return Bond Fund

## Financial highlights

### Specific share class performance

#### Sterling Class 'I' Accumulation share performance

The share class was launched on 13 December 2016.

	Six months to 30.09.17 UK p	Period to 31.03.17 UK p
<b>Change in NAV per share</b>		
Opening NAV	100.93	100.00
Return before operating charges and after direct portfolio transaction costs	1.87	1.18
Operating charges	(0.35)	(0.25)
Return after operating charges	1.52	0.93
Distributions	(0.71)	(0.34)
Retained distributions	0.71	0.34
Closing NAV	102.45	100.93
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00
Operating charges	0.68*	0.85**
Return after operating charges	+1.51	+0.93
Distribution yield	1.49	1.60
Effect on yield of charges offset against capital	0.00	0.00
<b>Other information</b>		
Closing NAV (£'000)	21,437	16,669
Closing NAV percentage of total fund NAV (%)	81.70	97.33
Number of shares	20,924,553	16,516,155
Highest share price (UK p)	102.95	101.42
Lowest share price (UK p)	101.38	99.89

\* As the share class has not been in existence for the full period, 0.64% is a more reliable estimate of the operating charge.

\*\* The operating charge shown is an estimate of the charges, as the share class has not been in existence for a full financial year.

#### Sterling Class 'L' Income share performance

The share class was launched on 13 December 2016.

	Six months to 30.09.17 UK p	Period to 31.03.17 UK p
<b>Change in NAV per share</b>		
Opening NAV	100.44	100.00
Return before operating charges and after direct portfolio transaction costs	1.83	1.18
Operating charges	(0.28)	(0.22)
Return after operating charges	1.55	0.96
Distributions	(0.98)	(0.52)
Closing NAV	101.01	100.44
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00
Operating charges	0.57*	0.74**
Return after operating charges	+1.54	+0.96
Distribution yield	2.09	2.26
Effect on yield of charges offset against capital	0.50	0.50
<b>Other information</b>		
Closing NAV (£'000)	1,960	20
Closing NAV percentage of total fund NAV (%)	7.47	0.12
Number of shares	1,940,649	20,000
Highest share price (UK p)	102.50	101.45
Lowest share price (UK p)	100.89	99.89

\* As the share class has not been in existence for the full period, 0.54% is a more reliable estimate of the operating charge.

\*\* The operating charge shown is an estimate of the charges, as the share class has not been in existence for a full financial year.

#### Sterling Class 'L' Accumulation share performance

The share class was launched on 13 December 2016.

	Six months to 30.09.17 UK p	Period to 31.03.17 UK p
<b>Change in NAV per share</b>		
Opening NAV	100.96	100.00
Return before operating charges and after direct portfolio transaction costs	1.88	1.18
Operating charges	(0.30)	(0.22)
Return after operating charges	1.58	0.96
Distributions	(0.77)	(0.37)
Retained distributions	0.77	0.37
Closing NAV	102.54	100.96
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00
Operating charges	0.59*	0.74**
Return after operating charges	+1.56	+0.96
Distribution yield	1.60	1.70
Effect on yield of charges offset against capital	0.00	0.00
<b>Other information</b>		
Closing NAV (£'000)	21	20
Closing NAV percentage of total fund NAV (%)	0.08	0.12
Number of shares	20,000	20,000
Highest share price (UK p)	103.03	101.45
Lowest share price (UK p)	101.41	99.89

\* As the share class has not been in existence for the full period, 0.54% is a more reliable estimate of the operating charge.

\*\* The operating charge shown is an estimate of the charges, as the share class has not been in existence for a full financial year.

<sup>[a]</sup> In respect of direct portfolio transaction costs.

<sup>[b]</sup> As a percentage of average net asset value.

# M&G Absolute Return Bond Fund

## Financial statements and notes

### Financial statements

#### Statement of total return

for the six months to 30 September	2017	
	£'000	£'000
Income		
Net capital gains / (losses)		111
Revenue	229	
Expenses	(71)	
Net revenue / (expense) before taxation	158	
Taxation	0	
Net revenue / (expense) after taxation		158
<b>Total return before distributions</b>		<b>269</b>
Distributions		(154)
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>115</b>

#### Statement of change in net assets attributable to shareholders

for the six months to 30 September	2017	
	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>17,126</b>
Amounts received on issue of shares	8,985	
Amounts paid on cancellation of shares	(154)	
		8,831
Dilution adjustments		18
Change in net assets attributable to shareholders from investment activities (see above)		115
Retained distributions on Accumulation shares		148
<b>Closing net assets attributable to shareholders</b>		<b>26,238</b>

#### Balance sheet

as at	30 September 2017 £'000	31 March 2017 £'000
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	25,714	17,007
<b>Current assets</b>		
Debtors	630	257
Cash and bank balances	283	107
<b>Total assets</b>	<b>26,627</b>	<b>17,371</b>
<b>Liabilities</b>		
Investment liabilities	(295)	(138)
<b>Creditors</b>		
Bank overdrafts	0	(86)
Overdrawn positions at futures clearing houses and collateral manager	(21)	0
Distribution payable	(46)	(2)
Other creditors	(27)	(19)
<b>Total liabilities</b>	<b>(389)</b>	<b>(245)</b>
<b>Net assets attributable to shareholders</b>	<b>26,238</b>	<b>17,126</b>

### Notes to the financial statements

#### Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 2.

#### Distribution policy

In determining the amount available for distribution to Income shares, the annual management charge and administration charge are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

In determining the amount available for distribution, a transfer has been made between revenue and capital to disregard the change in the Retail Prices Index during the period in respect of interest from index-linked gilt-edged securities. This is to contribute to the preservation of the share value in real terms.

# M&G Absolute Return Bond Fund

Financial statements and notes

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# M&G UK Inflation Linked Corporate Bond Fund

## Authorised Corporate Director's Report

### Investment objective

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 a rolling three- to five-year period. There is no guarantee that the fund will achieve its objective over this, or any other, period. The income distributions and the value of your investment may rise and fall and investors may not recoup the original amount they invested.

### Investment policy

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 manager 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 a rolling three- to five-year period.

### Risk profile

The fund invests in fixed interest assets that would be expected to perform well in an inflationary environment, such as inflation-linked bonds issued by companies and governments. It is therefore subject to the price volatility of the global bond market as well as the performance of individual issuers.

The fund's focus is on investment grade, or high-quality corporate bonds, which are securities that are normally traded with relative ease. The fund's exposure to index-linked bonds may be achieved either directly or by investing in a combination of assets, including government securities and credit derivatives. In association with the use of derivatives, including those instruments not traded through an exchange, collateral is deposited in order to mitigate the risk that a counterparty may default on its obligations or become insolvent.

Portfolio diversification is key in managing liquidity and default risks as well as reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

The following table shows the risk number associated with the fund and is based on Sterling Class 'A' shares.



The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has not changed during this period.

### Investment review

**As at 2 October 2017, for the six months ended 30 September 2017**

#### Performance against objective

Between 3 April 2017 (the start of the review period) and 2 October 2017, the M&G UK Inflation Linked Corporate Bond Fund delivered a positive total return (the combination of income and growth of capital) of around 1.0%, although this varied slightly between different share classes. This compares with the change in the UK Consumer Prices Index (CPI), which the fund seeks to match or exceed over a rolling three- to five-year period, of 1.5% over the same period.\*

\* For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Fund performance' section of this report.



# M&G UK Inflation Linked Corporate Bond Fund

## Authorised Corporate Director's Report

### Investment review

#### Investment performance

The fund invests in a range of instruments that can help to mitigate the potentially damaging effects of inflation. It is mainly invested in inflation-linked bonds issued by high-quality companies, where both the value of the loan and the interest payments are adjusted in line with inflation until they mature. Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'.

Bond markets produced mixed returns over the six-month review period. While the gradually improving global economic backdrop provided further support for corporate bonds, higher inflation coupled with the prospect of a rise in interest rates led to a decline in UK government bond prices and in turn pushed up yields (bond yields typically move in the opposite direction to bond prices).

UK inflation continued to move higher, with the Consumer Prices Index (CPI) increasing from 2.3% in February to 2.9% in August. While the impact of higher oil prices has now largely fallen out of the year-on-year inflation numbers, last year's significant fall in sterling continues to be felt as retailers pass on higher input costs to consumers.

The fund delivered a positive total return over the review period, mainly driven by positive contributions from its corporate bond exposure. This was partly offset by a slight dip in inflation expectations, both in the UK and the US, which weighed on inflation-linked bonds. However, the fund's low sensitivity to movements in interest rates helped to mitigate the negative impact of rising government bond yields.

#### Investment activities

We continue to see attractive opportunities in corporate bond markets, and we took the opportunity to invest in a wide range of businesses over the six-month period, including global insurance company MetLife and utility providers Anglian Water and National Grid. We also increased the fund's exposure to commodity giant Glencore given the recent strength in oil prices and the improving credit picture for the company.

Financials remain a key theme within the fund at present, as we believe banks are particularly well placed to benefit from an environment of rising inflation and higher government bond yields. Having previously built up a position in US banks, we now see better value in European banks and have been increasing the fund's exposure to names such as BNP Paribas, Barclays and Santander.

In terms of sales, we sold our positions in JP Morgan, Bank of America and Goldman Sachs, as valuations were starting to look slightly less compelling after such a strong run. We also sold a number of longer dated US corporate bonds, where we believe valuations are starting to look quite stretched following a strong run, including issues from Microsoft and Comcast.

Within the government bond portion of the portfolio, we currently have a preference for index-linked gilts with a short time to maturity as these instruments are well placed to capture any near-term movements in UK inflation. The fund also maintains a modest exposure to US inflation-linked government bonds, which we believe remain attractively valued and should benefit from a gradual pick-up in US inflation.

The fund's sensitivity to movement in interest rates, otherwise known as duration, was slightly increased over the six-month period, from around 0.7 years at the end March 2017 to around 1.1 years by the end of September 2017. It should be noted, however, that this is still significantly shorter than a traditional index-linked gilt or corporate bond strategy, and should help minimise the impact on the fund of any future rise in gilt yields.

#### Outlook

UK inflation picked up further over the six-month period, as the impact of last year's fall in sterling continues to be passed on to consumers in the form of higher retail prices. With the impact of higher oil prices having now largely fallen out of the year-on-year inflation numbers, we believe that future movements in sterling will continue to be the main driver of UK inflation going forward.

By focusing on index-linked bonds issued by highly rated companies that are due to be repaid in a relatively short period of time, we believe the fund is well placed to benefit from any further rise in UK inflation over the next few months, while its low sensitivity to movements in interest rates should offer protection against any future rise in government bond yields.

#### Ben Lord

Fund manager

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

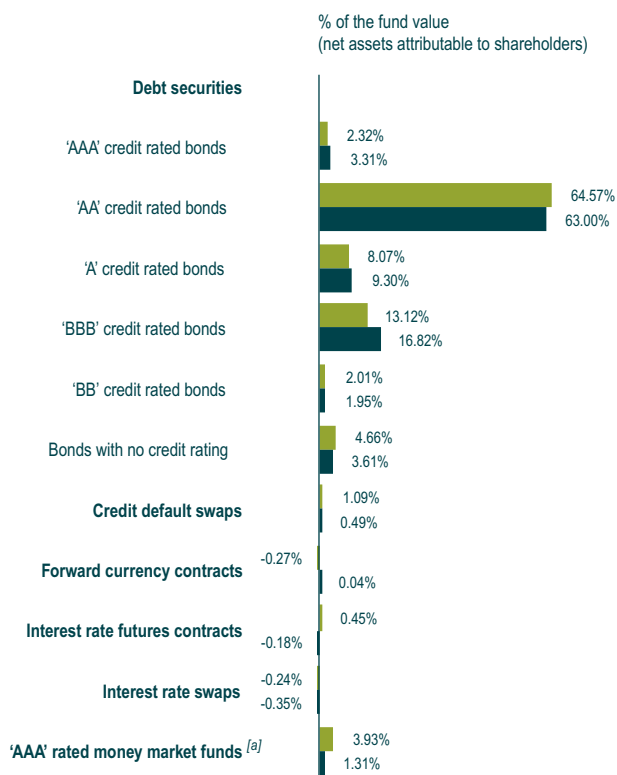
Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial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

# M&G UK Inflation Linked Corporate Bond Fund

## Authorised Corporate Director's Report

### Investments

#### Classification of investments



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

30 September 2017  
31 March 2017

Source: M&G

#### Portfolio statement

as at Holding	30.09.17 £'000	30.09.17 %	31.03.17 %
<b>Debt securities</b>	<b>1,051,850</b>	<b>94.75</b>	<b>97.99</b>
<b>'AAA' credit rated bonds</b>	<b>25,709</b>	<b>2.32</b>	<b>3.31</b>
£2,926,082 Dukinfield FRN 2052	2,956	0.27	
£148,000 European Investment Bank 2.1% IL 2022	236	0.02	
£3,660,000 European Investment Bank 2.939% IL 2017	4,889	0.44	
£3,843,854 Residential Mortgage Securities FRN 2046	3,862	0.35	
£4,051,000 Residential Mortgage Securities FRN 2050	4,048	0.36	
£9,681,590 Ripon Mortgages FRN 2056	9,718	0.88	
<b>'AA' credit rated bonds</b>	<b>716,782</b>	<b>64.57</b>	<b>63.00</b>
£21,209 Baglan Moor Healthcare 3.92% IL 2029	44	0.00	
£6,104,000 Metropolitan Life Global Funding I 1.125% 2021	6,041	0.54	
€1,500,000 Réseau Ferré de France 2.45% IL 2023	1,948	0.18	
£9,300,000 Scotland Gas Network 2.966% IL 2022	15,378	1.39	
£7,220,000 Towd Point Mortgage Funding FRN 2046	7,272	0.66	
£55,500,000 Treasury 0.125% IL 2019	64,620	5.82	
£100,000 Treasury 0.125% IL 2024	129	0.01	
£200,000 Treasury 0.14% IL 2026	248	0.02	
£409,577 Treasury 1.25% IL 2017	583	0.05	
£200,000 Treasury 1.25% IL 2027	374	0.03	
£65,903,000 Treasury 1.875% IL 2022	107,042	9.64	
£58,278,623 Treasury 2.5% IL 2020	214,127	19.29	
£43,025,000 Treasury 2.5% IL 2024	157,030	14.15	
\$22,775,000 US Treasury 0.125% 2021	17,664	1.59	
\$32,000,000 US Treasury 0.125% 2022	25,644	2.31	
\$25,000,000 US Treasury 0.125% 2024	19,126	1.72	
\$50,000,000 US Treasury 0.125% 2026	37,249	3.36	
\$54,600,000 US Treasury 0.375% IL 2025	42,263	3.81	
<b>'A' credit rated bonds</b>	<b>89,643</b>	<b>8.07</b>	<b>9.30</b>
£1,350,000 Anglian Water Services 3.666% IL 2024	2,705	0.24	
£10,168,000 Anglian Water Services 4.125% IL 2020	19,032	1.72	
£920,000 Bank of Scotland 2.64% IL 2020	1,570	0.14	
€6,958,000 BNP Paribas FRN 2024	6,220	0.56	
£1,200,000 Eddystone Finance FRN 2021	1,198	0.11	
£3,408,095 Greene King Finance FRN 2033	3,364	0.30	
\$5,000,000 JPMorgan Chase FRN 2022	3,806	0.34	
£16,165,000 National Grid Electricity Transmission 2.983% IL 2018	26,596	2.40	
£2,199,000 National Grid Electricity Transmission 3.806% IL 2020	3,922	0.35	
£2,900,000 Nationwide Building Society 3.875% IL 2021	9,659	0.87	
£150,000 Nationwide Building Society 4.25% IL 2024	492	0.04	
£158,916 Newgate Funding FRN 2050	154	0.01	
£2,126,000 Rabobank 2.25% IL 2022	3,285	0.30	
£1,452,000 Southern Water Services Finance 3.816% IL 2023	2,724	0.25	
£4,500,000 Western Power East IL 2029	4,916	0.44	

# M&G UK Inflation Linked Corporate Bond Fund

## Authorised Corporate Director's Report

### Investments

#### Portfolio statement (continued)

as at Holding	30.09.17 £'000	30.09.17 %	31.03.17 %
<b>'BBB' credit rated bonds</b>	<b>145,677</b>	<b>13.12</b>	<b>16.82</b>
\$11,500,000 AT&T 5.25% 2037	8,973	0.81	
\$16,000,000 Bank of America 4.25% 2026	12,499	1.13	
\$5,000,000 Bellsouth 4.973% 2021	3,785	0.34	
£157,000 British Telecommunications 3.5% IL 2025	329	0.03	
€2,500,000 Channel Link Enterprises Finance 1.761% IL 2050	2,240	0.20	
\$5,000,000 Citigroup FRN 2024	3,744	0.34	
£1,826,000 GKN Holdings 3.375% 2032	1,805	0.16	
\$5,000,000 Goldman Sachs Group FRN 2023 (Jun)	3,749	0.34	
\$7,500,000 Goldman Sachs Group FRN 2023 (Nov)	5,781	0.52	
\$7,300,000 HSBC Holdings 4.25% 2025	5,658	0.51	
\$2,907,000 HSBC Holdings 4.375% 2026	2,268	0.20	
€5,000,000 Italy (Republic of) 1.3% IL 2028	4,551	0.41	
\$5,000,000 JPMorgan Chase Var. Rate Perp. (5%)	3,791	0.34	
£4,106,000 Kennedy Wilson Europe Real Estate 3.95% 2022	4,224	0.38	
£1,067,000 LafargeHolcim Sterling Finance (Netherlands) 3% 2032	1,043	0.09	
£1,920,000 Lloyds Bank 7.625% 2025	2,562	0.23	
\$5,000,000 Morgan Stanley 5% 2025	4,079	0.37	
\$5,000,000 Morgan Stanley FRN 2023	3,810	0.34	
\$7,500,000 Morgan Stanley FRN 2024	5,654	0.51	
\$14,902,000 Nationwide Building Society 4% 2026	11,080	1.00	
€2,287,000 Nationwide Building Society Var. Rate 2029 (2%)	2,027	0.18	
€4,000,000 Orange 3% IL 2018	3,994	0.36	
£4,900,000 Orange Var. Rate Perp. (5.75%)	5,449	0.49	
\$2,000,000 Rabobank 4% 2029	1,512	0.14	
\$2,753,000 Royal Bank of Scotland FRN 2023	2,069	0.19	
€3,138,000 Royal Bank of Scotland Var. Rate 2023 (2%)	2,895	0.26	
€2,597,000 Santander UK FRN 2023	2,311	0.21	
£1,950,000 Severn Trent 1.3% IL 2022	2,409	0.22	
€4,400,000 Société Générale FRN 2024	3,936	0.35	
£2,944,000 South Eastern Power Networks 4.2148% IL 2023	5,349	0.48	
€6,500,000 Teva Pharmaceutical Finance 1.125% 2024	5,373	0.48	
£1,967,000 Thames Water Utilities Cayman 2.375% 2023	1,949	0.18	
£3,152,000 Thames Water Utilities Finance 3.375% IL 2021	5,673	0.51	
\$6,796,117 US Bancorp Var. Rate Perp. (5.3%)	5,525	0.50	
\$4,750,000 Verizon Communications 4.862% 2046	3,581	0.32	
<b>'BB' credit rated bonds</b>	<b>22,277</b>	<b>2.01</b>	<b>1.95</b>
\$3,115,000 Barclays Bank 4.836% 2028	2,407	0.22	
€2,857,000 Barclays Bank Var. Rate 2025 (2.625%)	2,610	0.23	
£1,533,091 Catalyst Healthcare 3.42 % IL 2040	2,653	0.24	
\$5,000,000 Morgan Stanley Var. Rate Perp. (5.45%)	3,845	0.35	
€4,643,000 Royal Bank of Scotland Var. Rate 2024 (3.625%)	4,243	0.38	
£3,500,000 Tesco 3.322% IL 2025	6,519	0.59	

#### Portfolio statement (continued)

as at Holding	30.09.17 £'000	30.09.17 %	31.03.17 %
<b>Bonds with no credit rating</b>	<b>51,762</b>	<b>4.66</b>	<b>3.61</b>
€5,000,000 Altarea 2.25% 2024	4,418	0.40	
€3,104,000 Arbour Clo FRN 2030	2,760	0.25	
€3,810,000 ATON 3.875% 2018	3,403	0.31	
€900,000 Brisa Concessão Rodoviária 2.375% 2027	829	0.07	
€2,000,000 Eirles Two FRN 2020	0	0.00	
£425,671 Exchequer Partnerships 3.582% IL 2035	946	0.09	
£3,937,000 Finsbury Square FRN 2065	3,941	0.35	
£5,567,000 Gosforth Funding FRN 2059	5,575	0.50	
\$5,655,999 Home Partners of America Trust HPA 2016	4,226	0.38	
£734,462 HpC Kings College Hospital 3.443% IL 2036	1,598	0.14	
€2,000,000 Lagardère 1.625% 2024	1,752	0.16	
£5,000,000 London Wall Mortgage Capital FRN 2049	5,000	0.45	
£3,350,000 Old Mutual 8% 2021	3,839	0.35	
\$4,478,000 Progress Residential Trust FRN 2034	3,394	0.31	
£2,122,364 The Hospital Company (Dartford) 3.003% IL 2031	4,056	0.36	
\$19 THFC 5.65% IL 2020	0	0.00	
£3,117,000 Together Asset Backed Securitisation FRN 2049	3,120	0.28	
£2,674,000 TSB Bank Var. Rate 2026 (5.75%)	2,905	0.26	
<b>Credit default swaps</b>	<b>12,057</b>	<b>1.09</b>	<b>0.49</b>
€(6,300,000) Ahold Finance USA Dec 2022	106	0.01	
\$ (13,000,000) América Móvil Dec 2021	(16)	0.00	
\$ (10,000,000) American International Jun 2027	(23)	0.00	
€(9,400,000) Anglo American Capital Dec 2022	1,520	0.14	
€(10,000,000) Anheuser-Busch InBev Dec 2017	18	0.00	
€(11,500,000) BAT International Finance Dec 2021	239	0.03	
€(5,000,000) BNP Paribas Dec 2021	33	0.00	
\$5,000,000 Bristol-Myers Squibb Sep 2020	(96)	(0.01)	
\$ (10,000,000) Citigroup Dec 2021	187	0.02	
€(15,000,000) Cooperatieve Rabobank Dec 2021	249	0.02	
€(12,500,000) Credit Agricole Dec 2021	92	0.00	
\$ (17,500,000) Deere & Co Jun 2022	428	0.04	
€(10,000,000) Deutsche Telekom Mar 2023	274	0.02	
€(7,250,000) Deutsche Telekom Jun 2023	199	0.02	
\$ (13,000,000) Enbridge Energy Partners Dec 2021	(61)	0.00	
€(9,400,000) Enel Dec 2022	147	0.01	
\$ (3,300,000) Ford Motor Credit Jun 2020	44	0.01	
\$ (5,000,000) Ford Motor Credit Dec 2020	69	0.00	
\$ (4,000,000) Freeport-McMoRan Mar 2020	18	0.00	
€(11,700,000) Glencore Finance Europe Dec 2021	1,683	0.16	
€(7,500,000) Glencore Finance Europe Jun 2022	1,145	0.10	
€(2,500,000) Glencore International Jun 2021	1	0.00	
€(10,000,000) Heathrow Funding Sep 2020	177	0.01	
€(2,500,000) Heathrow Funding Dec 2020	47	0.00	
€(9,500,000) Imperial Brands Finance Dec 2021	173	0.01	
€(10,000,000) ING Bank Jun 2022	213	0.01	
€(7,500,000) Intesa Sanpaolo Dec 2021	104	0.01	
€(5,000,000) Intesa Sanpaolo Jun 2022	61	0.00	
€(9,700,000) LafargeHolcim Dec 2021	187	0.02	
\$ (89,000,000) Markit CDX North American Investment Grade Series 28 5 Year Jun 2022	1,405	0.13	
€(129,000,000) Markit iTraxx Europe Series 27 10 Year Jun 2027	920	0.06	

# M&G UK Inflation Linked Corporate Bond Fund

## Authorised Corporate Director's Report

### Investments

#### Portfolio statement (continued)

as at Holding	30.09.17 £'000	30.09.17 %	31.03.17 %
<b>Credit default swaps (continued)</b>			
€(32,000,000) Markit iTraxx Europe Snr Fin Series 26 5 Year Jun 2022	711	0.07	
€(12,500,000) Markit iTraxx Europe Snr Fin Series 28 5 Year Dec 2022	231	0.02	
€(12,500,000) Markit iTraxx Europe Sub Fin Series 27 5 Year Jun 2022	(33)	0.00	
€(12,500,000) Markit iTraxx Europe Sub Fin Series 28 5 Year Dec 2022	(207)	(0.01)	
\$(10,000,000) Morgan Stanley Dec 2021	162	0.02	
€(20,000,000) Reckitt Benckiser Treasury Services Jun 2022	278	0.03	
\$(20,000,000) Simon Property Group Dec 2021	284	0.04	
€(7,500,000) Société Générale Jun 2022	(7)	0.00	
\$(10,000,000) Target Jun 2022	173	0.02	
€(15,000,000) Telecom Italia Dec 2021	3	0.00	
€(7,500,000) Telefónica Emisiones Dec 2021	127	0.01	
€(14,600,000) UBS Jun 2022	229	0.02	
€(3,000,000) United Utilities Water Mar 2018	11	0.00	
\$(5,000,000) Verizon Communications Sep 2023	54	0.00	
\$(10,000,000) Verizon Communications Mar 2025	54	0.01	
\$(19,000,000) Wal-mart Stores Dec 2021	444	0.04	
<b>Forward currency contracts</b>	<b>(3,033)</b>	<b>(0.27)</b>	<b>0.04</b>
€1,268,142 Bought for £1,121,327 (expires 18.10.17)	(2)	0.00	
€(75,245,144) Sold for £66,390,087 (expires 18.10.17)	(46)	0.00	
\$(340,172,949) Sold for £251,053,482 (expires 18.10.17)	(2,985)	(0.27)	
<b>Interest rate futures contracts</b>	<b>5,041</b>	<b>0.45</b>	<b>(0.18)</b>
(767) 5 Year US Treasury Note Dec 2017	456	0.04	
(1,138) 10 Year US Treasury Note Dec 2017	1,122	0.10	
(52) Euro Bund Dec 2017	37	0.00	
(1,131) UK Long Gilt Bond Dec 2017	3,260	0.30	
(61) US Ultra Long Treasury Bond Dec 2017	166	0.01	
<b>Interest rate swaps</b>	<b>(2,633)</b>	<b>(0.24)</b>	<b>(0.35)</b>
£20,000,000 Pay 0.785% Receive VAR Feb 2022	211	0.02	
£20,000,000 Pay 0.832% Receive VAR Mar 2022	176	0.02	
£30,000,000 Pay 0.874% Receive VAR Sep 2047	300	0.03	
£45,000,000 Pay 0.96% Receive VAR Mar 2022	176	0.01	
£22,500,000 Pay 0.974% Receive VAR Nov 2046	1	0.00	
£30,000,000 Pay 1.316% Receive VAR Feb 2020	(372)	(0.03)	
£25,000,000 Pay 1.319% Receive VAR Jan 2020	(319)	(0.03)	
£60,000,000 Pay 1.49% Receive VAR Feb 2020	(995)	(0.09)	
£75,000,000 Pay 1.71% Receive VAR Oct 2019	(1,775)	(0.16)	
£50,000,000 Pay 272.9% Receive 3.3475 Sep 2022	(36)	(0.01)	
<b>Portfolio of investments</b>	<b>1,063,282</b>	<b>95.78</b>	<b>97.99</b>
<b>'AAA' rated money market funds <sup>[a]</sup></b>	<b>43,638</b>	<b>3.93</b>	<b>1.31</b>
43,638,000 Northern Trust Global Fund - Sterling	43,638	3.93	
<b>Total portfolio</b>	<b>1,106,920</b>	<b>99.71</b>	<b>99.30</b>
<b>Net other assets / (liabilities)</b>	<b>3,192</b>	<b>0.29</b>	<b>0.70</b>
<b>Net assets attributable to shareholders</b>	<b>1,110,112</b>	<b>100.00</b>	<b>100.00</b>

All securities are on an official stock exchange listing except where referenced.

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

#### Portfolio transactions

for the six months to 30 September	2017 £'000	2016 £'000
<b>Portfolio transactions</b>		
Total purchases	500,485	322,010
Total sales	492,410	333,292

Purchases and sales exclude the cost and proceeds of 'AAA' rated money market funds.

# M&G UK Inflation Linked Corporate Bond Fund

## Financial highlights

### Fund performance

Please note past performance is not a guide to future performance and the value of 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.

The following chart and tables show the performance for two of the fund's share classes – Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

We show performance for these two share classes because:

- The performance of the Sterling Class 'A' (Accumulation) share is what most individuals investing directly with M&G have received. It has the highest ongoing charge of all the share classes. Performance is shown after deduction of this charge. All investors in the fund therefore received this performance or better.
- The performance of the Sterling Class 'I' (Accumulation) share is the most appropriate to compare with the average performance of the fund's comparative sector. It is the share class used by the Investment Association in the calculation of the comparative sector's average performance. This share class is available for direct investment with M&G subject to minimum investment criteria, or via third parties who may charge additional fees. The performance shown takes the deduction of the ongoing charge for this share class into account but it does not take account of charges applied by any other party through which you may have invested.

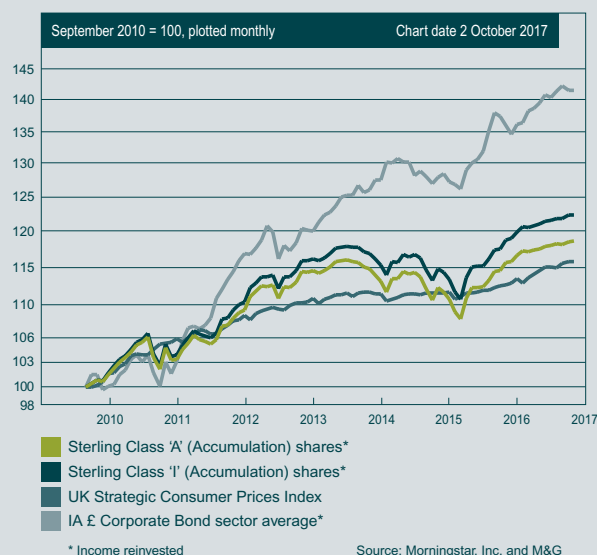
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (10), which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

### Fund level performance

Fund net asset value			
as at	30.09.17 £'000	31.03.17 £'000	31.03.16 £'000
Fund net asset value (NAV)	1,110,112	1,085,121	670,808

### Performance since launch

To give an indication of how the fund has performed since launch, the chart below shows total return of Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.



To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period. Calculated on a price to price basis with income reinvested.

### Long-term performance by share class

	Six months 03.04.17 % [a]	Three years 02.10.14 % p.a.	Five years 02.10.12 % p.a.	Since launch % p.a.
<b>Sterling [b]</b>				
Class 'A'	+1.0	+1.0	+2.0	+2.5 [c]
Class 'I'	+1.2	+1.5	+2.4	+2.9 [c]
Class 'R'	+1.1	+1.3	+2.2	+2.4 [d]

[a] Absolute basis.

[b] Price to price with income reinvested.

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

[d] 3 August 2012, the launch date of the share class.

# M&G UK Inflation Linked Corporate Bond Fund

## Financial highlights

### Fund performance

### Operating charges and portfolio transaction costs

We explain below the payments made to meet the ongoing costs of investing and managing the fund, comprised of operating charges and portfolio transaction costs.

#### Operating charges

Operating charges include payments made to M&G and to providers independent of M&G:

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.

The operating charges paid by each share class of the fund are shown in the following performance tables. Operating charges do not include portfolio transaction costs or any entry and exit charges (also known as initial and redemption charges). The charging structures of share classes may differ, and therefore the operating charges may differ.

Operating charges are the same as the ongoing charges shown in the Key Investor Information Document, other than where an estimate has been used for the ongoing charge because a material change has made the operating charges unreliable as an estimate of future charges.

For this fund there is no difference between operating charges and ongoing charges figures, unless disclosed under the specific share class performance table.

#### Portfolio transaction costs

Portfolio transaction costs are incurred by funds when buying and selling investments. These costs vary depending on the types of investment, their market capitalisation, country of exchange and method of execution. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission and taxes.
- **Indirect portfolio transaction costs:** 'Dealing spread' – the difference between the buying and selling prices of the fund's investments; some types of investment, such as fixed interest securities, have no direct transaction costs and only the dealing spread is paid.

Investments are bought or sold by a fund when changes are made to the investment portfolio and in response to net flows of money into or out of the fund from investors buying and selling shares in the fund.

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. The table below shows direct portfolio transaction costs paid by the fund before and after that part of the dilution adjustment relating to direct portfolio transaction costs. To give an indication of the indirect portfolio dealing costs the table also shows the average portfolio dealing spread.

Further information on this process is in the Prospectus, which is available free of charge on request either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

#### Portfolio transaction costs

	Six months to 30.09.17	Year to 31.03.17	Year to 31.03.16	Average <sup>[a]</sup>
Direct portfolio transaction costs <sup>[b]</sup>	%	%	%	%
Broker commission	0.00	0.01	0.01	0.01
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.00	0.01	0.01	0.01
Dilution adjustments <sup>[c]</sup>	0.00	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.01	0.01
as at	30.09.17	31.03.17	31.03.16	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.16	0.28	0.51	0.32

<sup>[a]</sup> Average of first three columns.

<sup>[b]</sup> As a percentage of average net asset value.

<sup>[c]</sup> In respect of direct portfolio transaction costs. Please see the section above this table for an explanation of dilution adjustments.



# M&G UK Inflation Linked Corporate Bond Fund

## Financial highlights

### Specific share class performance

The following tables show the performance of each share class. All 'Performance and charges' percentages represent an annual rate except for the 'Return after operating charges' which is calculated as a percentage of the opening net asset value per share (NAV). 'Dilution adjustments' are only in respect of direct portfolio transaction costs.

#### Sterling Class 'A' Income share performance

The share class was launched on 16 September 2010.

	Six months to 30.09.17 UK p	Year to 31.03.17 UK p	Year to 31.03.16 UK p
<b>Change in NAV per share</b>			
Opening NAV	114.15	109.23	111.51
Return before operating charges and after direct portfolio transaction costs	1.97	7.55	(1.00)
Operating charges	(0.66)	(1.31)	(1.28)
Return after operating charges	1.31	6.24	(2.28)
Distributions	(0.35)	(1.32)	0.00
Closing NAV	115.11	114.15	109.23
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.01	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.01
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.01	0.01
Operating charges	1.15	1.16	1.16
Return after operating charges	+1.15	+5.71	-2.04
Distribution yield <sup>[c]</sup>	0.45	0.91	0.67
Effect on yield of charges offset against capital	1.15	1.15	0.00
<b>Other information</b>			
Closing NAV (£'000)	90,683	91,542	71,177
Closing NAV percentage of total fund NAV (%)	8.17	8.44	10.61
Number of shares	78,779,715	80,196,352	65,164,076
Highest share price (UK p)	115.75	115.28	113.39
Lowest share price (UK p)	114.10	109.32	105.19

#### Sterling Class 'A' Accumulation share performance

The share class was launched on 16 September 2010.

	Six months to 30.09.17 UK p	Year to 31.03.17 UK p	Year to 31.03.16 UK p
<b>Change in NAV per share</b>			
Opening NAV	117.06	110.82	113.14
Return before operating charges and after direct portfolio transaction costs	2.02	7.67	(1.02)
Operating charges	(0.68)	(1.33)	(1.30)
Return after operating charges	1.34	6.34	(2.32)
Distributions	0.00	(0.57)	0.00
Retained distributions	0.00	0.47	0.00
Closing NAV	118.40	117.06	110.82
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.01	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.01
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.01	0.01
Operating charges	1.15	1.16	1.16
Return after operating charges	+1.14	+5.72	-2.05
Distribution yield	0.00	0.00	0.67
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	43,199	53,420	42,205
Closing NAV percentage of total fund NAV (%)	3.89	4.92	6.29
Number of shares	36,484,522	45,636,252	38,084,903
Highest share price (UK p)	118.70	117.47	115.05
Lowest share price (UK p)	117.00	110.91	106.72

#### Sterling Class 'I' Income share performance

The share class was launched on 16 September 2010.

	Six months to 30.09.17 UK p	Year to 31.03.17 UK p	Year to 31.03.16 UK p
<b>Change in NAV per share</b>			
Opening NAV	115.69	110.39	112.59
Return before operating charges and after direct portfolio transaction costs	2.00	7.63	(1.00)
Operating charges	(0.38)	(0.76)	(0.74)
Return after operating charges	1.62	6.87	(1.74)
Distributions	(0.36)	(1.57)	(0.46)
Closing NAV	116.95	115.69	110.39
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.01	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.01
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.01	0.01
Operating charges	0.66	0.66	0.66
Return after operating charges	+1.40	+6.22	-1.55
Distribution yield <sup>[c]</sup>	0.45	0.91	1.17
Effect on yield of charges offset against capital	0.65	0.65	0.00
<b>Other information</b>			
Closing NAV (£'000)	541,679	494,005	304,524
Closing NAV percentage of total fund NAV (%)	48.80	45.53	45.40
Number of shares	463,158,019	427,021,439	275,864,080
Highest share price (UK p)	117.60	116.82	114.62
Lowest share price (UK p)	115.67	110.53	106.59



# M&G UK Inflation Linked Corporate Bond Fund

## Financial highlights

### Specific share class performance

#### Sterling Class 'I' Accumulation share performance

The share class was launched on 16 September 2010.

	Six months to 30.09.17 UK p	Year to 31.03.17 UK p	Year to 31.03.16 UK p
<b>Change in NAV per share</b>			
Opening NAV	120.43	113.51	115.39
Return before operating charges and after direct portfolio transaction costs	2.09	7.86	(1.02)
Operating charges	(0.40)	(0.78)	(0.76)
Return after operating charges	1.69	7.08	(1.78)
Distributions	0.00	(1.17)	(0.48)
Retained distributions	0.00	1.01	0.38
Closing NAV	122.12	120.43	113.51
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.01	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.01
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.01	0.01
Operating charges	0.66	0.66	0.66
Return after operating charges	+1.40	+6.23	-1.55
Distribution yield	0.00	0.26	1.17
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	433,259	444,839	251,572
Closing NAV percentage of total fund NAV (%)	39.03	40.99	37.50
Number of shares	354,791,980	369,378,412	221,630,006
Highest share price (UK p)	122.41	120.83	117.46
Lowest share price (UK p)	120.41	113.61	109.28

#### Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 30.09.17 UK p	Year to 31.03.17 UK p	Year to 31.03.16 UK p
<b>Change in NAV per share</b>			
Opening NAV	109.72	104.85	106.95
Return before operating charges and after direct portfolio transaction costs	1.90	7.24	(0.94)
Operating charges	(0.50)	(0.99)	(0.97)
Return after operating charges	1.40	6.25	(1.91)
Distributions	(0.34)	(1.38)	(0.19)
Closing NAV	110.78	109.72	104.85
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.01	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.01
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.01	0.01
Operating charges	0.90	0.91	0.91
Return after operating charges	+1.28	+5.96	-1.79
Distribution yield <sup>[c]</sup>	0.45	0.91	0.92
Effect on yield of charges offset against capital	0.90	0.90	0.00
<b>Other information</b>			
Closing NAV (£'000)	595	577	692
Closing NAV percentage of total fund NAV (%)	0.05	0.05	0.10
Number of shares	537,042	525,726	660,198
Highest share price (UK p)	111.40	110.79	108.83
Lowest share price (UK p)	109.68	104.98	101.11

#### Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 30.09.17 UK p	Year to 31.03.17 UK p	Year to 31.03.16 UK p
<b>Change in NAV per share</b>			
Opening NAV	111.34	105.18	107.10
Return before operating charges and after direct portfolio transaction costs	1.93	7.27	(0.93)
Operating charges	(0.51)	(0.99)	(0.97)
Return after operating charges	1.42	6.28	(1.90)
Distributions	0.00	(0.81)	(0.09)
Retained distributions	0.00	0.69	0.07
Closing NAV	112.76	111.34	105.18
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.01	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.01
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.01	0.01
Operating charges	0.90	0.91	0.91
Return after operating charges	+1.28	+5.97	-1.77
Distribution yield	0.00	0.01	0.92
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	697	738	638
Closing NAV percentage of total fund NAV (%)	0.06	0.07	0.10
Number of shares	617,924	662,738	606,709
Highest share price (UK p)	113.04	111.71	108.98
Lowest share price (UK p)	111.30	105.27	101.26

<sup>[a]</sup> In respect of direct portfolio transaction costs.

<sup>[b]</sup> As a percentage of average net asset value.

<sup>[c]</sup> Following the change in charging structure, you may see variances between the comparative and current year figures.

# M&G UK Inflation Linked Corporate Bond Fund

## Financial statements and notes

### Financial statements

#### Statement of total return

for the six months to 30 September	2017		2016	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		12,069		14,589
Revenue	6,686		10,669	
Expenses	(3,979)		(2,543)	
Net revenue / (expense) before taxation	2,707		8,126	
Taxation	(40)		(157)	
Net revenue / (expense) after taxation		2,667		7,969
<b>Total return before distributions</b>		<b>14,736</b>		<b>22,558</b>
Distributions		(1,839)		(4,565)
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>12,897</b>		<b>17,993</b>

#### Statement of change in net assets attributable to shareholders

for the six months to 30 September	2017		2016	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		1,085,121		670,808
Amounts received on issue of shares	93,522		69,321	
Amounts paid on cancellation of shares	(81,590)		(45,751)	
		11,932		23,570
Dilution adjustments		162		169
Change in net assets attributable to shareholders from investment activities (see above)		12,897		17,993
Retained distributions on Accumulation shares		0		1,683
<b>Closing net assets attributable to shareholders</b>		<b>1,110,112</b>		<b>714,223</b>

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

#### Balance sheet

as at	30 September 2017	31 March 2017
	£'000	£'000
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	1,113,893	1,089,304
<b>Current assets</b>		
Debtors	7,245	10,767
Cash and bank balances	2,729	8,424
<b>Total assets</b>	<b>1,123,867</b>	<b>1,108,495</b>
<b>Liabilities</b>		
Investment liabilities	(6,973)	(11,737)
<b>Creditors</b>		
Bank overdrafts	(2,836)	(4,309)
Overdrawn positions at futures clearing houses and collateral manager	(1,148)	0
Distribution payable	(1,924)	(3,778)
Other creditors	(874)	(3,550)
<b>Total liabilities</b>	<b>(13,755)</b>	<b>(23,374)</b>
<b>Net assets attributable to shareholders</b>	<b>1,110,112</b>	<b>1,085,121</b>

### Notes to the financial statements

#### 1 Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 2.

#### 2 Distribution policy

In determining the amount available for distribution to Income shares, the annual management charge and administration charge are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

In determining the amount available for distribution, a transfer has been made between revenue and capital to disregard the change in the Retail Prices Index during the period in respect of interest from index-linked gilt-edged securities. This is to contribute to the preservation of the share value in real terms.

**Accumulation shares:** A type of share where distributions are automatically reinvested and reflected in the value of the shares.

**Accumulation units:** A type of unit where distributions are automatically reinvested and reflected in the value of the units.

**Asset:** Anything having commercial or exchange value that is owned by a business, institution or individual.

**Asset allocation:** Apportioning a portfolio's assets according to risk tolerance and investment goals.

**Asset class:** Category of assets, such as cash, company shares, fixed income securities and their sub-categories, as well as tangible assets such as real estate.

**Bond:** A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.

**Bond issue:** A set of fixed income securities offered for sale to the public by a company or government. If the bonds are sold for the first time, it is called a 'new issue'.

**Bottom-up selection:** Selecting stocks based on the attractiveness of a company.

**Bunds:** Fixed income securities issued by the German government.

**Capital:** Refers to the financial assets, or resources, that a company has to fund its business operations.

**Capital growth:** Occurs when the current value of an investment is greater than the initial amount invested.

**Capital return:** The term for the gain or loss derived from an investment over a particular period. Capital return includes capital gain or loss only and excludes income (in the form of interest or dividend payments).

**Cash equivalents:** Deposits or investments with similar characteristics to cash.

**Comparative sector:** A group of funds with similar investment objectives and/or types of investment, as classified by bodies such as the Investment Association (IA) or Morningstar™. Sector definitions are mostly based on the main assets a fund should invest in, and may also have a geographic focus. Sectors can be the basis for comparing the different characteristics of similar funds, such as their performance or charging structure.

**Consumer Prices Index (CPI):** An index used to measure inflation, which is the rate of change in prices for a basket of goods and services. The contents of the basket are meant to be representative of products and services we typically spend our money on.

**Convertible bonds:** Fixed income securities that can be exchanged for predetermined amounts of company shares at certain times during their life.

**Corporate bonds:** Fixed income securities issued by a company. They are also known as bonds and can offer higher interest payments than bonds issued by governments as they are often considered more risky.

**Coupon:** The interest paid by the government or company that has raised a loan by selling bonds.

**Credit:** The borrowing capacity of an individual, company or government. More narrowly, the term is often used as a synonym for fixed income securities issued by companies.

**Credit default swaps (CDS):** Are a type of derivative, namely financial instruments whose value, and price, are dependent on one or more underlying assets. CDS are insurance-like contracts that allow investors to transfer the risk of a fixed income security defaulting to another investor.

**Credit rating:** An independent assessment of a borrower's ability to repay its debts. A high rating indicates that the credit rating agency considers the issuer to be at low risk of default; likewise, a low rating indicates high risk of default. Standard & Poor's, Fitch and Moody's are the three most prominent credit rating agencies. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**Credit rating agency:** A company that analyses the financial strength of issuers of fixed income securities and attaches a rating to their debt. Examples include Standard & Poor's and Moody's.

**Credit risk:** Risk that a financial obligation will not be paid and a loss will result for the lender.

**Credit selection:** The process of evaluating a fixed income security, also called a bond, in order to ascertain the ability of the borrower to meet its debt obligations. This research seeks to identify the appropriate level of default risk associated with investing in that particular bond.

**Credit spread:** The difference between the yield of a corporate bond, a fixed income security issued by a company, and a government bond of the same life span. Yield refers to the income received from an investment and is expressed as a percentage of the investment's current market value.

**Default:** When a borrower does not maintain interest payments or repay the amount borrowed when due.

**Default risk:** Risk that a debtholder will not receive interest and full repayment of the loan when due.

**Derivatives:** Financial instruments whose value, and price, are dependent on one or more underlying assets. Derivatives can be used to gain exposure to, or to help protect against, expected changes in the value of the underlying investments. Derivatives may be traded on a regulated exchange or traded over the counter.

**Developed economy/market:** Well-established economies with a high degree of industrialisation, standard of living and security.

**Dilution adjustments:** The dilution adjustment is used to protect ongoing investors against the transaction charges incurred in investing or divesting in respect of creations and cancellations. The dilution adjustment is made up of the direct and indirect transaction charges. In the financial statements the direct transaction charges as a percentage of average NAV will be disclosed. This percentage will take account of those direct transaction charges that have been recovered through the dilution adjustment leaving a percentage that just represents the costs incurred in portfolio management.

**Distribution:** Distributions represent a share in the income of the fund and are paid out to Income shareholders or reinvested for Accumulation shareholders at set times of the year (monthly, quarterly, half-yearly or annually). They may either be in the form of interest distributions or dividend distributions.

**Distribution yield:** Expresses the amount that is expected to be distributed by the fund over the next 12 months as a percentage of the share price as at a certain date. It is based on the expected gross income less the ongoing charges.

**Diversification:** The practice of investing in a variety of assets. This is a risk management technique where, in a well-diversified portfolio, any loss from an individual holding should be offset by gains in other holdings, thereby lessening the impact on the overall portfolio.

**Dividend:** Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.

**Duration:** A measure of the sensitivity of a fixed income security, also called a bond, or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

**Duration risk:** The longer a fixed income security, also called a bond, or bond fund's duration, the more sensitive and therefore at risk it is to changes in interest rates.

**Emerging economy or market:** Economies in the process of rapid growth and increasing industrialisation. Investments in emerging markets are generally considered to be riskier than those in developed markets.

**Equities:** Shares of ownership in a company.

**Exchange traded:** Usually refers to investments traded on an exchange, such as company shares on a stock exchange.

**Ex-dividend, ex-distribution or XD date:** The date on which declared distributions officially belong to underlying investors.

**Exposure:** The proportion of a fund invested in a particular share/fixed income security, sector/region, usually expressed as a percentage of the overall portfolio.

**Fixed income security:** A loan in the form of a security, usually issued by a government or company, which normally pays a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid. Also referred to as a bond.

**Floating rate notes (FRNs):** Securities whose interest (income) payments are periodically adjusted depending on the change in a reference interest rate.

**Foreign exchange:** The exchange of one currency for another, or the conversion of one currency into another currency. Foreign exchange also refers to the global market where currencies are traded virtually around the clock. The term foreign exchange is usually abbreviated as 'forex' and occasionally as 'FX'.

**Foreign exchange (FX) strategy:** Currencies can be an asset class in its own right, along with company shares, fixed income securities, property and cash. Foreign exchange strategy can therefore be a source of investment returns.

**Forward contract:** A contract between two parties to buy or sell a particular commodity or financial instrument at a pre-determined price at a future date. Examples include forward currency contracts.

**Fundamentals (company):** A basic principle, rule, law, or the like, that serves as the groundwork of a system. A company's fundamentals pertain specifically to that company, and are factors such as its business model, earnings, balance sheet and debt.

**Fundamentals (economic):** A basic principle, rule, law, or the like, that serves as the groundwork of a system. Economic fundamentals are factors such as inflation, employment, economic growth.

**Futures:** A futures contract is a contract between two parties to buy or sell a particular commodity or financial instrument at a pre-determined price at a future date. Futures are traded on a regulated exchange.

**Gilts:** Fixed income securities issued by the UK government.

**Government bonds:** Fixed income securities issued by governments, that normally pay a fixed rate of interest over a given time period, at the end of which the initial investment is repaid.

**Hedging:** A method of reducing unnecessary or unintended risk.

**High water mark (HWM):** The highest level that a fund's NAV (net asset value) has reached at the end of any 12-month accounting period.

**High yield bonds:** Fixed income securities issued by companies with a low credit rating from a recognised credit rating agency. They are considered to be at higher risk of default than better quality, ie higher-rated fixed income securities but have the potential for higher rewards. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**Historic yield:** The historic yield reflects distributions declared over the past 12 months as a percentage of the share price, as at the date shown.

**Income yield:** Refers to the income received from an investment and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.

**Index:** An index represents a particular market or a portion of it, serving as a performance indicator for that market.

**Income shares:** A type of share where distributions are paid out as cash on the payment date.

**Income units:** A type of unit where distributions are paid out as cash on the payment date.

**Index tracking:** A fund management strategy that aims to match the returns from a particular index.

**Index-linked bonds:** Fixed income securities where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. Also referred to as inflation-linked bonds.

**Inflation:** The rate of increase in the cost of living. Inflation is usually quoted as an annual percentage, comparing the average price this month with the same month a year earlier.

**Inflation risk:** The risk that inflation will reduce the return of an investment in real terms.

**Initial public offering (IPO):** The first sale of shares by a private company to the public.

**Interest rate risk:** The risk that a fixed income investment will lose value if interest rates rise.

**Interest rate swap:** An agreement between two parties to swap a fixed interest payment with a variable interest payment over a specified period of time.

**Investment Association (IA):** The UK trade body that represents fund managers. It works with investment managers, liaising with government on matters of taxation and regulation, and also aims to help investors understand the industry and the investment options available to them.

# Glossary

**Issuer:** An entity that sells securities, such as fixed income securities and company shares.

**Investment grade bonds:** Fixed income securities issued by a company with a medium or high credit rating from a recognised credit rating agency. They are considered to be at lower risk from default than those issued by companies with lower credit ratings. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**Issuer:** An entity that sells securities, such as fixed income securities and company shares.

**Leverage:** When referring to a company, leverage is the level of a company's debt in relation to its assets. A company with significantly more debt than capital is considered to be leveraged. It can also refer to a fund that borrows money or uses derivatives to magnify an investment position.

**Liquidity:** A company is considered highly liquid if it has plenty of cash at its disposal. A company's shares are considered highly liquid if they can be easily bought or sold since large amounts are regularly traded.

**Long position:** Refers to ownership of a security held in the expectation that the security will rise in value.

**Macroeconomic:** Refers to the performance and behaviour of an economy at the regional or national level. Macroeconomic factors such as economic output, unemployment, inflation and investment are key indicators of economic performance. Sometimes abbreviated to 'macro'.

**Maturity:** The length of time until the initial investment amount of a fixed income security is due to be repaid to the holder of the security.

**Modified duration:** A measure of the sensitivity of a fixed income security, called a bond, or bond fund to changes in interest rates. The longer a bond or bond fund's duration, the more sensitive it is to interest rate movements.

**Monetary easing:** When central banks lower interest rates or buy securities on the open market to increase the money in circulation.

**Monetary policy:** A central bank's regulation of money in circulation and interest rates.

**Monetary tightening:** When central banks raise interest rates or sell securities on the open market to decrease the money in circulation.

**Morningstar™:** A provider of independent investment research, including performance statistics and independent fund ratings.

**Near cash:** Deposits or investments with similar characteristics to cash.

**Net asset value (NAV):** A fund's net asset value is calculated by taking the current value of the fund's assets and subtracting its liabilities.

**Open-ended investment company (OEIC):** A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

**Options:** Financial contracts that offer the right, but not the obligation, to buy or sell an asset at a given price on or before a given date in the future.

**Over-the-counter (OTC):** Whereby financial assets are traded directly between two parties. This is in contrast to exchange trading, which is carried out through exchanges set up specifically for the purpose of trading. OTC is also known as off-exchange trading.

**Overweight:** If a fund is 'overweight' a stock, it holds a larger proportion of that stock than the comparable index or sector.

**Payment date:** The date on which distributions will be paid by the fund to investors, usually the last business day of the month.

**Physical assets:** An item of value that has tangible existence, for example, cash, equipment, inventory or real estate. Physical assets can also refer to securities, such as company shares or fixed income securities.

**Portfolio transaction cost:** The cost of trading, such as brokerage, clearing, exchange fees and bid-offer spread as well as taxes such as stamp duty.

**Preference shares:** Preference shares are a loan to a company that may be traded in the same way as ordinary shares, but generally have a higher yield and pay dividends on fixed dates. Preference shares have varying characteristics as to the treatment of the principal and the dividend payment, which includes ranking them above ordinary shares when it comes to dividend payments.

**Principal:** The face value of a fixed income security, which is the amount due back to the investor by the borrower when the security reaches the end of its life.

**Private placement:** An offer of sale of securities to a relatively small number of investors selected by the company, generally investment banks, mutual funds, insurance companies or pension funds.

**Property Expense Ratio (PER):** Property expenses are the operating expenses that relate to the management of the property assets in the portfolio. These include: insurance and rates, rent review and lease renewal costs and maintenance and repairs, but not improvements. They depend on the level of activity taking place within the fund. The Property Expense Ratio is the ratio of property expenses to the fund's net asset value.

**Real yield:** The return of an investment, adjusted for changes in prices in an economy.

**Retail Prices Index (RPI):** A UK inflation index that measures the rate of change in prices for a basket of goods and services in the UK, including mortgage payments and council tax.

**Risk:** The chance that an investment's return will be different to what is expected. Risk includes the possibility of losing some or all of the original investment.

**Risk management:** The term used to describe the activities the fund manager undertakes to limit the risk of a loss in a fund.

**Risk premium:** The difference between the return from a risk-free asset, such as a high-quality government bond or cash, and the return from an investment in any other asset. The risk premium can be considered the 'price' or 'pay-off' for taking on increased risk. A higher risk premium implies higher risk.

**Risk-free asset:** An asset that notionally carries no risk of non-payment by the borrower such as a high-quality fixed income security issued by a government or cash.



# Glossary

**Risk/reward ratio:** A ratio comparing the expected returns of an investment with the amount of risk undertaken.

**Safe-haven assets:** Refers to assets that investors perceive to be relatively safe from suffering a loss in times of market turmoil.

**Security:** Financial term for a paper asset – usually a share in a company or a fixed income security also known as a bond.

**Share class:** Each M&G fund has different share classes, such as A, R and I. Each has a different level of charges and minimum investment. Details on charges and minimum investments can be found in the Key Investor Information Documents.

**Share class hedging:** Activities undertaken in respect of hedged shares to mitigate the impact on performance of exchange rate movements between the fund's currency exposure and the investor's chosen currency.

**Short position:** A way for a fund manager to express his or her view that the market might fall in value.

**Short selling:** This often refers to the practice whereby an investor sells an asset they do not own. The investor borrows the asset from someone who does own it and pays a fee. The investor must eventually return the borrowed asset by buying it in the open market. If the asset has fallen in price, the investor buys it for less than they sold it for, thus making a profit. The contrary may also occur.

**Short-dated corporate bonds:** Fixed income securities issued by companies and repaid over relatively short periods.

**Short-dated government bonds:** Fixed income securities issued by governments and repaid over relatively short periods.

**Sovereign debt:** Debt of a government. Also referred to as government bonds.

**Sub-investment grade bonds:** Fixed income securities issued by a company with a low rating from a recognised credit rating agency. They are considered to be at higher risk from default than those issued by companies with higher credit ratings. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**Top-down investing:** An investment approach that analyses economic factors, ie surveys the 'big picture', before selecting which companies to invest in. The top-down investor will look at which industries are likely to generate the best returns in certain economic conditions and limit the search to that area.

**Total return:** The term for the gain or loss derived from an investment over a particular period. Total return includes income (in the form of interest or dividend payments) and capital gains.

**Treasuries:** Fixed income securities issued by the US government.

**Triple A or AAA rated:** The highest possible rating a fixed income security, also called a bond, can be assigned by credit rating agencies. Bonds that are rated AAA are perceived to have the lowest risk of default. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**UCITS:** Stands for Undertakings for Collective Investment in Transferable Securities. This is the European regulatory framework for an investment vehicle that can be marketed across the European Union and is designed to enhance the single market in financial assets while maintaining high levels of investor protection.

**Unconstrained:** The term used to describe the mandate of a fund whereby the manager has the freedom to invest according to his or her own strategy, not being obliged to allocate capital according to the weightings of any index, for example.

**Underlying value:** The fundamental value of a company, reflecting both tangible and intangible assets, rather than the current market value.

**Underlying yield:** Refers to the income received by a managed fund, and is usually expressed annually as a percentage based on the fund's current value.

**Underweight:** If a portfolio is 'underweight' a stock, it holds a smaller proportion of that stock than the comparable index or sector.

**Unit trust:** A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

**Unit/share type:** Type of units/shares held by investors in a trust or fund (unit/share types differ by features such as whether income is to be paid out as cash or reinvested on the payment date).

**Valuation:** The worth of an asset or company based on its current price.

**Volatile:** When the value of a particular share, market or sector swings up and down fairly frequently and/or significantly, it is considered volatile.

**Volatility:** The degree to which a given security, fund, or index rapidly changes. It is calculated as the degree of deviation from the norm for that type of investment over a given time period. The higher the volatility, the riskier the security tends to be.

**Warrant:** A security issued by a company that gives the holder the right to buy shares in that company at a specified price and within a certain timeframe.

**Yield:** This refers to either the interest received from a fixed income security or to the dividends received from a share. It is usually expressed as a percentage based on the investment's costs, its current market value or its face value. 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.

**Yield (equity):** Refers to the dividends received by a holder of company shares and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value. 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.

**Yield (bonds):** This refers to the interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

**Yield (income):** Refers to the income received from an investment and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.

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