



**M&G Investment Funds (11)**

Annual Long Report and audited Financial Statements  
for the year ended 30 April 2019

# Contents

## **M&G Investment Funds (11)**

<b>Authorised Corporate Director's Report</b>	<b>Page 1</b>
Directors' statement	Page 2
<b>Depository's Responsibilities and Report</b>	<b>Page 3</b>
<b>Independent Auditor's Report</b>	<b>Page 4</b>
<b>Financial statements and notes</b>	<b>Page 6</b>
<b>Authorised Corporate Director's Reports, including the financial highlights and financial statements and notes for:</b>	
M&G Episode Income Fund	Page 9
M&G Global Target Return Fund	Page 27
<b>Other regulatory disclosures</b>	<b>Page 43</b>
<b>Glossary</b>	<b>Page 44</b>

# M&G Investment Funds (11)

## Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Investment Funds (11) presents its Annual Long Report and audited Financial Statements for the year ended 30 April 2019.

The audited financial statements of M&G Investment Funds (11) and the investment report and audited financial statements and notes of each sub-fund 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 (11) 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 non-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 1 October 2010, the M&G Episode Income Fund was launched on 11 November 2010 and the M&G Global Target Return Fund was launched on 13 December 2016.

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 April 2019, 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 Episode Income Fund**

Steven Andrew

#### **M&G Global Target Return Fund**

Tristan Hanson

### ACD

M&G Securities Limited,  
10 Fenchurch Avenue, London EC3M 5AG, 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

M Ammon, G N Cotton, C Dobson (non executive director),  
N M Donnelly, P R Jelfs, M McGrade (non executive director),  
L J Mumford

### Investment manager

M&G Investment Management Limited,  
10 Fenchurch Avenue, London EC3M 5AG, 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)

### Depositary

NatWest Trustee & Depositary Services Limited, Drummond House,  
1 Redheughs Avenue, Edinburgh EH12 9RH, UK  
(Authorised and regulated by the Financial Conduct Authority)

### Independent auditor

Ernst & Young LLP  
Atria One, 144 Morrison Street, Edinburgh EH3 8EX, UK

### Important information

On 8 April 2019, the Sterling Class 'PP' (Accumulation) shares were launched on both sub-funds of M&G Investment Funds (11).

On 28 September 2018, the Depositary changed from National Westminster Bank Plc to NatWest Trustee & Depositary Services Limited.

# M&G Investment Funds (11)

## Authorised Corporate Director's Report

### Investor information

The Prospectus, Instrument of Incorporation, Key Investor Information Documents, costs and charges illustration, 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.

### 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 this 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.

### 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 N COTTON  
L J MUMFORD } Directors

14 June 2019

# M&G Investment Funds (11)

## Depository's Responsibilities and Report

### Statement of the Depository's Responsibilities and Report of the Depository to the Shareholders of M&G Investment Funds (11) ('the Company') for the year ended 30 April 2019

The Depository must ensure that the Company is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes sourcebook, the Open-Ended Investment Companies Regulations 2001 (SI2001/1228) (the OEIC Regulations), as amended, the Financial Services and Markets Act 2000, as amended, (together 'the Regulations'), the Company's Instrument of Incorporation and Prospectus (together 'the Scheme documents') as detailed below.

The Depository must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Company and its investors.

The Depository is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Company in accordance with the Regulations.

The Depository must ensure that:

- the Company's cashflows are properly monitored and that cash of the Company is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, redemption and cancellation of shares are carried out in accordance with the Regulations;
- the value of shares in the Company is calculated in accordance with the Regulations;
- any consideration relating to transactions in the Company's assets is remitted to the Company within the usual time limits;
- the Company's income is applied in accordance with the Regulations; and
- the instructions of the Authorised Fund Manager ('the AFM') are carried out (unless they conflict with the Regulations).

The Depository also has a duty to take reasonable care to ensure that the Company is managed in accordance with the Regulations and the Scheme documents in relation to the investment and borrowing powers applicable to the Company.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depository of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the AFM:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with the Regulations and the Scheme documents of the Company, and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Company.

Edinburgh  
14 June 2019

NatWest Trustee and  
Depository Services Limited

# M&G Investment Funds (11)

## Independent Auditor's Report

### Independent Auditor's Report to the shareholders of M&G Investment Funds (11) ICVC

#### Opinion

We have audited the financial statements of M&G Investment Funds (11) ICVC ("the Company") for the year ended 30 April 2019 which comprise the Statement of Total Return and Statement of Change in Net Assets Attributable to Shareholders together with the Balance Sheet for each of the Company's funds, the accounting policies of the Company, the related notes for each fund and the Distribution Tables, including the summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Company comprising each of its funds as at 30 April 2019 and of the net revenue and the net capital losses on the scheme property of the Company comprising each of its funds for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the ACD's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the ACD has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The ACD is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Opinions on other matters prescribed by the rules of the Collective Investment Schemes sourcebook of the Financial Conduct Authority

In our opinion:

- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Funds, the rules of the Collective Investment Schemes sourcebook of the Financial Conduct Authority and the Instrument of Incorporation;
- the information given in the ACD's report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- there is nothing to indicate that proper accounting records have not been kept or that the financial statements are not in agreement with those records.

#### Matters on which we are required to report by exception

We have nothing to report in respect of the following matter in relation to which the rules of the Collective Investment Schemes sourcebook of the Financial Conduct Authority require us to report to you if, in our opinion:

- we have not received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

# M&G Investment Funds (11)

## Independent Auditor's Report

### Independent Auditor's Report to the shareholders of M&G Investment Funds (11) ICVC

#### Responsibilities of the Authorised Corporate Director (ACD)

As explained more fully in the ACDs' responsibilities statement set out on page 2, the ACD is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the ACD determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the ACD is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the ACD either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### Use of our report

This report is made solely to the Company's shareholders, as a body, pursuant to Paragraph 4.5.12 of the rules of the Collective Investment Schemes sourcebook of the Financial Conduct Authority. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Edinburgh  
14 June 2019

Ernst & Young LLP  
Statutory Auditor

1. The maintenance and integrity of the M&G website is the responsibility of the ACD; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# M&G Investment Funds (11)

## Financial statements and notes

The financial statements for M&G Investment Funds (11) comprise the individual financial statements for each fund and the notes below.

### Notes to the financial statements

#### 1 Statement of compliance

The financial statements of M&G Investment Funds (11) have been prepared in compliance with UK Financial Reporting Standard 102 (FRS 102) and in accordance with the Statement of Recommended Practice (SORP) for Authorised Funds issued by the Investment Association in May 2014 (and amended in June 2017).

#### 2 Summary of significant accounting policies

##### a) Basis of preparation

The financial statements of M&G Investment Funds (11) are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss.

##### b) Functional and presentational currency

The functional and presentational currency of M&G Investment Funds (11) is UK sterling.

##### c) Exchange rates

Transactions in currencies other than each fund's functional currency are translated at the rate of exchange ruling on the date of the transaction and where applicable assets and liabilities are translated into the fund's functional currency at the rate of exchange ruling as at 12 noon on 30 April 2019 being the last business day of the accounting period.

##### d) Investments - recognition and valuation

The provisions of both Section 11 and Section 12 of FRS 102 have been applied in full. All investments have been designated as fair value through profit and loss and recognised initially at fair value, which is normally the transaction price (excluding transaction costs and accrued interest).

At the end of the reporting period all investments have been measured at their fair value using the prices and the portfolio holdings determined at 12 noon on 30 April 2019, being the last valuation point of the accounting period, as this is not materially different from a valuation carried out at close of business on the balance sheet date.

Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the single price or most recent transaction price is used. Interest accrued is not included in the fair value. The methods of determining fair value for the principal classes of investment are:

- Equities and debt securities which are traded on an active market are included at the quoted price, which is normally the bid price, excluding any accrued interest in respect of bonds.
- Equities traded on the Alternative Investment Market (AIM), whose liquidity cannot be guaranteed, are included at their quoted bid price as this represents the most objective and appropriate method of valuation.

- Collective investment schemes operated by the ACD are included at either their cancellation price for dual priced funds or their single price for single priced funds.
  - Collective investment schemes operated by another manager are included at either their bid price for dual priced funds or their single price for single priced funds.
  - Other equities and debt securities which are unquoted or not actively traded on a quoted market are included at a value estimated by the ACD using an appropriate valuation technique, excluding any accrued interest in respect of bonds.
  - Exchange traded futures and options are included at the cost of closing out the contract at the balance sheet date.
  - Over the counter equity options, credit default swaps, interest rate swaps, asset swaps and inflation swaps are included at a value provided by Markit Valuations Limited, an independent credit derivative price provider. Their fair value excludes any accrued interest in respect of derivatives where the income is revenue in nature.
  - Forward currency contracts, for share class hedging and investment, are included at a value determined by reference to current forward exchange rates for contracts with similar maturity profiles.
- ##### e) Recognition of income and expenses
- Dividends, including ordinary stock dividends, from equity investments are recognised when the security is quoted ex-dividend.
  - Distributions from collective investment schemes are recognised when the scheme is priced ex-distribution.
  - Interest income, including coupons from debt securities and bank interest is recognised on an accruals basis.
  - Underwriting commission is recognised when the issue takes place.
  - Revenue from derivatives is recognised on an accruals basis.
  - Fee rebates from investing in other collective investment schemes are recognised on an accruals basis.
  - Expenses are recognised on an accruals basis.
- ##### f) Treatment of income and expenses
- Any increases or decreases in the fair value of investments and gains and losses realised on sales of investments are treated as capital and recognised in net capital gains / (losses).
  - The value of any enhancement to a stock dividend is treated as capital.
  - Ordinary equity dividends, including ordinary stock dividends are treated as revenue.
  - Special dividends, share buy backs or additional share issues may be treated as revenue or capital depending on the facts of each particular case.
  - Distributions from collective investment schemes are treated as revenue in nature, except for any element of equalisation, which represents the average amount of income included in the price paid for the collective investment scheme, which is treated as capital.



# M&G Investment Funds (11)

## Financial statements and notes

### Notes to the financial statements

#### 2 Summary of significant accounting policies (continued)

##### f) Treatment of income and expenses (continued)

- Debt security interest comprises the coupon interest and the difference between the purchase price and the expected maturity price spread over its expected remaining life. This is treated as revenue with the difference adjusting the cost of the shares and treated as capital.
- Other interest income, such as bank interest is treated as revenue.
- Underwriting commission is treated as revenue, except where the fund is required to take up all or some of the shares underwritten, in which case a proportion of the commission received is deducted from the cost of the shares and treated as capital.
- The treatment of the income on derivative contracts depends upon the nature of the transaction. Both motive and circumstances are used to determine whether the returns should be treated as capital or revenue. Where positions are undertaken to protect or enhance capital, and the circumstances support this, the returns are recognised in net capital gains; similarly where the motives and circumstances are to generate or protect revenue, and the circumstances support this, the returns are included within net revenue before taxation. Where positions generate total returns it will generally be appropriate to apportion such returns between capital and revenue to properly reflect the nature of the transaction.
- Expenses relating to the purchase and sale of investments are treated as capital; all other expenses are treated as revenue.
- Rebates of charges from holdings in collective investment schemes are treated as revenue or capital in accordance with the underlying scheme's distribution policy.

##### g) Tax

Dividends and similar income receivable are recognised at an amount that includes any withholding tax but excludes irrecoverable tax credits. Any withholding tax suffered is shown as part of the tax charge.

Tax is accounted for at the appropriate rate of corporation tax with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

Deferred tax is recognised in respect of temporary timing differences that have originated but not reversed by the balance sheet date. Deferred tax is measured on a non-discounted basis, at the average rate of tax expected to apply in the period in which it expects the deferred tax to be realised or settled. A deferred tax asset is only recognised to the extent that it is more likely than not that the asset will be recovered.

Marginal tax relief has not been taken into account in respect of expenses offset against capital.

##### h) Allocation of returns to share classes

The annual management charge, any share class hedging returns and associated share class hedging charge are directly attributable to individual share classes. All other returns are apportioned to each fund's share classes pro-rata to the value of

the net assets of the relevant share class on the day that the income or expenses are recognised.

All available net revenue accounted for in accordance with the above policies and adjusted where relevant by any specific distribution policies set out in the notes to that fund's financial statements, is distributed to holders of Income shares or retained and reinvested for holders of Accumulation shares. Should expenses and taxation together exceed revenue, there will be no distribution and the shortfall will be met from capital.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the fund.

#### 3 Risk management policies

The ACD is responsible for establishing, implementing and maintaining an adequate and documented risk management policy for identifying, measuring and managing all risks to which funds are or might be exposed.

The Company's investment activities expose it to various types of risk which are associated with the financial instruments and markets in which it invests; market risk, credit risk and liquidity risk.

These financial statements are designed to enable users to evaluate the nature and extent of those risks and how they are managed.

The following risk management policies are applicable to the funds, with specific risk disclosures set out in the notes to the financial statements of each fund.

##### Market risk

Market risk is the risk of loss resulting from fluctuations in the market value of positions in a fund's portfolio attributable to changes in market variables, such as interest rates, exchange rates, equity and commodity prices or an issuer's creditworthiness.

In relation to market risk, processes are applied that take account of the investment objective and policy of each fund. All funds are subject to an investment oversight process in accordance with the type and nature of the fund. In addition all funds are monitored for compliance within regulatory limits.

In measuring and monitoring market risk, the global exposure of a fund may be calculated using a 'commitment' approach or 'Value at Risk' (VaR) approach.

##### Commitment approach

The commitment approach is applied for funds investing only in traditional asset classes, namely equities, fixed income, money market instruments and collective investment schemes.

In addition, the approach is applied for funds which use or intend to use derivatives or instruments embedding derivatives, but only for efficient portfolio management purposes, or in a simple way not necessarily restricted to efficient portfolio management.

Under the commitment approach the global exposure of funds is measured and monitored using a commitment (adjusted notional) methodology.

Market risk is considered on a daily basis and forms the foundation of investment oversight analysis. This can include for each fund (but is not limited to) the analysis of factors such as fund concentration; style, geographical, industry and market capitalisation biases; active, systematic and specific risk measurements; active money; and beta characteristics.

# M&G Investment Funds (11)

## Financial statements and notes

### Notes to the financial statements

#### 3 Risk management policies (continued)

##### Value at Risk approach

The Value at Risk (VaR) approach is a methodology for estimating the maximum potential loss due to market risk based on historic market volatilities and correlations. More particularly, the VaR approach gives a broad indication of the maximum potential loss at a given confidence level (probability), over a specific time period under normal market conditions.

Instrument and portfolio modelling techniques are based on market accepted practices and are subject to regular audit (back-testing). Market risk factors that are analysed include LIBOR / swap rates, government yield curves, equity prices, exchange rates, market volatility, credit spreads and credit default swap (CDS) spreads.

The VaR model is based on a Monte Carlo process with actual VaR being reported on the basis of a 99% confidence interval over a one month period (20 business days). Risk factor history used in the Monte Carlo process is based on 250 business days. From the variance / covariance matrices, a parametric Monte Carlo scenario set of 5,000 simulations is derived and applied to the fund.

VaR does have limitations in its ability to present valid levels of risk in extreme market conditions. Accordingly, the Risk Analysis team also carries out monthly stress testing and scenario based analysis. Stress testing allows for extreme sets of market circumstances which may not be reflected in historical data sets thereby enabling further assessment of combinations of market movements which may cause serious damage to portfolio values. The key element to the scenario based analysis is challenging the correlation assumptions implicit within statistical based models such as VaR.

The stress test and scenario based analysis is customised for each fund type and the VaR analysis is produced on a daily basis.

The table below shows funds using the 'commitment' approach and those using the 'Value at Risk (VaR)' approach:

Fund	Global exposure approach
M&G Episode Income Fund	VaR
M&G Global Target Return Fund	VaR

##### Liquidity risk

Liquidity risk is the risk that a fund's holdings cannot be sold, liquidated or closed out at limited cost in an adequately short time frame and that the ability of the scheme to comply at any time with its obligation to sell and redeem shares is thereby compromised.

The overall liquidity profile for each fund is reviewed and updated regularly. The liquidity profile takes into account investment, cashflow and market liquidity considerations.

Investment liquidity considerations include an assessment of asset class liquidity conditions, liquidity of underlying holdings, portfolio construction and concentration, the scale of individual stock ownership and the nature of the investment strategy.

Cashflow liquidity is managed in each fund on a daily basis using reports that include subscription and redemption information as well as the impact of trading, derivative lifecycle events and corporate action activity. In addition to the daily reporting, the fund managers are provided with reporting that highlights the impact of reasonably predictable events in the portfolio, including an allowance for the potential future exposures that might result from derivative exposures.

Market (or distribution-related) considerations include an assessment of asset demand, fund growth, client concentration and the persistency of the client base. Supplementary to this, market liquidity stress tests are carried out on a monthly basis for all sophisticated funds.

##### Credit risk

For funds exposed to credit risk, the credit rating, yield and maturity of each interest bearing security is considered to determine if the yield fully reflects the risk. The capital value of interest-bearing securities within the funds will fall in the event of the default or perceived increased credit risk of an issuer.

The capital value of interest-bearing securities within a fund may also be affected by interest rate fluctuations such that when interest rates rise, the capital value of the interest-bearing securities is likely to fall and vice versa.

Funds investing in derivatives are exposed to counterparty risk. This is the risk that the other party to the transaction fails to fulfil their obligations, either by failing to pay or failing to deliver securities. To minimise this risk, carefully selected, financially strong and well-established counterparties are selected following a thorough due diligence review and collateral is posted daily (in the form of cash or high-quality government bonds). Derivative positions are valued on a mark-to-market basis (revalued to reflect prevailing market prices) daily and collateral moves from one counterparty to the other to reflect movements in the unrealised profit or loss. As a result, the maximum loss to the fund would be limited to that day's price movements in affected derivatives contracts.

For funds in which they are used, credit default swaps are bought and sold in response to detailed credit research to take advantage of anticipated movements in credit spreads on individual stocks and baskets of securities. When a fund buys a credit default swap the default risk associated with the underlying security transfers to the counterparty. When a fund sells a credit default swap the fund assumes the credit risk of the underlying security.

# M&G Episode Income Fund

## Authorised Corporate Director's Report

### Investment objective

The fund aims to generate a growing level of income over any three-year period. The fund also aims to provide capital growth of 2-4% per annum over any three-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 manager adopts a flexible approach to the allocation of capital between asset classes in response to changes in economic conditions and the valuation of assets. Central to this approach is the identification of episodes, which are periods of time during which, in the fund manager's view, asset prices become over- or under-stated, relative to objective valuation measures, due to the emotional reaction of investors to events. These episodes can exist over both the short and medium term. The fund invests in transferable securities, fixed income assets (including, but not limited to, corporate bonds and government and public securities), warrants, cash, and near cash. Exposure to these assets, and to property, may be gained via collective investment schemes and derivatives (including equity index futures, currency forwards, interest rate swaps, and other liquid derivatives). The manager may seek to minimise currency risk through the combination of diversification and hedging. Derivatives may also be used for efficient portfolio management purposes. More than 70% of the fund will be in sterling or hedged back to sterling.

### Investment approach

The fund manager seeks to achieve the fund's objectives whilst managing risk by investing globally across multiple asset classes, sectors, currencies and countries. Where the fund manager believes opportunities are limited to a few areas, the portfolio may be very concentrated in certain assets or markets. The fund manager will typically take investment positions in individual shares or bonds, but may also take positions at an index or sector level via derivatives.

The fund manager looks to generate a growing level of income by investing in assets that offer a regular income such as dividend-paying equities, corporate bonds and government bonds. The fund will typically invest 20-50% of its assets in equities, 40-80% in bonds and up to 20% in other assets, which can include convertibles.

### Risk profile

The fund invests globally in a broad range of assets, including company shares (equities), fixed income securities (bonds), currencies and other assets such as property shares and convertible bonds. The fund is, therefore, subject to the price volatility of global financial and currency markets.

The fund adopts a flexible approach to the allocation of capital between asset classes in response to changes in economic conditions and the valuation of assets, and the manager will seek to maximise portfolio diversity wherever possible. The fund has a bias towards income-producing assets. Income distributions from the fund's holdings, however, are not guaranteed and may vary.

The blend of assets held in the fund is regularly adjusted depending on where the manager sees 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 1 May 2019, for the year ended 30 April 2019

#### Distribution summary

The fund distributed 12 monthly payments totalling 4.32p per Sterling Class 'A' (Income) share over the 12 months under review. This represents a decrease of 9.05% from the 4.75p distributed during the same period a year earlier. As at the end of the reporting period, the payout represented a yield (distributed income as a percentage of the share price at the end of the period) of 3.5%. This was lower than the 3.6% level of a year earlier.

In respect of the Sterling Class 'I' (Income) shares, the fund distributed 12 monthly payments totalling 41.06p per Sterling Class 'I' (Income) share over the 12 months under review. This represents a decrease of 8.45% from the 44.85p distributed during the same period a year earlier. As at the end of the reporting period, the payout represented a yield (distributed income as a percentage of the share price at the end of the period) of 3.4%. This was lower than the 3.5% level of a year earlier.

The fund's distribution and distribution yield are shown in the 'Specific share class performance' tables in this report. This fund provides a variable level of income.

# M&G Episode Income Fund

## Authorised Corporate Director's Report

### Investment review

#### Performance against objective

Between 1 May 2018 (the start of the review period) and 1 May 2019, the M&G Episode Income Fund produced a modestly negative total return (the combination of income and growth of capital) across all of its share classes. The fund's performance was behind that of the average fund in its peer group, the IA Mixed Investment 20-60% Shares Sector, which returned 4.0% over the same period.

The fund has not achieved its aim of generating a growing level of income over the three-year period to 1 May 2019, although it has achieved its objective of delivering capital growth between 2-4%. The capital growth for the Sterling Class 'A' (Income) shares over the three-year period to 1 May 2019 was 2.6% per annum, while for the Class 'I' shares, it was 3.4% per annum.\*

\* 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.

#### Investment performance

During the period under review, global stockmarkets experienced some significant price swings as investors reacted to changes in the outlook for the global economy and international trade, as well as the likely direction of changes in interest rates. The first five months of the period were relatively stable in comparison with later months, with company shares (equities, which offer investors ownership stakes in companies) taking their cues from changes in the fundamental investment background. They rose when economic data or corporate earnings came in better than feared and fell when concern arose about the escalation of trade disputes, particularly between the US and China, or when economic data disappointed. However, these moves were overshadowed in the final quarter of 2018, when investors began to believe that successive increases in US interest rates and a decline in global commerce would result in economic recession. Stockmarkets slumped and falls in riskier assets were, initially, reflected in government bond markets, although they recovered later. (Bonds are loans that are extended by an investor to an issuer – 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'.)

As we entered 2019, investor sentiment reversed completely, encouraged by a shift in the tone of the US Federal Reserve (Fed), which signalled that US interest rates were unlikely to rise this year. The European Central Bank adopted a similar attitude. Helped by this and by optimism about trade talks between the US and China, equities enjoyed a robust rally for the first four months of the year, with many markets recouping all the losses suffered in late 2018. Over the 12 months as a whole, most equity markets finished moderately higher, although US markets rose significantly, while Japanese shares lagged. Most government bonds also rose in price, with corporate bonds performing better.

Throughout the period, we maintained a belief that equities were more attractively valued than most mainstream government bonds and a conviction that the global economy was not about to fall into recession. Therefore, the fund was positioned to be broadly pro-growth and pro-risk. While this stance was successful when investors' appetite for risk was high, as in July 2018 and January and April 2019, it was much more challenging when pessimism and risk aversion came to the fore in the last quarter of 2018.

The fund had a bias towards equities for the whole of the review period, since we are convinced company shares are more attractively valued than bonds. Also, when selected carefully, shares can pay healthy levels of dividend – an important consideration given the fund's income objective. We have significant exposure to bank shares in Europe, the US and Japan, as well as general Japanese shares, as we believe these sectors of the stockmarket are most attractively valued and likely to benefit from growing company earnings. They are also the most likely areas to react positively to potential positive surprises about economic activity.

Disappointingly, our holdings of bank shares in Europe and Japan were hit hard in late 2018, when investors became worried about global trade and a decline in economic activity and, despite recovery in 2019, the losses could not be recouped. Over the period as a whole, these assets were the biggest detractors to fund performance. Their weakness was offset by positive returns from our holdings of shares in technology and financial companies in the US, but the contribution from equities was modestly negative overall. The strength of the US dollar relative to sterling boosted the returns of US assets to sterling-based investors, although our hedging activities reduced this effect as it meant we missed out on some of the strength of the dollar. (Hedging is the act of entering into a financial contract in order to protect against changes in exchange rates.)

We try to offset the risk of holding large amounts of bank equities by also owning meaningful quantities of US government bonds, which should behave differently if shares or our investments in emerging market government bonds suffer weakness. They also provide reasonably attractive levels of return, or yield. US government bonds, or Treasuries, generated the largest positive contribution to performance, rising in price both when investors shunned assets perceived as risky and when it became clear that US interest rates were not likely to be lifted. Among our other government bond positions, bonds from Mexico and Brazil rose in price but others, from South Africa and Colombia, declined. Government bonds from Spain and Italy appreciated in local terms, but the weakness of the euro relative to sterling diminished the gains. Our holdings of corporate bonds from US companies also added decent value.

#### Investment activities

We used the occurrence of some large price swings through the review period to carefully assess whether there had been any change in the economic background that would justify the sharp movements in price or whether they were simply driven by shifts in investors' sentiment. On certain occasions, we adjusted the fund's positioning in response to changes in asset prices that we thought would eventually be 'corrected'.

# M&G Episode Income Fund

## Authorised Corporate Director's Report

### Investment review

#### Investment activities (continued)

For example, following the equity market sell-off in October 2018, we took advantage of price declines to add to our positions in Japanese equities and European bank shares. For similar reasons, we had increased exposure to European financials in May 2018, replacing positions in US bank shares and UK equities where we had taken profits following good performance. The only other adjustment to our equity weightings was the investment of some of the cash we had been holding in a diverse range of global equities in March 2019. In aggregate, our allocation to equities reduced marginally during the review period, but remained close to the top of the desired range.

There was a greater adjustment to our fixed income allocation in the 12 months under review, with the holding of US Treasuries increasing as we felt the higher yields on offer increased their potential diversification properties and hence their value in the event of weakness in our equity holdings. (Bond yield is a measure of distributed income in relation to bond price.) We purchased bonds with 10 and 30 years to maturity. The largest increase, however, was in the position in Italian government bonds, which experienced some volatility due to concern that Italy might break European Union budget rules. We added to our holding in May 2018 and April 2019, when the yields available increased, but conversely, scaled back the weighting in December 2018 when the price of the bonds rose. In our view, investors sometimes overlook the fact that these bonds are backed by the Italian government, a full member of the European Union, and the yields on offer move up to unjustifiable levels, particularly when compared to the yields on German government bonds. The increase in our fixed income allocation was funded by a reduction in the cash position.

#### Outlook

Although we acknowledge that the global economic outlook has become cloudy and some economic data deteriorated markedly during the review period, we retain the opinion that global recession is unlikely. Indeed, the most recent data, especially in China and the US, surprised investors by being better than feared. We think the most important factor for investors to consider is the change in the policy of the Federal Reserve. In late 2018, when it looked as though there would be at least two more interest rate increases in the US this year, asset prices slumped. However, now that the Fed and the European Central Bank seem to have confirmed no more increases for the foreseeable future, asset prices should be supported.

Since we do not think that the fundamental economic background has worsened materially, we maintain the fund's bias towards equities, which in general appear better value than most mainstream government bonds. We believe the asset class should benefit from continued economic growth and improved corporate earnings.

The fund's equity positions are primarily focused on European financial groups and Japanese companies, as well as US banks and technology businesses. We are particularly keen on banks, as many are supported by strong fundamentals (high earnings yields and growing profits). In Europe, the banking sector is especially attractive, as share prices have been adversely affected by political developments in Italy and Turkey.

Japanese banks should benefit from corporate reforms, which are politically-driven and also apply to the broader market. They have led to improved shareholder returns (dividends and share buybacks) and increased engagement between companies and shareholders.

We think US banks remain attractive, looking cheap relative to the broader market, and liable to benefit from further improvement in the economy.

The potential risk of our equity holdings should be offset by sizeable holdings of longer dated US Treasuries. The price of these bonds would be expected to increase if weaker US economic growth is evident. They also offer a relatively attractive yield. The fund holds higher yielding government bonds from Italy and several emerging markets as well.

We remain cautious on most other mainstream government bonds, since we believe these assets look increasingly overvalued and vulnerable to price falls in the event of better economic data. Consequently, the fund holds no government bonds from Japan, the UK or Germany.

Although 2019 has proved positive for global stockmarkets and for the fund so far, we saw in late 2018 how quickly things can change. There are all manner of events that could cause investor sentiment to deteriorate, from a further escalation in trade conflict, to unexpectedly poor economic data, or even good economic numbers if they lead to a tightening of central bank policy, as well as unforeseen geopolitical developments. Therefore, it is important to keep a close eye on the fundamental economic and earnings data to gauge whether price movements are justified, or whether they might reverse. Investors still seem concerned about the possibility of recession, a scenario that we do not believe fits the facts. In our view, there is still scope for potential positive surprises, although we acknowledge that we must also beware of our own potential complacency.

We see price volatility as a positive factor, since changes in asset prices and valuations should present investment opportunities that we can exploit using our valuation-driven approach. To generate the best returns for our investors, we will continue to invest in those areas of the market that we believe combine strong growth characteristics with attractive valuations, while diversifying the fund across asset classes, sectors and geographies.

**Steven Andrew**  
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 Episode Income Fund

## Authorised Corporate Director's Report

### Investments

#### Portfolio statement

as at 30 April Holding	2019 £'000	2019 %	2018 %
<b>EQUITIES</b>	<b>426,994</b>	<b>47.32</b>	<b>48.49</b>
<b>United Kingdom</b>	<b>27,389</b>	<b>3.04</b>	<b>6.00</b>
<b>UK equities</b>	<b>27,389</b>	<b>3.04</b>	<b>6.00</b>
675,140 BAE Systems	3,341	0.37	
746,054 British Land REIT	4,476	0.50	
436,460 GlaxoSmithKline	6,856	0.76	
326,385 Greene King	2,089	0.23	
756,603 HSBC	5,033	0.56	
206,911 IG	1,075	0.12	
1,616,137 Legal & General	4,519	0.50	
<b>Europe</b>	<b>135,608</b>	<b>15.03</b>	<b>12.93</b>
<b>European equities</b>	<b>135,608</b>	<b>15.03</b>	<b>12.93</b>
1,653,582 Banca Mediolanum	9,291	1.03	
2,010,488 BBVA	9,262	1.02	
9,821,967 Banco de Sabadell	8,756	0.97	
2,506,851 Banco Santander	9,646	1.07	
719,828 Bank of Ireland	3,576	0.40	
1,329,862 Bankinter	8,183	0.91	
49,901 BASF	3,128	0.35	
179,983 BNP Paribas	7,374	0.82	
165,517 Daimler	8,286	0.92	
173,074 Inditex	3,966	0.44	
1,049,264 ING	10,295	1.14	
4,700,517 Intesa Sanpaolo	9,493	1.05	
149,027 KBC	8,497	0.94	
23,044 LVMH	6,889	0.76	
1,288,897 Mediobanca	10,538	1.17	
46,767 Münchener Rückversicherungs-Gesellschaft	8,959	0.99	
2,078,752 Natixis	9,469	1.05	
<b>North America</b>	<b>114,326</b>	<b>12.67</b>	<b>15.86</b>
<b>North American equities</b>	<b>114,326</b>	<b>12.67</b>	<b>15.86</b>
126,603 5th Third Bancorp	2,798	0.31	
86,480 American Express	7,759	0.86	
61,989 Apple	9,748	1.08	
167,486 Bank of America	3,961	0.44	
140,876 Bank of Montreal	8,568	0.95	
141,270 Bank of Nova Scotia	5,943	0.66	
342,600 CenturyLink	3,070	0.34	
77,099 Citigroup	4,209	0.47	
197,400 Consolidated Communications	821	0.09	
10,411 Fairfax Financial	3,774	0.42	
763,300 Ford Motor	6,049	0.67	
72,099 JP Morgan Chase	6,435	0.71	
261,585 KeyCorp	3,527	0.39	
35,820 M&T Bank	4,696	0.52	
8,399 MasterCard	1,596	0.18	
430,200 Meridian Bioscience	4,447	0.49	
122,800 Microsoft	12,246	1.36	
142,500 Pfizer	4,337	0.48	
40,613 PNC Financial Services	4,277	0.47	
206,594 Shaw Communications	3,179	0.35	
75,801 SunTrust Banks	3,836	0.43	
104,735 US Bancorp	4,266	0.47	
128,936 Wells Fargo	4,784	0.53	

#### Portfolio statement (continued)

as at 30 April Holding	2019 £'000	2019 %	2018 %
<b>Japan</b>	<b>118,978</b>	<b>13.19</b>	<b>10.21</b>
<b>Japanese equities</b>	<b>118,978</b>	<b>13.19</b>	<b>10.21</b>
1,648 Advance Residence Investment REIT	3,533	0.39	
1,393,600 Chiba Bank	5,581	0.62	
128,000 East Japan Railway	9,248	1.03	
279,000 Hitachi	7,091	0.79	
407,000 Honda Motor	8,711	0.97	
750,200 Itochu	10,357	1.15	
2,478 Japan Retail Fund Investment REIT	3,642	0.40	
410,700 Mitsubishi	8,663	0.96	
1,119,100 Mitsubishi UFJ Financial	4,248	0.47	
4,827,500 Mizuho Financial	5,783	0.64	
895,300 Nissan Motor	5,518	0.61	
1,445,400 Nomura	4,164	0.46	
587,600 Orix	6,375	0.71	
767,200 Panasonic	5,400	0.60	
1,707,400 Resona	5,536	0.61	
487,700 Sumitomo	5,347	0.59	
219,200 Sumitomo Mitsui Financial	6,085	0.67	
134,400 Sumitomo Mitsui Trust	3,585	0.40	
177,600 West Japan Railway	10,111	1.12	
<b>Asia Pacific (ex Japan)</b>	<b>27,987</b>	<b>3.10</b>	<b>3.23</b>
<b>Asia Pacific equities</b>	<b>27,987</b>	<b>3.10</b>	<b>3.23</b>
51,987 Commonwealth Bank of Australia	2,100	0.23	
649,600 Hon Hai Precision Industry	1,403	0.15	
92,209 Kangwon Land	2,063	0.23	
135,801 Kia Motors	4,039	0.45	
184,863 Korea Electric Power	3,442	0.38	
1,109 Pental	6	0.00	
431,000 Sembcorp Marine	416	0.05	
46,348 SK Telecom	7,533	0.83	
1,311,979 Stockland REIT	2,674	0.30	
73,031 Woongjin Coway	4,214	0.47	
372,000 Yip's Chemical	97	0.01	
<b>Other</b>	<b>2,706</b>	<b>0.29</b>	<b>0.26</b>
<b>Other equities</b>	<b>2,706</b>	<b>0.29</b>	<b>0.26</b>
134,800 Banco do Brasil	1,296	0.14	
232,466 SulAmérica	1,410	0.15	
<b>FIXED INCOME</b>	<b>434,924</b>	<b>48.20</b>	<b>43.23</b>
<b>United Kingdom</b>	<b>48,798</b>	<b>5.41</b>	<b>6.00</b>
<b>UK Government bonds</b>	<b>40,093</b>	<b>4.44</b>	<b>4.80</b>
£26,050,000 Treasury 0% 2019 (07 May)	26,046	2.89	
£14,100,000 Treasury 0% 2019 (21 Oct)	14,047	1.55	
<b>UK investment grade corporate bonds</b>	<b>697</b>	<b>0.08</b>	<b>0.19</b>
£646,000 Marks & Spencer 4.75% 12/06/2025	697	0.08	
<b>UK below investment grade corporate bonds</b>	<b>3,252</b>	<b>0.36</b>	<b>0.40</b>
£973,000 Barclays Bank Var. Rate Perp. 14% 29/11/2049	987	0.11	
£724,000 EI 6% 06/10/2023	772	0.09	
£178,000 Tesco 6.125% 24/02/2022	199	0.02	
£1,280,000 Virgin Media Secured Finance 4.875% 15/01/2027	1,294	0.14	
<b>UK corporate bonds with no credit rating</b>	<b>4,768</b>	<b>0.53</b>	<b>0.60</b>
£1,401,000 Admiral 5.5% 25/07/2024	1,513	0.17	
£1,620,000 BUPA Finance 5% 25/04/2023	1,758	0.19	
£1,347,000 John Lewis 6.125% 21/01/2025	1,497	0.17	

# M&G Episode Income Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at 30 April Holding	2019 £'000	2019 %	2018 %	
<b>UK Interest rate swaps</b>	<b>(12)</b>	<b>0.00</b>	<b>0.01</b>	
£2,400,000 Pay 1.515% Receive VAR Feb 2047	(12)	0.00		
<b>Europe</b>	<b>101,644</b>	<b>11.26</b>	<b>7.42</b>	
<b>Europe Government bonds</b>	<b>98,526</b>	<b>10.92</b>	<b>6.67</b>	
€83,700,000 Italy (Republic of) 2.7% 01/03/2047	64,461	7.14		
€4,255,000 Italy (Republic of) 4.75% 01/09/2044	4,479	0.50		
PLN59,340,000 Poland (Republic of) 5.75% 23/09/2022	13,377	1.48		
€11,599,000 Spain (Kingdom of) 5.15% 31/10/2044	16,209	1.80		
<b>Europe investment grade corporate bonds</b>	<b>514</b>	<b>0.05</b>	<b>0.06</b>	
£440,000 RWE Finance 5.625% 06/12/2023	514	0.05		
<b>Europe below investment grade corporate bonds</b>	<b>2,604</b>	<b>0.29</b>	<b>0.69</b>	
€1,685,000 Alice Financing 9% 15/06/2023	1,509	0.17		
€1,227,000 Ziggo Bond 4.625% 15/01/2025	1,095	0.12		
<b>North America</b>	<b>192,038</b>	<b>21.28</b>	<b>19.23</b>	
<b>North America Government bonds</b>	<b>188,369</b>	<b>20.87</b>	<b>18.74</b>	
MXN596,759,000 Mexico (United Mexican States) 8.5% 18/11/2038	24,204	2.68		
\$33,401,000 US Treasury 2.75% 2028	26,168	2.90		
\$131,755,500 US Treasury 2.75% 2042	98,448	10.91		
\$51,111,600 US Treasury 3% 2048	39,549	4.38		
<b>North America investment grade corporate bonds</b>	<b>2,119</b>	<b>0.23</b>	<b>0.25</b>	
MXN2,500,000 América Móvil 6.45% 05/12/2022	93	0.01		
\$2,524,000 Ford Motor Credit 5.875% 02/08/2021	2,026	0.22		
<b>North America below investment grade corporate bonds</b>	<b>0</b>	<b>0.00</b>	<b>0.10</b>	
<b>North America corporate bonds with no credit rating</b>	<b>1,550</b>	<b>0.18</b>	<b>0.14</b>	
\$1,869,000 TRU Taj 12% 15/08/2021	776	0.09		
£150,000 Washington Mutual Bank 5.5% 10/06/2019 <sup>[a]</sup>	0	0.00		
\$1,423,000 Windstream 9% 30/06/2025	774	0.09		
<b>Asia Pacific (ex Japan)</b>	<b>680</b>	<b>0.08</b>	<b>0.08</b>	
<b>Asia Pacific (ex Japan) Government bonds</b>	<b>680</b>	<b>0.08</b>	<b>0.08</b>	
MYR2,971,000 Malaysia (Govt. of) 4.232% 30/06/2031	558	0.06		
MYR628,000 Malaysia (Govt. of) 4.498% 15/04/2030	122	0.02		
<b>Other</b>	<b>91,764</b>	<b>10.17</b>	<b>10.50</b>	
<b>Other Government bonds</b>	<b>65,280</b>	<b>7.24</b>	<b>7.51</b>	
BRL117,869,000 Brazil (Federal Republic of) 10% 01/01/2023	24,220	2.69		
CLP1,950,000,000 Chile (Republic of) 5.5% 05/08/2020	2,262	0.25		
COP41,236,800,000 Columbia (Republic of) 10% 24/07/2024	11,480	1.27		
PEN11,720,000 Peru (Republic of) 6.95% 12/08/2031	3,068	0.34		
ZAR621,355,172 South Africa (Republic of) 6.25% 31/03/2036	24,250	2.69		

### Portfolio statement (continued)

as at 30 April Holding	2019 £'000	2019 %	2018 %	
<b>Other corporate bonds with no credit rating</b>	<b>26,484</b>	<b>2.93</b>	<b>2.99</b>	
\$1,398,000 M&G (Lux) Emerging Markets Hard Currency Bond Fund US dollar Class 'C' (Income) <sup>[b]</sup>	10,507	1.16		
\$650,000 SPDR® Barclays 10+ Year US Corporate Bond ETF	15,977	1.77		
<b>PROPERTY</b>	<b>29,440</b>	<b>3.26</b>	<b>2.92</b>	
<b>United Kingdom</b>	<b>29,440</b>	<b>3.26</b>	<b>2.92</b>	
2,569,137 M&G Property Portfolio Sterling Class 'I' (Income) <sup>[b]</sup>	29,440	3.26		
<b>CURRENCY</b>	<b>(1,676)</b>	<b>(0.19)</b>	<b>(0.72)</b>	
<b>Forward currency contracts</b>	<b>(1,676)</b>	<b>(0.19)</b>	<b>(0.72)</b>	
AUD(6,714,708) Sold for £3,658,749 (expires 12.07.19)	26	0.00		
CAD(34,071,354) Sold for £19,499,899 (expires 12.07.19)	55	0.01		
€(224,747,833) Sold for £194,309,335 (expires 12.07.19)	168	0.02		
€(6,148,326) Sold for £5,326,353 (expires 12.07.19)	15	0.00		
¥(13,842,351,302) Sold for £95,382,331 (expires 12.07.19)	(384)	(0.04)		
PLN(64,246,273) Sold for £12,905,709 (expires 12.07.19)	10	0.00		
\$(319,889,836) Sold for £243,392,314 (expires 12.07.19)	(1,566)	(0.18)		
<b>Portfolio of investments</b>	<b>889,682</b>	<b>98.59</b>	<b>93.92</b>	
<b>CASH EQUIVALENTS</b>	<b>22,514</b>	<b>2.49</b>	<b>3.05</b>	
<b>'AAA' rated money market funds <sup>[c]</sup></b>	<b>22,514</b>	<b>2.49</b>	<b>3.05</b>	
22,513,908 Northern Trust Global Fund - Sterling	22,514	2.49		
<b>Total portfolio (notes 2c &amp; 2d on page 6)</b>	<b>912,196</b>	<b>101.08</b>	<b>96.97</b>	
<b>Net other assets / (liabilities)</b>	<b>(9,789)</b>	<b>(1.08)</b>	<b>3.03</b>	
<b>Net assets attributable to shareholders</b>	<b>902,407</b>	<b>100.00</b>	<b>100.00</b>	

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

<sup>[a]</sup> Defaulted bond.

<sup>[b]</sup> Related party.

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

# M&G Episode Income 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 charts 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.

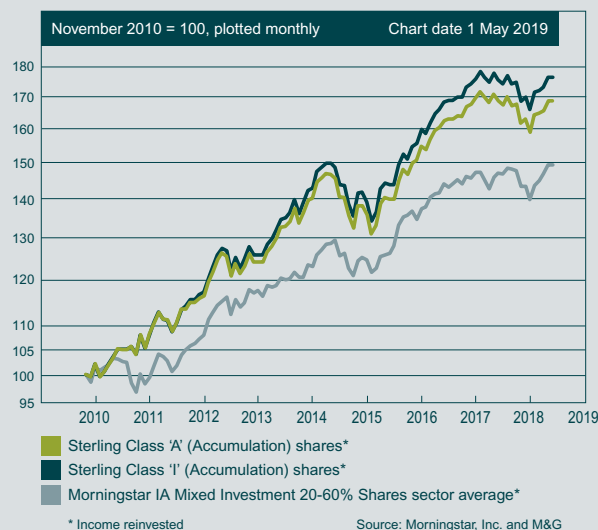
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (11), which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

### Fund level performance

Fund net asset value			
as at 30 April	2019 £'000	2018 £'000	2017 £'000
Fund net asset value (NAV)	902,407	829,425	673,541

### Performance since launch

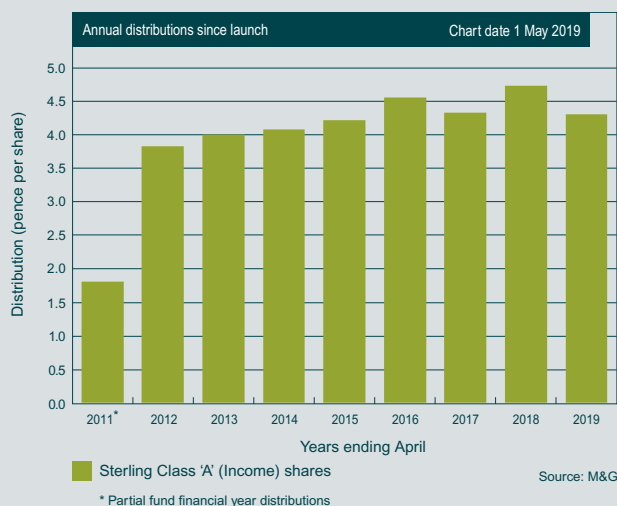
To give an indication of how the fund has performed since launch, the chart below shows total return of Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

### Distribution since launch

The charts below show the annual distribution of Sterling Class 'A' (Income) shares and Sterling Class 'I' (Income) shares since launch.



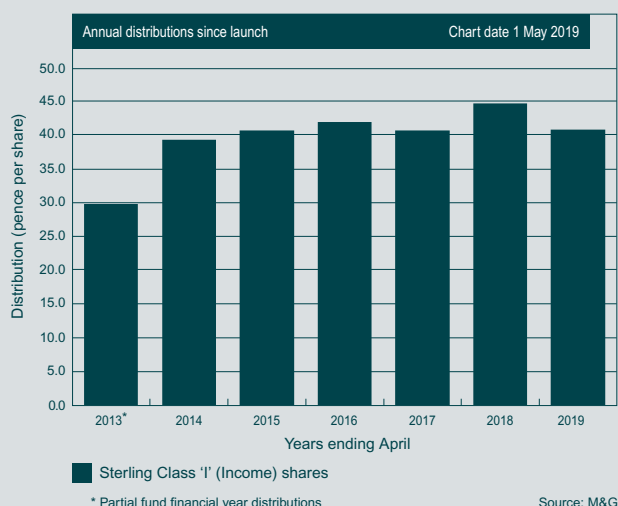


# M&G Episode Income Fund

## Financial highlights

### Fund performance

#### Distribution since launch (continued)



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				
	One year 01.05.18 % [a]	Three years 03.05.16 % p.a.	Five years 01.05.14 % p.a.	Since launch % p.a.
<b>Sterling [b]</b>				
Class 'A'	-1.3	+6.5	+5.4	+6.4 [c]
Class 'I'	-0.7	+7.2	+6.0	+6.9 [d]
Class 'PP'	n/a	n/a	n/a	+0.7 [e]
Class 'R'	-0.9	+7.0	+5.8	+6.7 [d]
Class 'X'	-1.3	+6.5	+5.4	+6.4 [c]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 11 November 2010, the launch date of the fund.

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

[e] 8 April 2019, the launch date of the share class. Not annualised.

### Operating charges and portfolio transaction costs

We explain below the payments made to meet the ongoing costs of investing and managing the fund, comprising 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.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

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.

# M&G Episode Income Fund

## Financial highlights

### Fund performance

## Operating charges and portfolio transaction costs

### 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				
for the year to 30 April	2019	2018	2017	Average <sup>[a]</sup>
Direct portfolio transaction costs <sup>[b]</sup>	%	%	%	%
Broker commission	0.01	0.03	0.04	0.02
Taxes	0.01	0.03	0.03	0.02
Costs before dilution adjustments	0.02	0.06	0.07	0.04
Dilution adjustments <sup>[c]</sup>	(0.01)	(0.01)	(0.02)	(0.01)
Total direct portfolio transaction costs	0.01	0.05	0.05	0.03
<b>as at 30 April</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>Average <sup>[a]</sup></b>
<b>Indirect portfolio transaction costs</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Average portfolio dealing spread	0.32	0.29	0.38	0.33

<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.

### 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.

Historic yields for the current year are calculated as at 10 May 2019.

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

The share class was launched on 11 November 2010.

for the year to 30 April	2019	2018	2017
Change in NAV per share	UK p	UK p	UK p
Opening NAV	129.50	125.80	113.78
Return before operating charges and after direct portfolio transaction costs	0.02	10.46	18.16
Operating charges	(1.92)	(2.01)	(1.79)
Return after operating charges	(1.90)	8.45	16.37
Distributions	(4.32)	(4.75)	(4.35)
Closing NAV	123.28	129.50	125.80
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.02	0.08	0.09
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.01	0.07	0.07
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.05	0.05
Operating charges	1.55	1.56	1.49
Return after operating charges	-1.47	+6.72	+14.39
Historic yield	3.54	3.63	3.46
Effect on yield of charges offset against capital	1.53	1.53	1.52
<b>Other information</b>			
Closing NAV (£'000)	75,329	66,094	68,533
Closing NAV percentage of total fund NAV (%)	8.35	7.97	10.18
Number of shares	61,101,946	51,037,890	54,478,224
Highest share price (UK p)	130.76	133.48	127.55
Lowest share price (UK p)	117.76	126.34	110.83

# M&G Episode Income Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 11 November 2010.

for the year to 30 April Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	170.75	159.88	139.51
Return before operating charges and after direct portfolio transaction costs	0.15	13.47	22.59
Operating charges	(2.57)	(2.60)	(2.22)
Return after operating charges	(2.42)	10.87	20.37
Distributions	(3.30)	(3.62)	(3.90)
Retained distributions	3.30	3.62	3.90
Closing NAV	168.33	170.75	159.88

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.03	0.10	0.11
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.01)	(0.03)
Total direct portfolio transaction costs	0.02	0.09	0.08

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.05	0.05
Operating charges	1.55	1.56	1.49
Return after operating charges	-1.42	+6.80	+14.60
Historic yield	1.98	2.10	2.02
Effect on yield of charges offset against capital	0.03	0.03	0.03

#### Other information

Closing NAV (£'000)	21,630	20,523	22,467
Closing NAV percentage of total fund NAV (%)	2.40	2.47	3.34
Number of shares	12,849,766	12,019,359	14,052,214
Highest share price (UK p)	172.39	173.21	161.19
Lowest share price (UK p)	158.03	160.57	136.31

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

The share class was launched on 3 August 2012.

for the year to 30 April Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	1,280.86	1,234.87	1,108.58
Return before operating charges and after direct portfolio transaction costs	(1.39)	101.11	175.90
Operating charges	(9.84)	(10.27)	(8.82)
Return after operating charges	(11.23)	90.84	167.08
Distributions	(41.06)	(44.85)	(40.79)
Closing NAV	1,228.57	1,280.86	1,234.87

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.22	0.77	0.86
Dilution adjustments <sup>[a]</sup>	(0.07)	(0.11)	(0.22)
Total direct portfolio transaction costs	0.15	0.66	0.64

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.05	0.05
Operating charges	0.80	0.81	0.75
Return after operating charges	-0.88	+7.36	+15.07
Historic yield	3.37	3.47	3.30
Effect on yield of charges offset against capital	0.78	0.78	0.78

#### Other information

Closing NAV (£'000)	367,350	350,297	278,177
Closing NAV percentage of total fund NAV (%)	40.71	42.23	41.30
Number of shares	29,900,618	27,348,689	22,526,834
Highest share price (UK p)	1,293.62	1,316.27	1,250.58
Lowest share price (UK p)	1,169.32	1,240.61	1,080.86

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

The share class was launched on 3 August 2012.

for the year to 30 April Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	1,572.39	1,463.43	1,269.26
Return before operating charges and after direct portfolio transaction costs	(0.62)	121.32	204.32
Operating charges	(12.25)	(12.36)	(10.15)
Return after operating charges	(12.87)	108.96	194.17
Distributions	(39.71)	(42.47)	(40.52)
Retained distributions	39.71	42.47	40.52
Closing NAV	1,559.52	1,572.39	1,463.43

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.28	0.93	0.99
Dilution adjustments <sup>[a]</sup>	(0.09)	(0.13)	(0.25)
Total direct portfolio transaction costs	0.19	0.80	0.74

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.05	0.05
Operating charges	0.80	0.81	0.74
Return after operating charges	-0.82	+7.45	+15.30
Historic yield	2.57	2.67	2.56
Effect on yield of charges offset against capital	0.03	0.03	0.03

#### Other information

Closing NAV (£'000)	414,132	370,068	284,368
Closing NAV percentage of total fund NAV (%)	45.89	44.62	42.22
Number of shares	26,555,145	23,535,447	19,431,610
Highest share price (UK p)	1,587.89	1,592.74	1,475.27
Lowest share price (UK p)	1,460.93	1,470.23	1,240.75

#### Sterling Class 'PP' Accumulation share performance

The share class was launched on 8 April 2019.

for the year to 30 April Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	100.00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	0.32	n/a	n/a
Operating charges	(0.07)	n/a	n/a
Return after operating charges	0.25	n/a	n/a
Distributions	(0.35)	n/a	n/a
Retained distributions	0.35	n/a	n/a
Closing NAV	100.25	n/a	n/a

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	n/a	n/a
Dilution adjustments <sup>[a]</sup>	0.00	n/a	n/a
Total direct portfolio transaction costs	0.02	n/a	n/a

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.01	n/a	n/a
Operating charges	0.54*	n/a	n/a
Return after operating charges	+0.25	n/a	n/a
Historic yield	2.31	n/a	n/a
Effect on yield of charges offset against capital	0.02	n/a	n/a

#### Other information

Closing NAV (£'000)	2,263	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0.25	n/a	n/a
Number of shares	2,257,388	n/a	n/a
Highest share price (UK p)	100.86	n/a	n/a
Lowest share price (UK p)	99.91	n/a	n/a

\* 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 Episode Income Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 3 August 2012.

for the year to 30 April Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	126.53	122.29	110.06
Return before operating charges and after direct portfolio transaction costs	(0.09)	10.08	17.49
Operating charges	(1.27)	(1.34)	(1.16)
Return after operating charges	(1.36)	8.74	16.33
Distributions	(4.11)	(4.50)	(4.10)
Closing NAV	121.06	126.53	122.29

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.08	0.08
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.01	0.07	0.06

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.05	0.05
Operating charges	1.05	1.06	0.99
Return after operating charges	-1.07	+7.15	+14.84
Historic yield	3.43	3.52	3.35
Effect on yield of charges offset against capital	1.03	1.03	1.03

#### Other information

Closing NAV (£'000)	7,153	6,586	2,562
Closing NAV percentage of total fund NAV (%)	0.79	0.79	0.38
Number of shares	5,908,423	5,204,936	2,094,893
Highest share price (UK p)	127.78	130.16	123.90
Lowest share price (UK p)	115.36	122.85	107.27

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

The share class was launched on 3 August 2012.

for the year to 30 April Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	155.54	145.05	126.05
Return before operating charges and after direct portfolio transaction costs	0.01	12.12	20.34
Operating charges	(1.59)	(1.63)	(1.34)
Return after operating charges	(1.58)	10.49	19.00
Distributions	(3.62)	(3.91)	(3.86)
Retained distributions	3.62	3.91	3.86
Closing NAV	153.96	155.54	145.05

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.03	0.09	0.10
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.02	0.08	0.08

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.05	0.05
Operating charges	1.05	1.06	0.99
Return after operating charges	-1.02	+7.23	+15.07
Historic yield	2.37	2.49	2.38
Effect on yield of charges offset against capital	0.03	0.03	0.03

#### Other information

Closing NAV (£'000)	3,801	3,272	623
Closing NAV percentage of total fund NAV (%)	0.42	0.40	0.09
Number of shares	2,469,118	2,103,353	429,731
Highest share price (UK p)	157.06	157.63	146.23
Lowest share price (UK p)	144.33	145.70	123.19

#### Sterling Class 'X' Income share performance

The share class was launched on 11 November 2010.

for the year to 30 April Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	129.57	125.86	113.84
Return before operating charges and after direct portfolio transaction costs	0.03	10.47	18.16
Operating charges	(1.92)	(2.01)	(1.79)
Return after operating charges	(1.89)	8.46	16.37
Distributions	(4.33)	(4.75)	(4.35)
Closing NAV	123.35	129.57	125.86

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.08	0.09
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.01	0.07	0.07

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.05	0.05
Operating charges	1.55	1.56	1.49
Return after operating charges	-1.46	+6.72	+14.38
Historic yield	3.54	3.63	3.46
Effect on yield of charges offset against capital	1.53	1.53	1.53

#### Other information

Closing NAV (£'000)	9,323	11,000	14,780
Closing NAV percentage of total fund NAV (%)	1.03	1.33	2.19
Number of shares	7,558,057	8,489,677	11,742,838
Highest share price (UK p)	130.83	133.56	127.63
Lowest share price (UK p)	117.83	126.41	110.89

#### Sterling Class 'X' Accumulation share performance

The share class was launched on 11 November 2010.

for the year to 30 April Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	170.81	159.94	139.56
Return before operating charges and after direct portfolio transaction costs	0.16	13.47	22.60
Operating charges	(2.57)	(2.60)	(2.22)
Return after operating charges	(2.41)	10.87	20.38
Distributions	(3.30)	(3.62)	(3.90)
Retained distributions	3.30	3.62	3.90
Closing NAV	168.40	170.81	159.94

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.03	0.10	0.11
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.01)	(0.03)
Total direct portfolio transaction costs	0.02	0.09	0.08

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.05	0.05
Operating charges	1.55	1.56	1.49
Return after operating charges	-1.41	+6.80	+14.60
Historic yield	1.98	2.09	2.02
Effect on yield of charges offset against capital	0.03	0.03	0.03

#### Other information

Closing NAV (£'000)	1,426	1,585	2,031
Closing NAV percentage of total fund NAV (%)	0.16	0.19	0.30
Number of shares	846,569	928,134	1,269,777
Highest share price (UK p)	172.45	173.28	161.25
Lowest share price (UK p)	158.09	160.63	136.33

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

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

# M&G Episode Income Fund

## Financial statements and notes

### Financial statements

#### Statement of total return

for the year to 30 April	Note	2019		2018	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		(27,339)		32,686
Revenue	5	31,874		30,583	
Expenses	6	(7,331)		(6,787)	
Net revenue / (expense) before taxation		24,543		23,796	
Taxation	7	(3,327)		(3,194)	
Net revenue / (expense) after taxation			21,216		20,602
<b>Total return before distributions</b>			<b>(6,123)</b>		<b>53,288</b>
Distributions	8		(25,330)		(24,575)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(31,453)</b>		<b>28,713</b>

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

for the year to 30 April	2019		2018	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>829,425</b>		<b>673,541</b>
Amounts received on issue of shares	137,515		147,768	
Amounts paid on cancellation of shares	(43,841)		(30,626)	
		93,674		117,142
Dilution adjustments		230		276
Change in net assets attributable to shareholders from investment activities (see above)		(31,453)		28,713
Retained distributions on Accumulation shares		10,515		9,735
Unclaimed distributions		16		18
<b>Closing net assets attributable to shareholders</b>		<b>902,407</b>		<b>829,425</b>

#### Balance sheet

as at 30 April	Note	2019 £'000	2018 £'000
<b>Assets</b>			
<b>Fixed assets</b>			
Investments		891,644	786,527
<b>Current assets</b>			
Debtors	9	8,999	11,446
Cash and bank balances	10	8,099	18,857
Cash equivalents		22,514	25,338
<b>Total assets</b>		<b>931,256</b>	<b>842,168</b>
<b>Liabilities</b>			
Investment liabilities		(1,962)	(7,600)
<b>Creditors</b>			
Distribution payable		(2,373)	(2,993)
Other creditors	11	(24,514)	(2,150)
<b>Total liabilities</b>		<b>(28,849)</b>	<b>(12,743)</b>
<b>Net assets attributable to shareholders</b>		<b>902,407</b>	<b>829,425</b>

### Notes to the financial statements

#### 1 Accounting policies

The financial statements have been prepared in accordance with the 'Summary of significant accounting policies' set out on pages 6 and 7.

#### 2 Distribution policy

In determining the amount available for reinvestment to Accumulation shares, all expenses with the exception of the annual management charge, administration charge and overdraft interest are offset against capital, increasing the amount available for reinvestment whilst restraining capital performance to an equivalent extent. In determining the amount available for distribution to Income shares, all expenses with the exception of overdraft interest are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

Marginal tax relief has not been taken into account in respect of expenses offset against capital.

#### 3 Net capital gains / (losses)

for the year to 30 April	2019 £'000	2018 £'000
Non-derivative securities <sup>[a]</sup>	(12,681)	65,320
Derivative contracts <sup>[a]</sup>	(15,602)	4,767
Currency gains / (losses) <sup>[a]</sup>	601	(37,460)
Management charge rebates taken to capital	300	55
Administration charge rebates taken to capital	52	14
Transaction charges	(9)	(10)
<b>Net capital gains / (losses)</b>	<b>(27,339)</b>	<b>32,686</b>

<sup>[a]</sup> Comprises of realised losses of £8,710,000 and unrealised losses of £18,972,000 (2018: realised gains of £5,843,000 and unrealised gains of £26,784,000). Certain realised gains and losses in the current year were unrealised in the prior year.

# M&G Episode Income Fund

## Financial statements and notes

### Notes to the financial statements

#### 4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on pages 15 and 16.

for the year to 30 April	2019 £'000	% of transaction	2018 £'000	% of transaction
<b>a) Purchases</b>				
<b>Equities</b>				
Equities before transaction costs	95,873		254,362	
Commissions	52	0.05	119	0.05
Taxes	82	0.09	173	0.07
<b>Equities after transaction costs</b>	<b>96,007</b>		<b>254,654</b>	
<b>Debt securities</b>	<b>187,928</b>		<b>219,042</b>	
<b>Collective investment schemes</b>	<b>5,981</b>		<b>14,356</b>	
<b>Other transaction types</b>				
Corporate actions	0		2,980	
<b>Total purchases after transaction costs</b>	<b>289,916</b>		<b>491,032</b>	
<b>b) Sales</b>				
<b>Equities</b>				
Equities before transaction costs	53,321		173,136	
Commissions	(20)	0.04	(95)	0.05
Taxes	(1)	0.00	(81)	0.05
<b>Equities after transaction costs</b>	<b>53,300</b>		<b>172,960</b>	
<b>Debt securities</b>	<b>115,963</b>		<b>164,737</b>	
<b>Other transaction types</b>				
Corporate actions	1,025		5,001	
<b>Total sales after transaction costs</b>	<b>170,288</b>		<b>342,698</b>	
<b>c) Direct portfolio transaction costs</b>				
	2019 £'000	% of average NAV	2018 £'000	% of average NAV
<b>Commissions paid</b>				
Equities	72	0.01	214	0.03
<b>Taxes paid</b>				
Equities	83	0.01	254	0.03
<b>Total direct portfolio transaction costs [a]</b>	<b>155</b>	<b>0.02</b>	<b>468</b>	<b>0.06</b>
<b>d) Indirect portfolio transaction costs</b>				
Portfolio dealing spread [b]		0.32		0.29

[a] Costs before dilution adjustments. Please refer to the 'Financial highlights' section for the effect of dilution adjustments.

[b] Average portfolio dealing spread at the balance sheet date.

#### 5 Revenue

for the year to 30 April	2019 £'000	2018 £'000
Administration charge rebates	1	34
Bank interest	55	15
Distributions from collective investment schemes: non-taxable	318	76
Distributions from collective investment schemes: taxable	1,317	1,112
Distributions from collective investment schemes: property income dividends	964	750
Dividends from equity investments: non-taxable	13,561	13,320
Dividends from equity investments: taxable	559	1,189
HM Revenue & Customs interest	(1)	(1)
Interest distributions	145	85
Interest on debt securities	14,948	13,649
Management charge rebates [a]	(19)	171
Stock dividends	26	183
<b>Total revenue</b>	<b>31,874</b>	<b>30,583</b>

#### 6 Expenses

for the year to 30 April	2019 £'000	2018 £'000
<b>Payable to the ACD or associate</b>		
Annual management charge [a]	5,834	5,410
Administration charge [b]	1,270	1,155
	7,104	6,565
<b>Payable to the Depositary or associate</b>		
Depositary's charge (including VAT)	49	47
<b>Other expenses</b>		
Audit fee (including VAT)	11	10
Interest payable	7	17
Legal fees	3	0
Safe custody charge	144	143
Tax fees (including VAT)	13	5
	178	175
<b>Total expenses</b>	<b>7,331</b>	<b>6,787</b>

[a] This charge excludes management charge rebates received from M&G Securities Limited, or an associate, in relation to the annual management charge of the underlying collective investment schemes for which M&G Securities Limited, or an associate, acts as Authorised Corporate Director.

These rebates have been recognised as either capital or revenue in notes 3 and 5 and amount to £300,000 (2018: £55,000) and £(19,000) (2018: £171,000). The revenue management charge rebates were adjusted in 2019.

[b] This charge excludes administration charge rebates received from M&G Securities Limited, or an associate, in relation to the administration charge of the underlying collective investment schemes for which M&G Securities Limited, or an associate, acts as Authorised Corporate Director.

These rebates have been recognised as either capital or revenue in notes 3 and 5 and amount to £52,000 (2018: £14,000) and £1,000 (2018: £34,000).

# M&G Episode Income Fund

## Financial statements and notes

### Notes to the financial statements

#### 7 Taxation

for the year to 30 April	2019 £'000	2018 £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	2,198	2,045
Withholding tax	1,280	1,370
Current double taxation relief	(143)	(233)
Deferred tax (note 7c)	(8)	12
<b>Total taxation</b>	<b>3,327</b>	<b>3,194</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue / (expense) before taxation	24,543	23,796
Corporation tax at 20%	4,909	4,759
Effects of:		
Tax on management and administration charge rebates taken to capital	70	14
Dividends from equity investments: non-taxable	(2,712)	(2,679)
Stock dividends not taxable	(5)	(37)
Distributions from collective investment schemes: non-taxable	(64)	0
Withholding tax	1,280	1,370
Total double taxation relief	(151)	(233)
<b>Total tax charge (note 7a)</b>	<b>3,327</b>	<b>3,194</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	79	67
Deferred tax in profit and loss account (note 7a)	(8)	12
<b>Provision at the end of the year</b>	<b>71</b>	<b>79</b>

#### 8 Distributions

for the year to 30 April	2019		2018	
	Inc <sup>[a]</sup> £'000	Acc <sup>[b]</sup> £'000	Inc <sup>[a]</sup> £'000	Acc <sup>[b]</sup> £'000
<b>Dividend distributions</b>				
First interim	1,154	995	1,059	643
Second interim	1,054	447	1,073	583
Third interim	1,119	715	1,073	779
Fourth interim	1,108	877	1,080	903
Fifth interim	1,110	867	1,079	448
Sixth interim	1,067	812	1,096	646
Seventh interim	1,120	932	1,100	718
Eighth interim	1,090	769	1,112	660
Ninth interim	1,254	777	1,125	616
Tenth interim	1,253	656	1,113	911
Eleventh interim	1,269	1,182	1,105	1,115
Final	2,373	1,486	2,993	1,713
<b>Total net distributions</b>		<b>25,486</b>		<b>24,743</b>
Income deducted on cancellation of shares		71		59
Income received on issue of shares		(227)		(227)
<b>Distributions</b>		<b>25,330</b>		<b>24,575</b>
Net revenue / (expense) per statement of total return		21,216		20,602
Expenses offset against capital		4,114		3,973
<b>Distributions</b>		<b>25,330</b>		<b>24,575</b>

<sup>[a]</sup> Distributions payable on Income shares.

<sup>[b]</sup> Retained distributions on Accumulation shares.

#### 9 Debtors

as at 30 April	2019 £'000	2018 £'000
Administration charge rebates due	3	2
Amounts receivable on issues of shares	383	2,216
Currency deals outstanding	0	537
Debt security interest receivable	4,729	4,427
Deposit interest receivable	10	9
Distributions receivable	338	199
Dividends receivable	2,917	2,447
Management charge rebates due	18	15
Sales awaiting settlement	0	1,035
Withholding tax recoverable	601	559
<b>Total debtors</b>	<b>8,999</b>	<b>11,446</b>

#### 10 Cash and bank balances

as at 30 April	2019 £'000	2018 £'000
Cash held as bank balances	8,099	18,857
<b>Total cash and bank balances</b>	<b>8,099</b>	<b>18,857</b>

#### 11 Other creditors

as at 30 April	2019 £'000	2018 £'000
ACD's annual management charge payable	377	328
Administration charge payable	82	71
Amounts payable on cancellation of shares	165	203
Corporation tax payable	1,062	884
Currency deals outstanding	0	532
Deferred taxation	71	79
Expenses payable	65	53
Purchases awaiting settlement	22,692	0
<b>Total other creditors</b>	<b>24,514</b>	<b>2,150</b>

#### 12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2018: same).

#### 13 Shares in issue

The following table shows each class of share in issue during the year. Each share class has the same rights on winding up however they may have different charging structures as set out in note 14.

Share class	Opening	Movements		Closing
	01.05.18	Issued	Cancelled	
<b>Sterling</b>				
Class 'A' Income	51,037,890	13,467,882	(3,403,826)	61,101,946
Class 'A' Accumulation	12,019,359	2,429,734	(1,599,327)	12,849,766
Class 'I' Income	27,348,689	3,338,225	(786,296)	29,900,618
Class 'I' Accumulation	23,535,447	4,619,003	(1,599,305)	26,555,145
Class 'PP' Accumulation	0	2,270,000	(12,612)	2,257,388
Class 'R' Income	5,204,936	1,275,230	(571,743)	5,908,423
Class 'R' Accumulation	2,103,353	622,182	(256,417)	2,469,118
Class 'X' Income	8,489,677	108,969	(1,040,589)	7,558,057
Class 'X' Accumulation	928,134	1,902	(83,467)	846,569

# M&G Episode Income Fund

## Financial statements and notes

### Notes to the financial statements

#### 14 Charging structure

The table below sets out the charging structure for each class of share. The charging structure is the same for both Income and Accumulation shares of each class.

Share class	Entry charge %	Exit charge %	Annual management charge %
<b>Sterling</b>			
Class 'A'	nil	n/a	1.35
Class 'I'	nil	n/a	0.60
Class 'PP'	nil	n/a	up to 0.60
Class 'R'	nil	n/a	0.85
Class 'X'	nil	n/a	1.35

#### 15 Related parties

M&G Securities Limited, as Authorised Corporate Director (ACD), is a related party and acts as principal on all the transactions of shares in the fund except with in specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to shareholders' and note 8. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 9 and 11 where applicable.

Amounts paid to M&G Securities Limited in respect of the ACD's annual management charge and administration charge are disclosed in note 6. Amounts due at the year end in respect of the ACD's annual management charge and administration charge are disclosed in note 11.

Amounts paid to M&G Securities Limited in respect of rebate arrangements for the ACD's annual management charge and administration charge are disclosed in notes 3 and 5. Amounts due at the year end from the ACD, and/or associate, in respect of these rebates are disclosed in note 9.

During the year, there were transactions in shares in related parties of M&G Securities Limited with a total value of £5,981,000 (2018: £14,368,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £39,947,000 (2018: £34,278,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 1.85% (2018: 2.73%) of the fund's shares.

#### 16 Events after the balance sheet date

There were no events after the balance sheet date to disclose.

#### 17 Fair value analysis

Financial instruments have been measured at their fair value and have been classified below using a hierarchy that reflects the significance of the inputs used in measuring their fair value:

##### Level 1: Unadjusted quoted price in an active market for an identical instrument

This includes instruments such as publicly traded equities, highly liquid bonds (e.g. Government bonds) and exchange traded derivatives (e.g. futures) for which quoted prices are readily and regularly available.

##### Level 2: Valuation technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

##### Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

as at 30 April	Assets 2019	Liabilities 2019	Assets 2018	Liabilities 2018
Basis of valuation	£'000	£'000	£'000	£'000
Level 1	647,229	0	611,753	0
Level 2	244,415	(1,962)	174,774	(7,600)
Level 3	0	0	0	0
	<b>891,644</b>	<b>(1,962)</b>	<b>786,527</b>	<b>(7,600)</b>

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 13 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

#### 18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 and 8.

#### 19 Market risk sensitivity and exposure

VaR is the risk measurement methodology used to assess the fund's leverage and market risk volatility. When VaR is calculated as a percentage of the net asset value it may not be greater than the VaR limit set for the fund.

The VaR limit set during the financial year to 30 April 2019 was 11% (2018: 11%).

The lowest, highest and average VaR, as well as utilisation of VaR with reference to the limit above, are calculated during the financial years ended 30 April 2019 and 30 April 2018.

for the year to 30 April	2019		2018	
	2019 % of VaR	Utilisation of VaR [a] 11%	2018 % of VaR	Utilisation of VaR [a] 11%
Lowest	3.12	28.40	3.06	27.84
Highest	4.08	37.09	3.94	35.81
Average	3.53	32.05	3.48	31.66

[a] The VaR on the fund has been divided by its maximum limit.



# M&G Episode Income Fund

## Financial statements and notes

### Notes to the financial statements

#### 20 Credit risk

The fund is exposed to credit risk both through the credit quality of the investments it holds and through the derivative positions with counterparties. The table below shows the credit quality of the investments held in the portfolio.

as at 30 April	2019 £'000	2018 £'000
Investment grade securities	347,808	257,604
Below investment grade securities	54,326	53,713
Unrated securities	32,802	22,343
Other investments	454,746	445,267
<b>Total</b>	<b>889,682</b>	<b>778,927</b>

The tables below show the exposure to counterparties. Collateral is posted daily, in the form of cash or high-quality government bonds, to minimise this exposure.

as at 30 April 2019	Swaps £'000	Forward currency contracts £'000
BNP Paribas	(12)	0
Citigroup	0	56
HSBC	0	10
J.P.Morgan	0	(359)
State Street Bank	0	(1,551)
UBS	0	168
<b>Total</b>	<b>(12)</b>	<b>(1,676)</b>

as at 30 April 2018	Swaps £'000	Forward currency contracts £'000
Bank of America Merrill Lynch	0	312
BNP Paribas	80	1
Citigroup	0	(56)
J.P.Morgan	0	(422)
Royal Bank of Scotland	0	(790)
State Street Bank	0	(5,103)
UBS	0	90
<b>Total</b>	<b>80</b>	<b>(5,968)</b>

Net exposure represents the mark-to-market value of derivative contracts less any cash collateral held. Positive exposure represents the fund's exposure to that counterparty. Negative amounts are not an exposure to the fund.

#### 21 Leverage risk

Funds using VaR approaches are required to disclose the level of leverage employed during the financial reporting period.

Derivatives can be used by the fund to generate market exposure to investments exceeding the net asset value. As a result of this exposure, the size of any positive or negative movement in markets may have a more significant effect on the net asset value of the fund.

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 30 April 2019 and 30 April 2018 are disclosed in the table below.

for the year to 30 April	2019 <sup>[a]</sup> £'000	2019 <sup>[a]</sup> % <sup>[b]</sup>	2018 <sup>[a]</sup> £'000	2018 <sup>[a]</sup> % <sup>[b]</sup>
Lowest	1,284,715	150	1,025,676	148
Highest	2,551,219	298	1,791,515	240
Average	1,434,924	170	1,317,968	172

<sup>[a]</sup> Leverage has been calculated using the Gross Sum of Notional Approach for derivative positions only (including forward currency contracts) and excludes all physical holdings.

<sup>[b]</sup> Expressed as a percentage over net assets.

#### 22 Dividend distribution tables

This fund pays monthly ordinary distributions and the following table sets out the distribution periods.

Monthly distribution periods	Start	End	Xd	Payment
First interim	01.05.18	31.05.18	01.06.18	30.06.18
Second interim	01.06.18	30.06.18	02.07.18	31.07.18
Third interim	01.07.18	31.07.18	01.08.18	31.08.18
Fourth interim	01.08.18	31.08.18	03.09.18	30.09.18
Fifth interim	01.09.18	30.09.18	01.10.18	31.10.18
Sixth interim	01.10.18	31.10.18	01.11.18	30.11.18
Seventh interim	01.11.18	30.11.18	03.12.18	31.12.18
Eighth interim	01.12.18	31.12.18	01.01.19	31.01.19
Ninth interim	01.01.19	31.01.19	01.02.19	28.02.19
Tenth interim	01.02.19	28.02.19	01.03.19	31.03.19
Eleventh interim	01.03.19	31.03.19	01.04.19	30.04.19
Final	01.04.19	30.04.19	01.05.19	31.05.19

The following tables set out for each distribution the rates per share for both Group 1 and Group 2 shares.

Group 1 shares are those purchased prior to a distribution period and therefore their income rate is the same as the distribution rate.

Group 2 shares are those purchased during a distribution period and therefore their distribution rate is made up of income and equalisation. Equalisation is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the income and equalisation components.

# M&G Episode Income Fund

## Financial statements and notes

### Notes to the financial statements

#### 22 Dividend distribution tables (continued)

Sterling Class 'A' Income shares				
Ordinary distributions for the year to 30 April	Income 2019	Group 2 Equalisation 2019	Group 1 & 2 Distribution 2018	
	p	p	p	p
First interim	0.0500	0.2827	0.3327	0.3323
Second interim	0.0395	0.2644	0.3039	0.3322
Third interim	0.0853	0.2354	0.3207	0.3312
Fourth interim	0.0000	0.3146	0.3146	0.3326
Fifth interim	0.0000	0.3146	0.3146	0.3314
Sixth interim	0.0000	0.3023	0.3023	0.3367
Seventh interim	0.0000	0.3162	0.3162	0.3377
Eighth interim	0.0000	0.3075	0.3075	0.3403
Ninth interim	0.0000	0.3413	0.3413	0.3439
Tenth interim	0.0000	0.3415	0.3415	0.3393
Eleventh interim	0.0000	0.3424	0.3424	0.3350
Final	0.3791	0.4070	0.7861	1.0544

Sterling Class 'A' Accumulation shares				
Ordinary distributions for the year to 30 April	Income 2019	Group 2 Equalisation 2019	Group 1 & 2 Distribution 2018	
	p	p	p	p
First interim	0.2178	0.1284	0.3462	0.2491
Second interim	0.0840	0.0341	0.1181	0.2190
Third interim	0.0249	0.1965	0.2214	0.3096
Fourth interim	0.0551	0.2324	0.2875	0.3663
Fifth interim	0.2531	0.0322	0.2853	0.1464
Sixth interim	0.1093	0.1359	0.2452	0.2260
Seventh interim	0.0569	0.2423	0.2992	0.2645
Eighth interim	0.1415	0.0877	0.2292	0.2332
Ninth interim	0.0961	0.1316	0.2277	0.1959
Tenth interim	0.0577	0.1267	0.1844	0.3397
Eleventh interim	0.3546	0.0255	0.3801	0.4117
Final	0.2939	0.1851	0.4790	0.6591

Sterling Class 'I' Income shares				
Ordinary distributions for the year to 30 April	Income 2019	Group 2 Equalisation 2019	Group 1 & 2 Distribution 2018	
	p	p	p	p
First interim	0.8400	2.4535	3.2935	3.2641
Second interim	1.0866	1.9105	2.9971	3.2660
Third interim	1.1399	2.0037	3.1436	3.2579
Fourth interim	0.7049	2.4139	3.1188	3.2731
Fifth interim	1.6250	1.4954	3.1204	3.2617
Sixth interim	0.4634	2.5377	3.0011	3.3168
Seventh interim	0.0656	3.0730	3.1386	3.3274
Eighth interim	0.6046	2.4498	3.0544	3.3553
Ninth interim	0.2586	3.1337	3.3923	3.3919
Tenth interim	0.5831	2.8121	3.3952	3.3483
Eleventh interim	1.8256	1.5812	3.4068	3.3077
Final	2.8860	3.1159	6.0019	8.4765

Sterling Class 'I' Accumulation shares				
Ordinary distributions for the year to 30 April	Income 2019	Group 2 Equalisation 2019	Group 1 & 2 Distribution 2018	
	p	p	p	p
First interim	2.3896	1.6345	4.0241	3.0806
Second interim	0.9403	0.8506	1.7909	2.7464
Third interim	1.2817	1.5770	2.8587	3.5991
Fourth interim	1.0715	2.3751	3.4466	4.1227
Fifth interim	2.5289	0.8151	3.3440	2.0570
Sixth interim	1.3714	1.7123	3.0837	2.9126
Seventh interim	1.9464	1.5550	3.5014	3.1836
Eighth interim	1.8663	1.0083	2.8746	2.8849
Ninth interim	1.2356	1.6311	2.8667	2.6562
Tenth interim	0.7602	1.6438	2.4040	3.8405
Eleventh interim	2.7630	1.4838	4.2468	4.5282
Final	3.1411	2.1318	5.2729	6.8570

Sterling Class 'PP' Accumulation shares				
Ordinary distributions for the period to 30 April	Income 2019	Group 2 Equalisation 2019	Group 1 & 2 Distribution 2018	
	p	p	p	p
Final	0.1729	0.1819	0.3548	n/a

Sterling Class 'R' Income shares				
Ordinary distributions for the year to 30 April	Income 2019	Group 2 Equalisation 2019	Group 1 & 2 Distribution 2018	
	p	p	p	p
First interim	0.1141	0.2111	0.3252	0.3230
Second interim	0.1067	0.1903	0.2970	0.3233
Third interim	0.2008	0.1128	0.3136	0.3224
Fourth interim	0.0180	0.2898	0.3078	0.3238
Fifth interim	0.0093	0.2986	0.3079	0.3226
Sixth interim	0.1214	0.1747	0.2961	0.3281
Seventh interim	0.0000	0.3096	0.3096	0.3291
Eighth interim	0.0642	0.2370	0.3012	0.3318
Ninth interim	0.0211	0.3135	0.3346	0.3353
Tenth interim	0.0462	0.2886	0.3348	0.3309
Eleventh interim	0.0982	0.2377	0.3359	0.3268
Final	0.2814	0.3672	0.6486	0.9047

Sterling Class 'R' Accumulation shares				
Ordinary distributions for the year to 30 April	Income 2019	Group 2 Equalisation 2019	Group 1 & 2 Distribution 2018	
	p	p	p	p
First interim	0.2837	0.0885	0.3722	0.2791
Second interim	0.0697	0.0824	0.1521	0.2476
Third interim	0.1434	0.1124	0.2558	0.3314
Fourth interim	0.0911	0.2234	0.3145	0.3831
Fifth interim	0.1925	0.1147	0.3072	0.1801
Sixth interim	0.0703	0.2074	0.2777	0.2705
Seventh interim	0.2077	0.1140	0.3217	0.2903
Eighth interim	0.1811	0.0780	0.2591	0.2611
Ninth interim	0.1368	0.1217	0.2585	0.2347
Tenth interim	0.0667	0.1477	0.2144	0.3565
Eleventh interim	0.1887	0.2067	0.3954	0.4236
Final	0.1984	0.2944	0.4928	0.6538

# M&G Episode Income Fund

## Financial statements and notes

### Notes to the financial statements

#### 22 Dividend distribution tables (continued)

<b>Sterling Class 'X' Income shares</b>				
Ordinary distributions for the year to 30 April	Group 2		Group 1 & 2	
	Income 2019	Equalisation 2019	2019	Distribution 2018
	p	p	p	p
First interim	0.0000	0.3329	0.3329	0.3324
Second interim	0.0000	0.3039	0.3039	0.3325
Third interim	0.0000	0.3209	0.3209	0.3315
Fourth interim	0.0000	0.3147	0.3147	0.3329
Fifth interim	0.0000	0.3147	0.3147	0.3316
Sixth interim	0.0000	0.3025	0.3025	0.3369
Seventh interim	0.0000	0.3162	0.3162	0.3379
Eighth interim	0.0000	0.3076	0.3076	0.3406
Ninth interim	0.0000	0.3415	0.3415	0.3440
Tenth interim	0.0000	0.3416	0.3416	0.3394
Eleventh interim	0.0000	0.3427	0.3427	0.3353
Final	0.0161	0.7698	0.7859	1.0543

<b>Sterling Class 'X' Accumulation shares</b>				
Ordinary distributions for the year to 30 April	Group 2		Group 1 & 2	
	Income 2019	Equalisation 2019	2019	Distribution 2018
	p	p	p	p
First interim	0.2028	0.1407	0.3435	0.2491
Second interim	0.0472	0.0734	0.1206	0.2190
Third interim	0.0878	0.1338	0.2216	0.3099
Fourth interim	0.0325	0.2551	0.2876	0.3664
Fifth interim	0.2654	0.0201	0.2855	0.1464
Sixth interim	0.0943	0.1510	0.2453	0.2245
Seventh interim	0.0189	0.2805	0.2994	0.2647
Eighth interim	0.1686	0.0607	0.2293	0.2335
Ninth interim	0.0642	0.1638	0.2280	0.1960
Tenth interim	0.0000	0.1845	0.1845	0.3400
Eleventh interim	0.3634	0.0169	0.3803	0.4118
Final	0.2174	0.2608	0.4782	0.6605

# M&G Episode Income Fund

Financial statements and notes

This page is intentionally blank

# M&G Global Target Return 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 4% per annum above the 3-month GBP LIBOR rate, before any charges are taken, in any market conditions 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 4%.

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 has a highly flexible investment approach with the freedom to invest in different types of investment assets from anywhere in the world. The fund manager's approach combines in-depth research to determine the value of assets over the medium to long term, together with analysis of market reactions to events, to identify investment opportunities.

The fund may at any one time invest in the following asset classes: fixed income securities (including, but not limited to, corporate bonds and government and public securities) company shares, currencies, cash, near cash and deposits. The fund will mostly gain exposure to these assets by investing through derivatives, but may also invest directly, or by investing through other funds. Derivatives are financial contracts whose value is derived from an underlying asset. In cases where the fund manager believes that investment opportunities are limited to a few areas, or where available investment opportunities would add too much risk, the fund may hold a high level of cash. At any one time the geographical range of the fund may be more focused rather than globally diversified.

The fund may also invest in other transferable securities and warrants (allowing the fund manager to buy stocks for a fixed price until a certain date) which may be from anywhere in the world and denominated in any currency.

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 can be used to meet the fund's investment objective and for efficient portfolio management.

### Investment approach

The fund manager adopts a flexible approach to the allocation of capital between asset classes in response to changes in economic conditions and the valuation of assets, guided by a robust valuation framework. The fund manager seeks to respond to opportunities created by asset prices moving away from a reasonable sense of 'fair' value due to investors reacting emotionally to events. The blend of

investments held in the fund is actively adjusted depending on where the fund manager sees the most value and to manage risks in order to limit monthly losses. The fund manager will seek to manage risk by combining diversified and relatively uncorrelated assets (which are assets affected by market conditions in different ways) and by employing derivative strategies to help protect or profit from falling markets. In cases where the fund manager believes that investment opportunities are limited to a few areas, or where the available investment opportunities would add too much risk to the fund, the fund may hold high levels of cash.

The fund manager believes that this approach has the potential to limit monthly losses to less than 3% in normal to stressed times and less than 6% in highly stressed times. The fund manager believes the fund has the potential to deliver an annualised volatility (the degree to which the value of the fund fluctuates over any 12-month period) of between 3% and 7%. The fund manager will ensure the fund's 1-month 99% VaR remains below 6%.

### Risk profile

The fund invests globally in a broad range of assets, including company shares (equities), fixed income securities (bonds), currencies and other assets such as REITs, infrastructure-related securities, convertible bonds and asset-backed securities. The fund is, therefore, subject to the price volatility of global financial and currency markets.

The fund adopts a flexible approach to the allocation of capital between asset classes in response to changes in economic conditions and the valuation of assets.

Investments are mainly implemented through exchange traded derivatives and OTCs, physical assets and cash or cash equivalents.

The fund can be positioned to benefit from a rise or fall in the value of any asset class (such as company shares or bonds) at overall fund level. This means if asset prices move in the opposite direction to that expected, the fund can incur a loss.

Due to the fund's defensive nature and strong focus on risk management, the fund manager observes defined thresholds related to risk measures including volatility, monthly losses and value at risk.

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.

# M&G Global Target Return Fund

## Authorised Corporate Director's Report

### Investment review

As at 1 May 2019, for the year ended 30 April 2019

#### Performance against objective

Between 1 May 2018 (start of the review period) and 1 May 2019, the M&G Global Target Return Fund delivered a negative return across all share classes, as market movements proved challenging for the strategy's value-based approach.

This means the fund's annualised return since its launch in December 2016 is currently below its performance target of at least 3-month LIBOR plus 4% (before any charges), albeit with the potential to deliver on its three-year investment objective.

\* 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.

#### Investment performance

The review period made for a challenging environment for the fund, as an unforeseen escalation in fears over economic growth in Europe and Asia sent developed market bond yields lower and pressured stockmarkets outside the US. This outcome was contrary to the signals provided at the time by asset class valuations, which had suggested (and continue to do so) much better multi-year returns for equities (company shares) over bonds; and also within the global stockmarket, with regions and sectors priced at low valuations continuing to underperform the global equity index.

Bonds are loans that are extended by an investor to an issuer – such as a company or government – usually 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 yields refer to the interest received from a fixed income security, which is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. Bond yields typically move in the opposite direction to bond prices.

For much of 2018, the focus was on rising US interest rates but fears over global growth and financial market volatility prompted an apparent rethink both from the market and the Federal Reserve. US bond yields were rising until October, from which point they declined materially. Growth fears partly stemmed from volatile political developments including escalating trade tariffs between the US and China, uncertainty over the UK's withdrawal from the European Union (EU) and a new coalition government in Italy.

The fund has been positioned for global equities and emerging market bonds to outperform developed market government bonds on valuation grounds. However, expectations that European interest rates would remain in negative territory for longer than previously anticipated sent German and UK bond prices higher (and therefore yields lower) over the period, detracting from fund returns. This also pressured share prices for European banks, a sector we believe has the potential to offer high returns should confidence return to the economic outlook. Global equities fell sharply in late 2018 in what resembled a panic, only to reverse course in 2019. Nevertheless, many stockmarkets outside the US declined over the 12-month period, including Japan, Europe and South Korea.

Emerging markets were volatile and deemed vulnerable to rising US interest rates and a stronger US dollar, especially Turkey and Argentina, which suffered significant currency depreciations. Other emerging market countries, such as Mexico, generated more stable financial returns. Although US bond yields moved lower from October, subsequent performance from emerging market assets was mixed.

Observations on asset class valuations are necessarily multi-year in nature and provide little information about short-term returns. While fund returns over the period disappointed, decisions taken have been consistent with the approach we have outlined for managing the fund. That approach continues to emphasise two main sources of returns: (i) tactical opportunities presented by investors' emotional over-reactions to market events or news; and (ii) relative valuations between asset classes, informed by our assessment of economic conditions. Over longer time periods we remain confident such an approach can deliver satisfactory returns.

#### Investment activities

The fund was positioned to benefit from any potential gains from equities and, generally speaking, for developed market government bonds to fall in price (or rise in yield). However, there was some important tactical shifts in positioning.

On several occasions over the review period, we added exposure to US government bonds. This was because we felt that recent shifts in expectations for higher US interest rates had gone too far. In 2019, we believed that US bonds may provide diversification to the fund and that longer maturity bonds offered reasonable value if the Federal Reserve was not inclined to increase interest rates further in the near term. These trades were all profitable.

We added Italian government bonds in June 2018, after investors grew concerned over the formation of a new coalition government. We felt the market's response was an overreaction to events. We held this position until March 2019, with the bonds having provided a reasonably attractive level of interest during that time.

The allocation to equities was scaled back in August to reduce risk, given the increased volatility within emerging markets. We gradually built up equity exposure during the fourth quarter of 2018. During January 2019, the equity weighting including exposure through options was at its highest since inception of the fund.

Changes to currency strategy were relatively modest. The fund had significant exposure to the US dollar at the start of the period, but this was reduced in August 2018 after a period of dollar strength. Generally, the fund retained exposure to emerging market currencies with high interest rates.

Credit default swaps (CDS) and options were used periodically as a means of reducing portfolio risk. CDS are insurance-like contracts that can be bought to protect an investment portfolio when asset prices fall (for example, bonds). Options are 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. They offer the potential to benefit from share price rises, albeit to a lesser extent than buying actual shares, as they reduce the maximum potential loss.

# M&G Global Target Return Fund

## Authorised Corporate Director's Report

### Outlook

The consensus view in early 2018 was one of 'synchronised global economic growth'. In April 2019, the International Monetary Fund announced that we were now facing a 'synchronised slowdown' – a view that markets have arguably expressed for some time. Indeed, today it is easier to articulate risks to the global economy stemming from China, trade wars, rising interest rates and problems in Europe than positive factors. However, the realisation that consensus views are repeatedly and profoundly surprised is the reason our investment strategy seeks to avoid forecasting and look to exploit market overconfidence in either direction.

Global equity valuations in 2018 fell to levels similar to the first quarter of 2016 – the last time such pessimism over global growth was evident. Stockmarkets subsequently provided strong returns over the following two years. We believe today's compelling valuations for equities, as well as selected emerging market assets, should allow us to construct a portfolio that delivers higher prospective returns over the medium term. In our view, the recovery of many of the fund's pro-growth positions so far in 2019 provides some evidence for this.

Core to our approach is a belief that market volatility should be viewed as a source of opportunity provided by fluctuating markets, rather than something to fear. The combination of attractive valuation opportunities and ongoing market volatility should therefore make for an encouraging environment for our investment approach.

Please note that the asset breakdown shown below has been added for your information and was not prepared in accordance with the requirement of the Investment Association Statement of Recommended Practice for Financial Statements of UK Authorised Funds (SORP). As a consequence, the exposures shown in this table may differ from the portfolio statement holdings as they reflect the fund's overall exposure rather than the fund's balance sheet as at 30 April 2019.

The table below reflects the fund's exposure as at 30 April 2019. The long exposure shown comprises physical and derivative positions, held in the view that the underlying securities will rise in value. Short exposure comprises derivative positions, held in the view that the underlying securities will fall in value. Net exposure is the difference between the fund's long and short exposure. Please note, where securities do not perform as expected, a capital loss will be incurred by the fund.

Asset breakdown			
	Long exposure %	Short exposure %	Net exposure %
<b>Equities</b>	<b>21.7</b>	<b>0.0</b>	<b>21.7</b>
UK	1.8	0.0	1.8
Europe	4.0	0.0	4.0
US	3.8	0.0	3.8
Japan	3.9	0.0	3.9
Asia Pacific ex Japan	7.6	0.0	7.6
Other	0.6	0.0	0.6
<b>Equity options (nominal)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Government bonds</b>	<b>13.3</b>	<b>-29.9</b>	<b>-16.6</b>
UK	0.0	-6.9	-6.9
Europe	1.6	-17.7	-16.1
US	6.0	0.0	6.0
Japan	0.0	-5.2	-5.2
Asia Pacific ex Japan	1.9	0.0	1.9
Other	3.8	0.0	3.8
<b>Corporate bonds</b>	<b>2.0</b>	<b>0.0</b>	<b>2.0</b>
Investment grade	2.0	0.0	2.0
High yield	0.0	0.0	0.0
<b>Bond options (nominal)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Credit default swaps</b>	<b>0.0</b>	<b>-48.3</b>	<b>-48.3</b>
<b>Other</b>	<b>3.8</b>	<b>0.0</b>	<b>3.8</b>
Convertible bonds	0.0	0.0	0.0
Property funds / infrastructure	0.0	0.0	0.0
Private loans	3.4	0.0	3.4
Other	0.4	0.0	0.4

Source: M&G

**Equity options (nominal):** The total value of all the equity options held in the fund expressed as a percentage of net asset value (NAV). **Bond options (nominal):** The total value of all the bond options held in the fund expressed as a percentage of net asset value (NAV). **Private loans:** A loan provided by a non-bank lender, generally at a specific interest rate and for a predetermined length of time.

### Tristan Hanson

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 Global Target Return Fund

## Authorised Corporate Director's Report

### Investments

#### Portfolio statement

as at 30 April Holding	2019 £'000	2019 %	2018 %
<b>EQUITIES</b>	<b>12,044</b>	<b>12.38</b>	<b>11.32</b>
<b>Software &amp; computer services</b>	<b>545</b>	<b>0.56</b>	<b>0.44</b>
1,162,100 NetLink NBN	545	0.56	
<b>Pharmaceuticals &amp; biotechnology</b>	<b>0</b>	<b>0.00</b>	<b>1.06</b>
<b>Banks</b>	<b>4,350</b>	<b>4.47</b>	<b>3.01</b>
146,394 Banco BPM	268	0.27	
17,502 Bank of America	414	0.42	
144,125 Bankia	305	0.31	
21,246 BBVA	98	0.10	
30,270 CaixaBank	74	0.08	
7,771 Citigroup	424	0.44	
13,163 Commerzbank	93	0.10	
3,299 Erste	102	0.10	
10,503 ING	103	0.11	
277,006 Intesa Sanpaolo	559	0.57	
4,812 JPMorgan Chase	429	0.44	
684,847 Lloyds Banking	435	0.45	
3,202 Société Générale	78	0.08	
16,907 Standard Chartered	119	0.12	
46,277 UniCredit	493	0.51	
9,604 Wells Fargo	356	0.37	
<b>Finance &amp; credit services</b>	<b>500</b>	<b>0.51</b>	<b>0.41</b>
5,570 American Express	500	0.51	
<b>Equity investment instruments</b>	<b>1,056</b>	<b>1.09</b>	<b>0.89</b>
623,203 BioPharma Credit	505	0.52	
575,772 Greencoat Renewables	551	0.57	
<b>Real estate investment trusts</b>	<b>402</b>	<b>0.41</b>	<b>0.45</b>
3,047 Unibail-Rodamco-Westfield	402	0.41	
<b>Industrial metals &amp; mining</b>	<b>971</b>	<b>1.00</b>	<b>0.00</b>
12,138 Anglo American	240	0.25	
13,694 BHP	248	0.25	
77,050 Glencore	231	0.24	
5,670 Rio Tinto	252	0.26	
<b>Equity derivatives</b>	<b>147</b>	<b>0.15</b>	<b>0.39</b>
<b>Equity futures contracts</b>	<b>143</b>	<b>0.15</b>	<b>0.39</b>
217 EURO STOXX Index Jun 2019	79	0.08	
54 Hang Seng Index May 2019	(20)	(0.02)	
41 KOSPI 200 Index Jun 2019	62	0.07	
47 MSCI Singapore Index May 2019	10	0.01	
25 TOPIX Index Jun 2019	12	0.01	
<b>Equity options</b>	<b>4</b>	<b>0.00</b>	<b>0.00</b>
€3,250 EURO STOXX 50 Index Jun 2019 Call	4	0.00	
<b>Equity portfolios</b>	<b>4,073</b>	<b>4.19</b>	<b>4.67 [a]</b>
340,022 Greencoat UK Wind	482	0.50	
48,273 iShares MSCI Emerging Markets Investable Market Index	1,064	1.09	
29,524 iShares MSCI Korea ETF	940	0.97	
53,033 iShares MSCI Turkey ETF	597	0.61	
1,869,505 M&G Japan Fund Sterling Class 'A' (Income) [b]	990	1.02	
<b>FIXED INCOME</b>	<b>79,333</b>	<b>81.56</b>	<b>75.10</b>
<b>Debt securities</b>	<b>76,027</b>	<b>78.17</b>	<b>73.18</b>
<b>'AAA' credit rated bonds</b>	<b>4,801</b>	<b>4.94</b>	<b>0.00</b>
\$6,200,000 US Treasury 3% 2049 (15 Feb)	4,801	4.94	

#### Portfolio statement (continued)

as at 30 April Holding	2019 £'000	2019 %	2018 %
<b>'AA' credit rated bonds</b>	<b>62,798</b>	<b>64.56</b>	<b>65.65</b>
£9,200,000 Treasury 0% 2019 (07 May)	9,199	9.46	
£3,700,000 Treasury 0% 2019 (13 May)	3,699	3.80	
£7,150,000 Treasury 0% 2019 (20 May)	7,147	7.35	
£7,300,000 Treasury 0% 2019 (28 May)	7,296	7.50	
£7,000,000 Treasury 0% 2019 (03 Jun)	6,995	7.19	
£5,590,000 Treasury 0% 2019 (17 Jun)	5,580	5.74	
£6,750,000 Treasury 0% 2019 (08 Jul)	6,740	6.93	
£6,650,000 Treasury 0% 2019 (07 Oct)	6,627	6.81	
£4,850,000 Treasury 0% 2019 (14 Oct)	4,833	4.97	
£4,700,000 Treasury 0% 2019 (21 Oct)	4,682	4.81	
<b>'BBB' credit rated bonds</b>	<b>2,779</b>	<b>2.86</b>	<b>4.38 [a]</b>
IDR34,151,000,000 Indonesia (Republic of) 8.25% 15/05/2036	1,826	1.88	
MXN25,000,000 Mexico (United Mexican States) 8% 07/11/2047	953	0.98	
<b>'BB' credit rated bonds</b>	<b>2,695</b>	<b>2.77</b>	<b>0.80</b>
BRL4,013,000 Brazil (Federal Republic of) 10% 01/01/2023	825	0.85	
ZAR38,654,000 South Africa (Republic of) 8.05% 31/01/2037	1,870	1.92	
<b>'B' credit rated bonds</b>	<b>2,376</b>	<b>2.45</b>	<b>1.72</b>
€1,156,000 Argentina (Republic of) 5% 15/01/2027	658	0.68	
€1,223,356 Argentina (Republic of) Var. Rate 31/12/2033 (7.82%)	787	0.81	
\$1,250,000 Turkey (Republic of) 7.625% 26/04/2029	931	0.96	
<b>Bonds with no credit rating</b>	<b>578</b>	<b>0.59</b>	<b>0.63</b>
£273,000 Newday Funding FRN 15/06/2024	274	0.28	
£300,000 Paragon Mortgages No. 24 FRN 15/07/2043	304	0.31	
<b>Debt derivatives</b>	<b>(1,735)</b>	<b>(1.80)</b>	<b>(1.26)</b>
<b>Credit default swaps</b>	<b>(1,338)</b>	<b>(1.38)</b>	<b>(1.11)</b>
\$6,300,000 Brazil Federative Republic of (Government) Dec 2023	117	0.12	
\$9,202,589 Chile Republic of (Government) Dec 2023	(219)	(0.22)	
\$11,996,080 China Peoples Republic of (Government) Dec 2023	(269)	(0.28)	
\$5,661,890 Markit CDX North American High Yield Series 31 V3 5 Year Dec 2023	(393)	(0.41)	
\$14,480,064 Philippines (Republic of) Dec 2023	(273)	(0.28)	
\$11,886,222 Republic of Korea Dec 2023	(301)	(0.31)	
<b>Interest rate swaps</b>	<b>(248)</b>	<b>(0.25)</b>	<b>(0.02)</b>
¥103,100,000 Pay 0.814% Receive VAR May 2048	(48)	(0.05)	
¥64,920,000 Pay 0.8875% Receive VAR Jan 2048	(39)	(0.04)	
¥47,750,000 Pay 0.914% Receive VAR Mar 2047	(31)	(0.03)	
¥40,430,000 Pay 0.94% Receive VAR Mar 2047	(28)	(0.03)	
£125,000 Pay 1.464% Receive VAR Aug 2047	1	0.00	
£1,381,500 Pay 1.507% Receive VAR Mar 2047	(5)	0.00	
£91,000 Pay 1.54% Receive VAR Jan 2047	(1)	0.00	
£530,000 Pay 1.67% Receive VAR Jul 2048	(23)	(0.02)	
£950,000 Pay 1.68% Receive VAR Feb 2048	(43)	(0.05)	
£550,000 Pay 1.713% Receive VAR May 2048	(31)	(0.03)	
<b>Interest rate futures</b>	<b>(149)</b>	<b>(0.17)</b>	<b>(0.13)</b>
(3) 10 Year Japan Government Bond Jun 2019	2	0.00	
(102) Euro Bund Jun 2019	(69)	(0.08)	
(17) Euro Buxl Jun 2019	(75)	(0.08)	
(22) UK Long Gilt Bond Jun 2019	(7)	(0.01)	



# M&G Global Target Return Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at 30 April Holding	2019 £'000	2019 %	2018 %
<b>Fixed income portfolios</b>	<b>5,041</b>	<b>5.19</b>	<b>3.18</b> <sup>[a]</sup>
<b>Bond portfolios</b>	<b>5,041</b>	<b>5.19</b>	<b>3.18</b>
34,373 M&G European Loan Fund Sterling Class 'C' (Income) <sup>[b]</sup> <sup>[c]</sup>	3,071	3.16	
80,142 SPDR® Barclays 10+ Year US Corporate Bond ETF	1,970	2.03	
<b>CURRENCY</b>	<b>391</b>	<b>0.40</b>	<b>(0.27)</b>
<b>Forward currency contracts</b>	<b>391</b>	<b>0.40</b>	<b>(0.27)</b>
AUD(1,388,899) Sold for £758,716 (expires 17.05.19)	6	0.01	
€4,934,214 Bought for £4,250,878 (expires 17.05.19)	3	0.00	
€(13,511,529) Sold for £11,759,811 (expires 17.05.19)	111	0.11	
HKD17,952,823 Bought for \$2,303,920 (expires 11.10.19)	(7)	(0.01)	
¥38,998,567 Bought for £270,712 (expires 17.05.19)	(1)	0.00	
MYR4,036,697 Bought for \$992,061 (expires 17.05.19)	(12)	(0.01)	
MXN29,575,082 Bought for £1,055,122 (expires 15.11.19)	93	0.10	
RUB162,819,574 Bought for \$2,410,803 (expires 17.05.19)	86	0.09	
SGD(2,227,459) Sold for £1,262,133 (expires 17.05.19)	5	0.00	
CHF(1,371,599) Sold for £1,054,985 (expires 17.05.19)	20	0.02	
TRY8,957,520 Bought for £1,230,807 (expires 17.05.19)	(88)	(0.09)	
\$15,415,585 Bought for HKD119,873,227 (expires 11.10.19)	72	0.07	
\$5,153,644 Bought for £3,876,112 (expires 17.05.19)	82	0.08	
\$2,665,894 Bought for KRW3,010,884,647 (expires 17.05.19)	67	0.07	
\$1,146,102 Bought for BRL4,284,129 (expires 17.05.19)	47	0.05	
\$2,170,020 Bought for CNY14,453,693 (expires 06.06.19)	19	0.02	
\$1,010,298 Bought for THB31,551,618 (expires 17.05.19)	17	0.02	
\$988,466 Bought for RM4,036,697 (expires 17.05.19)	9	0.01	
\$978,829 Bought for TWD30,138,139 (expires 17.05.19)	2	0.00	
\$(24,735,060) Sold for £18,826,791 (expires 17.05.19)	(170)	(0.17)	
CNY14,453,693 Bought for \$2,106,829 (expires 06.06.19)	30	0.03	
<b>Portfolio of investments</b>	<b>91,768</b>	<b>94.34</b>	<b>86.15</b>

### Portfolio statement (continued)

as at 30 April Holding	2019 £'000	2019 %	2018 %
<b>CASH EQUIVALENTS</b>	<b>0</b>	<b>0.00</b>	<b>2.84</b>
<b>'AAA' rated money market funds</b> <sup>[d]</sup>	<b>0</b>	<b>0.00</b>	<b>2.84</b>
<b>SHARE CLASS HEDGING</b>	<b>0</b>	<b>0.00</b>	<b>0.00</b>
<b>Forward currency contracts for share class hedging</b>	<b>0</b>	<b>0.00</b>	<b>0.00</b>
€29,481 Bought for £25,209 (expires 09.05.19)	0	0.00	
€(217) Sold for £186 (expires 09.05.19)	0	0.00	
<b>Total portfolio (notes 2c &amp; 2d on page 6)</b>	<b>91,768</b>	<b>94.34</b>	<b>88.99</b>
<b>Net other assets / (liabilities)</b>	<b>5,508</b>	<b>5.66</b>	<b>11.01</b>
<b>Net assets attributable to shareholders</b>	<b>97,276</b>	<b>100.00</b>	<b>100.00</b>

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

<sup>[a]</sup> The comparative sector weightings have been re-analysed to reflect changes to the sector classifications.

<sup>[b]</sup> Related party.

<sup>[c]</sup> Delisted.

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

# M&G Global Target Return 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:

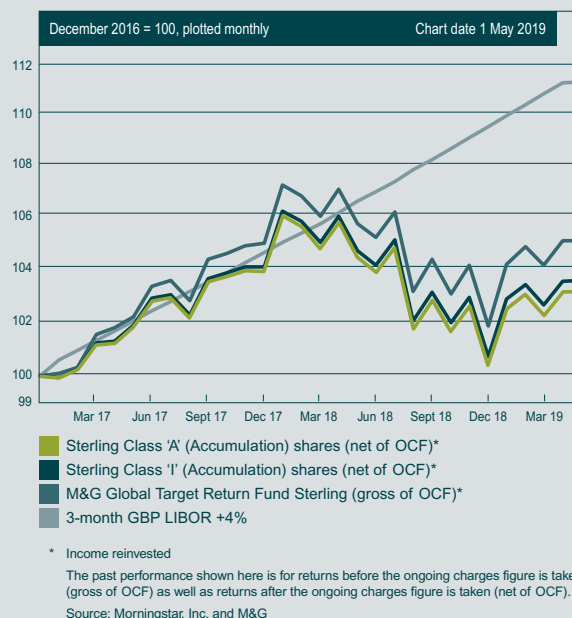
- The performance of the Sterling Class 'A' (Accumulation) share is what most individuals investing directly with M&G have received. It has the highest ongoing charge of all the share classes. Performance is shown after deduction of this charge. All investors in the fund therefore received this performance 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 (11), 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 net asset value			
	2019	2018	2017
as at 30 April	£'000	£'000	£'000
Fund net asset value (NAV)	97,276	93,593	58,032

### 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.

	One year	Three years	Five years	Since launch
	01.05.18 % [a]	03.05.16 % p.a.	01.05.14 % p.a.	% p.a.
<b>Euro [b]</b>				
Class 'Z-H'	-2.9	n/a	n/a	-2.9 [c]
<b>Sterling [b]</b>				
Class 'A'	-2.3	n/a	n/a	+1.3 [d]
Class 'I'	-2.1	n/a	n/a	+1.5 [d]
Class 'L'	-2.1	n/a	n/a	+1.5 [e]
Class 'PP'	n/a	n/a	n/a	-0.5 [f]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 20 April 2018, the launch date of the share class.

[d] 13 December 2016, the launch date of the fund.

[e] 24 February 2017, the launch date of the share class.

[f] 8 April 2019, the launch date of the share class. Not annualised.

# M&G Global Target Return 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, comprising 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.
- **Share class hedging:** Charge paid to M&G for currency hedging services to minimise exchange rate risk for the share class.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

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

for the year to 30 April	2019	2018	2017	Average <sup>[a]</sup>
<b>Direct portfolio transaction costs <sup>[b]</sup></b>	%	%	%	%
Broker commission	0.02	0.02	0.01	0.02
Taxes	0.01	0.01	0.00	0.01
Costs before dilution adjustments	0.03	0.03	0.01	0.03
Dilution adjustments <sup>[c]</sup>	0.00	0.00	(0.01)	0.00
<b>Total direct portfolio transaction costs</b>	<b>0.03</b>	<b>0.03</b>	<b>0.00</b>	<b>0.03</b>
<b>as at 30 April</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>Average <sup>[a]</sup></b>
<b>Indirect portfolio transaction costs</b>	%	%	%	%
Average portfolio dealing spread	0.12	0.11	0.21	0.15

<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 Global Target Return 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.

Historic yields for the current year are calculated as at 10 May 2019.

#### Euro Class 'Z-H' Accumulation share performance

The share class was launched on 20 April 2018.

for the year to 30 April Change in NAV per share	2019 Euro ¢	2018 Euro ¢	2017 Euro ¢
Opening NAV	1,001.25	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	(29.31)	1.89	n/a
Operating charges	(2.31)	(0.64)	n/a
Return after operating charges	(31.62)	1.25	n/a
Distributions	(10.76)	(0.24)	n/a
Retained distributions	10.76	0.24	n/a
Closing NAV	969.63	1,001.25	n/a
<b>Direct portfolio transaction costs</b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.30	0.01	n/a
Dilution adjustments <sup>[a]</sup>	(0.03)	0.00	n/a
Total direct portfolio transaction costs	0.27	0.01	n/a
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.03	0.03	n/a
Operating charges	0.24	0.23*	n/a
Return after operating charges	-3.16	+0.13	n/a
Historic yield	1.14	0.02	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
<b>Other information</b>			
Closing NAV (£'000)	25	27	n/a
Closing NAV percentage of total fund NAV (%)	0.03	0.03	n/a
Number of shares	3,005	3,005	n/a
Highest share price (Euro ¢)	1,000.69	1,002.23	n/a
Lowest share price (Euro ¢)	940.84	999.73	n/a

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

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

The share class was launched on 13 December 2016.

for the year to 30 April Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	105.67	100.72	100.00
Return before operating charges and after direct portfolio transaction costs	(1.72)	5.94	1.15
Operating charges	(0.95)	(0.99)	(0.43)
Return after operating charges	(2.67)	4.95	0.72
Distributions	(0.58)	(0.47)	(0.13)
Retained distributions	0.58	0.47	0.13
Closing NAV	103.00	105.67	100.72
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.03	0.03	0.02
Dilution adjustments <sup>[a]</sup>	0.00	0.00	(0.02)
Total direct portfolio transaction costs	0.03	0.03	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.03	0.03	0.00
Operating charges	0.92	0.92	1.05*
Return after operating charges	-2.53	+4.91	+0.72
Historic yield	0.59	0.43	0.13
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	1,393	1,027	101
Closing NAV percentage of total fund NAV (%)	1.43	1.10	0.17
Number of shares	1,352,631	971,496	100,000
Highest share price (UK p)	105.62	106.16	101.42
Lowest share price (UK p)	99.77	101.23	99.23

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

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

The share class was launched on 13 December 2016.

for the year to 30 April Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	105.90	100.79	100.00
Return before operating charges and after direct portfolio transaction costs	(1.76)	5.88	1.16
Operating charges	(0.74)	(0.77)	(0.37)
Return after operating charges	(2.50)	5.11	0.79
Distributions	(0.74)	(0.63)	(0.20)
Retained distributions	0.74	0.63	0.20
Closing NAV	103.40	105.90	100.79
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.03	0.03	0.02
Dilution adjustments <sup>[a]</sup>	0.00	0.00	(0.02)
Total direct portfolio transaction costs	0.03	0.03	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.03	0.03	0.00
Operating charges	0.72	0.71	0.87*
Return after operating charges	-2.36	+5.07	+0.79
Historic yield	0.75	0.59	0.20
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	40,704	43,240	10,643
Closing NAV percentage of total fund NAV (%)	41.84	46.20	18.34
Number of shares	39,365,709	40,829,400	10,560,541
Highest share price (UK p)	105.86	106.36	101.48
Lowest share price (UK p)	100.10	101.30	99.25

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

# M&G Global Target Return Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 24 February 2017.

for the year to 30 April Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	105.60	100.43	100.00
Return before operating charges and after direct portfolio transaction costs	(1.77)	5.82	0.60
Operating charges	(0.64)	(0.65)	(0.17)
Return after operating charges	(2.41)	5.17	0.43
Distributions	(0.82)	(0.71)	(0.13)
Retained distributions	0.82	0.71	0.13
Closing NAV	103.19	105.60	100.43
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.03	0.03	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	(0.01)
Total direct portfolio transaction costs	0.03	0.03	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.03	0.03	0.00
Operating charges	0.62	0.61	0.68*
Return after operating charges	-2.28	+5.15	+0.43
Historic yield	0.83	0.66	0.13
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	55,134	49,300	47,288
Closing NAV percentage of total fund NAV (%)	56.68	52.67	81.49
Number of shares	53,430,292	46,683,361	47,087,143
Highest share price (UK p)	105.57	106.05	101.10
Lowest share price (UK p)	105.57	100.94	99.85

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

#### Sterling Class 'PP' Accumulation share performance

The share class was launched on 8 April 2019.

for the year to 30 April Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	100.00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	(0.05)	n/a	n/a
Operating charges	(0.07)	n/a	n/a
Return after operating charges	(0.12)	n/a	n/a
Distributions	(0.81)	n/a	n/a
Retained distributions	0.81	n/a	n/a
Closing NAV	99.88	n/a	n/a
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.03	n/a	n/a
Dilution adjustments <sup>[a]</sup>	0.00	n/a	n/a
Total direct portfolio transaction costs	0.03	n/a	n/a
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.03	n/a	n/a
Operating charges	0.60*	n/a	n/a
Return after operating charges	-0.12	n/a	n/a
Historic yield	0.83	n/a	n/a
Effect on yield of charges offset against capital	0.00	n/a	n/a
<b>Other information</b>			
Closing NAV (£'000)	20	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0.02	n/a	n/a
Number of shares	20,000	n/a	n/a
Highest share price (UK p)	100.61	n/a	n/a
Lowest share price (UK p)	99.73	n/a	n/a

\* 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 Global Target Return Fund

## Financial statements and notes

### Financial statements

#### Statement of total return

for the year to 30 April	Note	2019		2018	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	3		(3,347)		2,738
Revenue	5	1,505		922	
Expenses	6	(623)		(393)	
Net revenue / (expense) before taxation		882		529	
Taxation	7	(136)		(79)	
Net revenue / (expense) after taxation			746		450
<b>Total return before distributions</b>			<b>(2,601)</b>		<b>3,188</b>
Distributions	8		(749)		(450)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(3,350)</b>		<b>2,738</b>

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

for the year to 30 April	2019		2018	
	£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>93,593</b>		<b>58,032</b>
Amounts received on issue of shares	24,335		32,715	
Amounts paid on cancellation of shares	(18,052)		(499)	
		6,283		32,216
Dilution adjustments		12		15
Change in net assets attributable to shareholders from investment activities (see above)		(3,350)		2,738
Retained distributions on Accumulation shares		738		592
<b>Closing net assets attributable to shareholders</b>		<b>97,276</b>		<b>93,593</b>

#### Balance sheet

as at 30 April	Note	2019 £'000	2018 £'000
<b>Assets</b>			
<b>Fixed assets</b>			
Investments		93,921	82,359
<b>Current assets</b>			
Debtors	9	312	512
Cash and bank balances	10	6,506	9,994
Cash equivalents		0	2,662
<b>Total assets</b>		<b>100,739</b>	<b>95,527</b>
<b>Liabilities</b>			
Investment liabilities		(2,153)	(1,736)
<b>Creditors</b>			
Overdrawn positions at futures clearing houses and collateral manager		(1,168)	(85)
Other creditors	11	(142)	(113)
<b>Total liabilities</b>		<b>(3,463)</b>	<b>(1,934)</b>
<b>Net assets attributable to shareholders</b>		<b>97,276</b>	<b>93,593</b>

### Notes to the financial statements

#### 1 Accounting policies

The financial statements have been prepared in accordance with the 'Summary of significant accounting policies' set out on pages 6 and 7.

#### 2 Distribution policy

Marginal tax relief has not been taken into account in respect of expenses offset against capital.

#### 3 Net capital gains / (losses)

for the year to 30 April	2019 £'000	2018 £'000
Administration charge rebates taken to capital	2	0
Non-derivative securities <sup>[a]</sup>	(810)	1,641
Derivative contracts <sup>[a]</sup>	(2,448)	1,111
Currency gains / (losses) <sup>[a]</sup>	(99)	(10)
Management charge rebates taken to capital	15	3
Transaction charges	(7)	(7)
<b>Net capital gains / (losses)</b>	<b>(3,347)</b>	<b>2,738</b>

<sup>[a]</sup> Comprises of realised losses of £2,166,000 and unrealised losses of £1,191,000 (2018: realised gains of £2,013,000 and unrealised gains of £729,000). Certain realised gains and losses in the current year were unrealised in the prior year.

# M&G Global Target Return Fund

## Financial statements and notes

### Notes to the financial statements

#### 4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 33.

for the year to 30 April	2019 £'000	% of transaction	2018 £'000	% of transaction
<b>a) Purchases</b>				
<b>Equities</b>				
Equities before transaction costs	4,945		4,700	
Commissions	2	0.03	1	0.02
Taxes	10	0.19	5	0.11
<b>Equities after transaction costs</b>	<b>4,957</b>		<b>4,706</b>	
<b>Debt securities <sup>[a]</sup></b>	<b>207,077</b>		<b>101,634</b>	
<b>Collective investment schemes</b>				
Collective investment schemes before transaction costs	8,319		4,389	
Commissions	2	0.03	1	0.02
Taxes	0	0.00	1	0.02
<b>Collective investment schemes after transaction costs</b>	<b>8,321</b>		<b>4,391</b>	
<b>Other transaction types</b>				
Corporate actions	0		1	
<b>Total purchases after transaction costs</b>	<b>220,355</b>		<b>110,732</b>	
<b>b) Sales</b>				
<b>Equities</b>				
Equities before transaction costs	3,235		2,430	
Commissions	(1)	0.03	(1)	0.04
<b>Equities after transaction costs</b>	<b>3,234</b>		<b>2,429</b>	
<b>Debt securities <sup>[a]</sup></b>	<b>199,368</b>		<b>59,601</b>	
<b>Collective investment schemes</b>				
Collective investment schemes before transaction costs	8,664		3,483	
Commissions	(2)	0.03	(2)	0.06
<b>Collective investment schemes after transaction costs</b>	<b>8,662</b>		<b>3,481</b>	
<b>Total sales after transaction costs</b>	<b>211,264</b>		<b>65,511</b>	
<b>c) Direct portfolio transaction costs</b>				
	2019 £'000	% of average NAV	2018 £'000	% of average NAV
<b>Commissions paid</b>				
Equities	3	0.00	2	0.00
Collective investment schemes	4	0.01	3	0.01
Derivatives	10	0.01	6	0.01
<b>Total commissions paid</b>	<b>17</b>	<b>0.02</b>	<b>11</b>	<b>0.02</b>
<b>Taxes paid</b>				
Equities	10	0.01	5	0.01
Collective investment schemes	0	0.00	1	0.00
Derivatives	3	0.00	0	0.00
<b>Total taxes paid</b>	<b>13</b>	<b>0.01</b>	<b>6</b>	<b>0.01</b>
<b>Total direct portfolio transaction costs <sup>[b]</sup></b>	<b>30</b>	<b>0.03</b>	<b>17</b>	<b>0.03</b>
<b>d) Indirect portfolio transaction costs</b>				
Portfolio dealing spread <sup>[c]</sup>		0.12		0.11

<sup>[a]</sup> These transaction types do not attract direct portfolio transaction costs.

<sup>[b]</sup> Costs before dilution adjustments. Please refer to the 'Financial highlights' section for the effect of dilution adjustments.

<sup>[c]</sup> Average portfolio dealing spread at the balance sheet date.

#### 5 Revenue

for the year to 30 April	2019 £'000	2018 £'000
Administration charge rebates	5	5
Bank interest	10	6
Derivative revenue	(59)	(177)
Distributions from collective investment schemes: non-taxable	68	12
Distributions from collective investment schemes: taxable	102	17
Dividends from equity investments: non-taxable	288	169
Dividends from equity investments: taxable	14	0
Interest distributions	0	51
Interest on debt securities	1,059	778
Management charge rebates	15	15
Stock dividends	3	46
<b>Total revenue</b>	<b>1,505</b>	<b>922</b>

#### 6 Expenses

for the year to 30 April	2019 £'000	2018 £'000
<b>Payable to the ACD or associate</b>		
Annual management charge <sup>[a]</sup>	443	288
Administration charge <sup>[b]</sup>	148	101
	591	389
<b>Payable to the Depositary or associate</b>		
Depositary's charge (including VAT)	9	6
<b>Other expenses</b>		
Audit fee (including VAT)	17	1
Audit fee paid by M&G Securities Limited (including VAT) <sup>[c]</sup>	0	(7)
Dividend charges	1	0
Safe custody charge	5	4
	23	(2)
<b>Total expenses</b>	<b>623</b>	<b>393</b>

<sup>[a]</sup> This charge excludes management charge rebates received from M&G Securities Limited, or an associate, in relation to the annual management charge of the underlying collective investment schemes for which M&G Securities Limited, or an associate, acts as Authorised Corporate Director.

These rebates have been recognised as either capital or revenue in notes 3 and 5 and amount to £15,000 (2018: £3,000) and £15,000 (2018: £15,000).

<sup>[b]</sup> This charge excludes administration charge rebates received from M&G Securities Limited, or an associate, in relation to the administration charge of the underlying collective investment schemes for which M&G Securities Limited, or an associate, acts as Authorised Corporate Director.

These rebates have been recognised as either capital or revenue in notes 3 and 5 and amount to £2,000 (2018: nil) and £5,000 (2018: £5,000).

<sup>[c]</sup> The audit fee is borne by M&G Securities Limited for one year from the date of launch. This audit fee paid by M&G Securities Limited in 2018 was £7,000 (including VAT).

# M&G Global Target Return Fund

## Financial statements and notes

### Notes to the financial statements

#### 7 Taxation

for the year to 30 April	2019 £'000	2018 £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	108	70
Withholding tax	39	17
Current double taxation relief	(17)	(8)
Prior year adjustment	6	0
Deferred tax (note 7c)	0	0
<b>Total taxation</b>	<b>136</b>	<b>79</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue / (expense) before taxation	882	529
Corporation tax at 20%	177	106
Effects of:		
Tax on management and administration charge rebates taken to capital	4	1
Dividends from equity investments: non-taxable	(58)	(34)
Stock dividends not taxable	(1)	(1)
Distributions from collective investment schemes: non-taxable	(14)	(2)
Withholding tax	39	17
Total double taxation relief	(17)	(8)
Prior year adjustment	6	0
<b>Total tax charge (note 7a)</b>	<b>136</b>	<b>79</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The fund has not recognised a deferred tax asset in the current financial year (2018: same).

#### 8 Distributions

for the year to 30 April	2019 Inc [a] £'000	2019 Acc [b] £'000	2018 Inc [a] £'000	2018 Acc [b] £'000
<b>Dividend distributions</b>				
Final	n/a	738	n/a	592
<b>Total net distributions</b>		<b>738</b>		<b>592</b>
Income deducted on cancellation of shares		78		2
Income received on issue of shares		(67)		(144)
<b>Distributions</b>		<b>749</b>		<b>450</b>
Net revenue / (expense) per statement of total return		746		450
Sharing of relief between classes		3		0
<b>Distributions</b>		<b>749</b>		<b>450</b>

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

#### 9 Debtors

as at 30 April	2019 £'000	2018 £'000
Amounts receivable on issues of shares	25	336
Debt security interest receivable	246	135
Distributions receivable	0	1
Dividends receivable	35	36
Management charge rebates due	2	2
Withholding tax recoverable	4	2
<b>Total debtors</b>	<b>312</b>	<b>512</b>

#### 10 Cash and bank balances

as at 30 April	2019 £'000	2018 £'000
Amounts held at futures clearing houses and collateral manager	2,278	1,033
Cash held as bank balances	4,228	8,961
<b>Total cash and bank balances</b>	<b>6,506</b>	<b>9,994</b>

#### 11 Other creditors

as at 30 April	2019 £'000	2018 £'000
ACD's annual management charge payable	26	24
Administration charge payable	9	8
Corporation tax payable	91	63
Derivative expense payable	8	17
Expenses payable	8	1
<b>Total other creditors</b>	<b>142</b>	<b>113</b>

#### 12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2018: same).

#### 13 Shares in issue

The following table shows each class of share in issue during the year. Each share class has the same rights on winding up however they may have different charging structures as set out in note 14.

Share class	Opening 01.05.18	Movements		Closing 30.04.19
		Issued	Cancelled	
<b>Euro</b>				
Class 'Z-H' Accumulation	3,005	0	0	3,005
<b>Sterling</b>				
Class 'A' Accumulation	971,496	508,764	(127,629)	1,352,631
Class 'I' Accumulation	40,829,400	15,546,574	(17,010,265)	39,365,709
Class 'L' Accumulation	46,683,361	7,401,410	(654,479)	53,430,292
Class 'PP' Accumulation	0	20,000	0	20,000

#### 14 Charging structure

The table below sets out the charging structure for each class of share. The charging structure is the same for both Income and Accumulation shares of each class.

Share class	Entry charge %	Exit charge %	Annual management charge %	Share class hedging charge %
<b>Euro</b>				
Class 'Z-H'	nil	n/a	nil	[a]
<b>Sterling</b>				
Class 'A'	nil	n/a	0.70	n/a
Class 'I'	nil	n/a	0.50	n/a
Class 'L'	nil	n/a	0.40	n/a
Class 'PP'	nil	n/a	0.15	n/a

[a] This charge may vary between 0.01% and 0.055%.



# M&G Global Target Return Fund

## Financial statements and notes

### Notes to the financial statements

#### 15 Related parties

M&G Securities Limited, as Authorised Corporate Director (ACD), is a related party and acts as principal on all the transactions of shares in the fund except with in specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to shareholders' and note 8. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 9 and 11 where applicable.

Amounts paid to M&G Securities Limited in respect of the ACD's annual management charge and administration charge are disclosed in note 6. Amounts due at the year end in respect of the ACD's annual management charge and administration charge are disclosed in note 11.

Amounts paid to M&G Securities Limited with respect of rebate arrangements for the ACD's annual management charge and administration charge are disclosed in notes 3 and 5. Amounts due at the year end from the ACD, and/or associate, in respect of these rebates are disclosed in note 9.

During the year, there were transactions with related parties of M&G Securities Limited with a total value of £297,000 (2018: £982,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £4,061,000 (2018: £3,917,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 13.92% (2018: 11.30%) of the fund's shares.

#### 16 Events after the balance sheet date

There were no events after the balance sheet date to disclose.

#### 17 Fair value analysis

Financial instruments have been measured at their fair value and have been classified below using a hierarchy that reflects the significance of the inputs used in measuring their fair value:

##### Level 1: Unadjusted quoted price in an active market for an identical instrument

This includes instruments such as publicly traded equities, highly liquid bonds (e.g. Government bonds) and exchange traded derivatives (e.g. futures) for which quoted prices are readily and regularly available.

##### Level 2: Valuation technique using observable market data

This includes instruments such as over-the-counter (OTC) derivatives, debt securities, convertible bonds, mortgage-backed securities, asset-backed securities and open-ended funds which have been valued using models with observable market data inputs.

##### Level 3: Valuation technique using unobservable inputs

This refers to instruments which have been valued using models with unobservable data inputs. This includes single broker-priced instruments, suspended/unquoted securities, private equity, unlisted closed-ended funds and open-ended funds with restrictions on redemption rights. However no such financial instruments were held.

as at 30 April	Assets	Liabilities	Assets	Liabilities
Basis of valuation	2019	2019	2018	2018
	£'000	£'000	£'000	£'000
Level 1	80,645	(171)	71,090	(123)
Level 2	13,276	(1,982)	11,269	(1,613)
Level 3	0	0	0	0
	<b>93,921</b>	<b>(2,153)</b>	<b>82,359</b>	<b>(1,736)</b>

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 13 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

#### 18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 and 8.

#### 19 Market risk sensitivity and exposure

VaR is the risk measurement methodology used to assess the fund's leverage and market risk volatility. When VaR is calculated as a percentage of the net asset value it may not be greater than the VaR limit set for the fund.

The VaR limit set during the financial year to 30 April 2019 was 6% (2018: 6%).

The lowest, highest and average VaR, as well as utilisation of VaR with reference to the limit above, are calculated during the financial years ended 30 April 2019 and 30 April 2018.

for the year	2019	2019	2018	2018
to 30 April	% of VaR	Utilisation of VaR [a]	% of VaR	Utilisation of VaR [a]
		6%		6%
Lowest	1.28	21.41	1.35	22.44
Highest	2.81	46.87	2.70	44.98
Average	2.06	34.38	1.89	31.55

[a] The VaR on the fund has been divided by its maximum limit.

# M&G Global Target Return Fund

## Financial statements and notes

### Notes to the financial statements

#### 20 Credit risk

The fund is exposed to credit risk both through the credit quality of the investments it holds and through the derivative positions with counterparties. The table below shows the credit quality of the investments held in the portfolio.

as at 30 April	2019 £'000	2018 £'000
Investment grade securities	70,378	65,542
Below investment grade securities	5,071	2,360
Unrated securities	578	589
Other investments	15,741	12,132
<b>Total</b>	<b>91,768</b>	<b>80,623</b>

The tables below show the exposure to counterparties. Collateral is posted daily, in the form of cash or high-quality government bonds, to minimise this exposure.

as at 30 April 2019	Swaps £'000	Forward currency contracts £'000	Futures £'000
Bank of America Merrill Lynch	0	0	(6)
Barclays	117	13	0
Citigroup	(1,169)	19	0
Goldman Sachs	(393)	0	0
Royal Bank of Scotland	0	3	0
State Street Bank	0	363	0
UBS	(141)	(7)	0
<b>Total</b>	<b>(1,586)</b>	<b>391</b>	<b>(6)</b>

as at 30 April 2018	Swaps £'000	Forward currency contracts £'000	Futures £'000
Bank of America Merrill Lynch	0	0	252
Citigroup	(851)	(95)	0
Goldman Sachs	(102)	0	0
J.P.Morgan	(94)	(123)	0
State Street Bank	0	(44)	0
UBS	(16)	13	0
<b>Total</b>	<b>(1,063)</b>	<b>(249)</b>	<b>252</b>

Net exposure represents the mark-to-market value of derivative contracts less any cash collateral held. Positive exposure represents the fund's exposure to that counterparty. Negative amounts are not an exposure to the fund.

#### 21 Leverage risk

Funds using VaR approaches are required to disclose the level of leverage employed during the financial reporting period.

Derivatives can be used by the fund to generate market exposure to investments exceeding the net asset value. As a result of this exposure, the size of any positive or negative movement in markets may have a more significant effect on the net asset value of the fund.

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 30 April 2019 and 30 April 2018 are disclosed in the table below.

for the year to 30 April	2019 <sup>[a]</sup> £'000	2019 <sup>[a]</sup> % <sup>[b]</sup>	2018 <sup>[a]</sup> £'000	2018 <sup>[a]</sup> % <sup>[b]</sup>
Lowest	182,655	191	132,861	202
Highest	415,688	371	293,890	392
Average	239,672	241	180,694	271

<sup>[a]</sup> Leverage has been calculated using the Gross Sum of Notional Approach for derivative positions only (including forward currency contracts) and excludes all physical holdings.

<sup>[b]</sup> Expressed as a percentage over net assets.

#### 22 Exchange rate risk for hedged share classes

This fund contains hedged share classes. These share classes operate currency hedges designed to reduce the impact of exchange rates in certain circumstances. As a result, profit and loss on the currency hedges may impact the liquidity of the overall fund. On a day to day basis this is monitored using reporting from the outsourced provider of the hedged share class service. On an ongoing basis the size of the hedged share classes is monitored to ensure that unforeseen exchange rate volatility can be adequately managed without significantly impacting all shareholders. The exposure to forward currency contracts for share class hedging at the year-end accounting date is disclosed in the portfolio statement on page 31.

# M&G Global Target Return Fund

## Financial statements and notes

### Notes to the financial statements

#### 23 Dividend distribution tables

This fund pays annual ordinary distributions and the following table sets out the distribution period.

Annual distribution period				
	Start	End	Xd	Payment
Final	01.05.18	30.04.19	01.05.19	30.06.19

The following tables set out for each distribution the rates per share for both Group 1 and Group 2 shares.

Group 1 shares are those purchased prior to a distribution period and therefore their income rate is the same as the distribution rate.

Group 2 shares are those purchased during a distribution period and therefore their distribution rate is made up of income and equalisation. Equalisation is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the income and equalisation components.

Euro Class 'Z-H' Accumulation shares				
Ordinary distributions for the year to 30 April	Group 2		Group 1 & 2	
	Income 2019	Equalisation 2019	2019	Distribution 2018
Final	€	€	€	€
	10.7574	0.0000	10.7574	0.2399

Sterling Class 'A' Accumulation shares				
Ordinary distributions for the year to 30 April	Group 2		Group 1 & 2	
	Income 2019	Equalisation 2019	2019	Distribution 2018
Final	p	p	p	p
	0.3021	0.2734	0.5755	0.4655

Sterling Class 'I' Accumulation shares				
Ordinary distributions for the year to 30 April	Group 2		Group 1 & 2	
	Income 2019	Equalisation 2019	2019	Distribution 2018
Final	p	p	p	p
	0.4328	0.3071	0.7399	0.6317

Sterling Class 'L' Accumulation shares				
Ordinary distributions for the year to 30 April	Group 2		Group 1 & 2	
	Income 2019	Equalisation 2019	2019	Distribution 2018
Final	p	p	p	p
	0.6157	0.2058	0.8215	0.7053

Sterling Class 'PP' Accumulation shares				
Ordinary distributions for the year to 30 April	Group 2		Group 1 & 2	
	Income 2019	Equalisation 2019	2019	Distribution 2018
Final	p	p	p	p
	0.8077	0.0000	0.8077	n/a

# M&G Global Target Return Fund

Financial statements and notes

This page is intentionally blank

# M&G Investment Funds (11)

## Other regulatory disclosures

### Alternative Investment Fund Managers Directive (AIFMD)

In accordance with the AIFMD we are required to report to investors on the 'leverage' of the funds and any 'special arrangements' that exist in relation to each fund's assets.

### Leverage

Under AIFMD, leverage is defined as any method by which each fund increases its exposure through borrowing or the use of derivatives. This exposure must be calculated in two ways, the 'gross method' and the 'commitment method'. The fund must not exceed maximum exposures under both methods.

'Gross method' is calculated as the sum of all positions of the fund (both positive and negative), that is, all eligible assets, liabilities and derivatives, including derivatives held for risk reduction purposes.

'Commitment method' exposure is also calculated as the sum of all positions of the fund (both positive and negative), but after netting off derivative and security positions as specified by AIFMD rules.

Therefore as at 30 April 2019 the total amount of leverage is as follows:

#### Gross method:

M&G Episode Income Fund	162.63%
M&G Global Target Return Fund	238.47%

#### Commitment method:

M&G Episode Income Fund	55.45%
M&G Global Target Return Fund	76.76%

### Special arrangements

A 'Special Arrangement' is an arrangement in relation to fund assets that results in an investor or group of investors receiving different redemption rights to those generally available to investors in a given share class.

The funds had no assets subject to special arrangements for the period ending 30 April 2019.

### Remuneration

In line with the requirements of the Alternative Investment Fund Managers Directive ('AIFMD'), M&G Securities Limited is subject to a remuneration policy which is consistent with the principles outlined in the European Securities and Markets Authority guidelines on sound remuneration policies under the AIFMD.

The remuneration policies are designed to ensure that any relevant conflicts of interest can be managed appropriately at all times and that the remuneration of its staff is in line with the risk policies and objectives of the alternative investment funds it manages. Further details of the remuneration policy applicable at an M&G Limited level can be found here: <https://www.mandg.com/about-us/policies-and-business-principles>. M&G's remuneration policy and its implementation is reviewed on an annual basis, or more frequently where required, and is approved by the M&G Remuneration Committee.

M&G Securities Limited in its capacity as the Alternative Investment Fund Manager (the 'AIFM') of M&G Investment Funds (11) has delegated portfolio management services to M&G Investment Management Limited (the 'Delegate').

The ESMA Guidelines require the AIFM to ensure that, to the extent portfolio management activities are delegated by the AIFM, the Delegate is itself subject to remuneration provisions of equivalent effect to those contained in the AIFMD. M&G Investment Management Limited is subject to the Markets in Financial Instruments Directive ('MiFID') which is considered by the Financial Conduct Authority to be equally effective.

The AIFM is required under the AIFMD to make quantitative disclosures of remuneration. These disclosures are made in line with M&G's interpretation of currently available guidance on quantitative remuneration disclosures. As market or regulatory guidance evolves, M&G may consider it appropriate to make changes to the way in which quantitative disclosures are calculated. Members of staff and senior management typically provide both AIFMD and non-AIFMD related services and have a number of areas of responsibility. Therefore, only the portion of remuneration for those individuals' services which may be attributable to the AIFM is included in the remuneration figures disclosed. Accordingly the figures are not representative of any individual's actual remuneration.

M&G Securities Limited does not directly employ any staff members. However, for the financial year ended 31 December 2018, aggregate remuneration of £2,838,103 (£518,242 in respect of fixed remuneration and £2,319,860 in respect of variable remuneration) was paid to individuals whose actions may have a material impact on the risk profile of M&G Securities Limited, of which £65,514 related to senior management.

# Glossary

**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.

# Glossary

**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.

**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.

**Ongoing Charge Figure:** The Ongoing Charge Figure includes charges for the following items: management of the fund (also known as Annual Management Charge), administration services, services provided by external parties which include depository, custody and audit, as well as incorporating the ongoing charge figure from funds held in the portfolio (taking into account any rebates).

**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.



# Glossary

**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.

**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.

M&G Securities Limited is authorised and regulated by the Financial Conduct Authority and provides investment products. The Company's registered office is 10 Fenchurch Avenue, London EC3M 5AG. Registered in England number 90776.



