

## **M&G Investment Funds (12)**

Annual Long Report and audited Financial Statements  
for the year ended 31 January 2019

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# M&G Investment Funds (12)

## Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Investment Funds (12) presents its Annual Long Report and audited Financial Statements for the year ended 31 January 2019.

The audited financial statements of M&G Investment Funds (12) and the investment report and audited financial statements and notes of the 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 (12) is an umbrella Open-Ended Investment Company (OEIC) and contains one sub-fund, hereinafter referred to as 'fund' in the rest of this report. This fund is a UCITS (Undertakings for Collective Investment in Transferable Securities) scheme as defined in the Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Conduct Authority (FCA). This OEIC is an Investment Company with Variable Capital (ICVC) incorporated under the Open-Ended Investment Companies Regulations 2001. It is authorised and regulated by the FCA under the Financial Services and Markets Act 2000.

The Company was authorised on 2 November 2011 and the fund was launched on 17 February 2012.

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.

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 manager

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

#### **M&G Global Recovery Fund**

David Williams

### ACD

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

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

### Directors of the ACD

M Ammon\*, G N Cotton, N M Donnelly, P R Jelfs,  
G W MacDowall\*\*, L J Mumford

\* Appointed 26 July 2018.

\*\* Resigned 4 January 2019.

### Investment manager

M&G Investment Management Limited,  
Laurence Pountney Hill, London EC4R 0HH, UK  
Telephone: +44 (0)20 7626 4588

(Authorised and regulated by the Financial Conduct Authority)

### Registrar

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

### Depositary

NatWest Trustee and 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

The investment objective and policy of the M&G Global Recovery Fund changed on 1 March 2019.

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

### 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.

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

M&G Securities Limited,  
c/o RBC I&TS, 14, Porte de France, L-4360 Esch-sur-Alzette,  
Grand Duchy of Luxembourg

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: +352 2605 9944

Email: csmandg@rbc.com

For security purposes and to improve the quality of our service, we may record and monitor telephone calls. You will require your M&G client reference. Failure to provide this will affect your ability to transact with us.

# M&G Investment Funds (12)

## Authorised Corporate Director's Report

### Investor information

#### Austrian paying and information agent:

Société Générale, Vienna Branch,  
Prinz Eugen-Strasse 8-10/5/Top 11, 1040 Wien, Austria

#### Belgian financial agent:

Société Générale Private Banking NV,  
Kortrijksesteenweg 302, 9000 Gent, Belgium

#### Danish representative agent:

Nordea Bank Danmark A/S,  
Client Relations DK, Investor Services & Solutions,  
Postbox 850, Reg.no.6428. HH. 6.1., 0900 København C, Denmark

#### French centralising agent:

RBC Investor Services, Bank France S.A.,  
105 rue Réaumur, 75002 Paris, France

#### German information agent:

M&G International Investments Limited,  
mainBuilding, Taunusanlage 19, 60325 Frankfurt am Main,  
Germany

#### Greek paying agent and distributor:

Eurobank Ergasias S.A.,  
8, Othonos Street, 10557 Athens, Greece

#### Irish facilities agent:

Société Générale S.A., Dublin Branch,  
3rd Floor IFSC House – The IFSC, Dublin 1, Ireland

#### Italian paying agents:

Allfunds Bank, S.A.,  
Via Santa Margherita 7, 20121 Milano, Italy

Banca Monte dei Paschi di Siena S.p.A.,  
Piazza Salimbeni 3, 53100 Siena, Italy

Banca Sella Holding S.p.A.,  
Piazza Gaudenzio Sella 1, 13900 Biella, Italy

BNP PARIBAS Securities Services,  
Piazza Lina Bo Bardi 3, 20124 Milano, Italy

CACEIS Bank Luxembourg,  
Milan Branch, Piazza Cavour 2, 20121 Milano, Italy

RBC Investor Services Bank S.A., Milan Branch  
Via Vittor Pisani 26, 20124 Milano, Italy

State Street Bank S.p.A.,  
Via Ferrante Aporti 10, 20125 Milano, Italy

Société Générale Securities Services S.A.,  
Via Benigno Crespi 19A - MAC 2, 20159 Milano, Italy

#### Luxembourg paying and information agent:

Société Générale Bank & Trust S.A.,  
Centre opérationnel, 28-32, place de la Gare, 1616 Luxembourg,  
Grand Duchy of Luxembourg

#### Portuguese distributor:

Best - Banco Electrónico de Serviço Total, S.A.,  
Praça Marquês de Pombal, no. 3 - 3º, 1250-161 Lisboa, Portugal

#### Spanish representative:

Allfunds Bank, S.A.,  
Calle Estafeta, No 6 Complejo Plaza de la Fuente,  
La Moraleja 28109, Alcobendas, Madrid, Spain

#### Swedish paying agent:

Nordea Bank AB (publ),  
Smålandsgatan 17, 105 71 Stockholm, Sweden

## 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 the fund 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 March 2019

# M&G Investment Funds (12)

## Depository's Responsibilities and Report

### Statement of the Depository's Responsibilities and Report of the Depository to the Shareholders of M&G Investment Funds (12) ('the Company') for the period ended 31 January 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 March 2019

NatWest Trustee and  
Depository Services Limited

# M&G Investment Funds (12)

## Independent Auditor's Report

### Independent Auditor's Report to the shareholders of M&G Investment Funds (12) ICVC

#### Opinion

We have audited the financial statements of M&G Investment Funds (12) ("the Company") for the year ended 31 January 2019 which comprise the Statement of Total Return and Statement of Changes in Net Assets Attributable to Shareholders together with the Balance Sheet for the Company, the accounting policies of the Company, the related notes and the Distribution Tables, including a 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 as at 31 January 2019 and of the net revenue and the net capital losses on the scheme property of the Company 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's 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 follow 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 (12)

## Independent Auditor's Report

### Independent Auditor's Report to the shareholders of M&G Investment Funds (12) 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 March 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 (12)

## Independent Auditor's Report

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# M&G Investment Funds (12)

## Financial statements and notes

The financial statements for M&G Investment Funds (12) comprise the individual financial statements for the fund and the notes below.

### Notes to the financial statements

#### 1 Statement of compliance

The financial statements of M&G Investment Funds (12) 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.

#### 2 Summary of significant accounting policies

##### a) Basis of preparation

The financial statements of M&G Investment Funds (12) 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 (12) is US dollars.

##### c) Exchange rates

Transactions in currencies other than the 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 31 January 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 31 January 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).
  - 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.

# M&G Investment Funds (12)

## Financial statements and notes

### Notes to the financial statements

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

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

- The value of any enhancement to a stock dividend is treated as capital.
- 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.
- 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 the 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 fund, with specific risk disclosures set out in the notes to the financial statements of the 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.

# M&G Investment Funds (12)

## Financial statements and notes

### Notes to the financial statements

#### 3 Risk management policies (continued)

##### 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.

##### 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 Global Recovery Fund	Commitment

##### 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 Investment Funds (12)

Financial statements and notes

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# M&G Global Recovery Fund

## Authorised Corporate Director's Report

### Investment objective up to 28 February 2019

The fund aims to maximise long term capital growth. Income is not a consideration.

### Investment policy up to 28 February 2019

The fund predominantly invests in a global range of equities issued by companies which, at the time of investment, the manager believes are out of favour with the market or whose future prospects are not fully recognised by the market. Derivatives may be used for investment and efficient portfolio management purposes, including hedging. The fund may also invest in other transferable securities, warrants, money market instruments, deposits, cash, near cash and collective investment schemes.

### Investment approach up to 28 February 2019

The M&G Global Recovery Fund seeks to deliver long-term capital growth through investment in companies and stockmarkets around the world. The fund manager focuses on companies that have experienced difficulties but where a good management team is making a coherent effort to improve the shareholder returns of the business and where the stockmarket has overlooked the value of the businesses' assets. This approach means the fund manager is prepared to take a contrarian view and consider areas that are out of favour with other investors, seeking to exploit the market's inefficiency in pricing companies experiencing business challenges. Company management meetings and visits, as well as fundamental industry and financial research, are used to identify stocks for inclusion within the portfolio. The fund manager takes a long-term approach to investment, aiming to have a holding period of at least three to five years, and seeks opportunities across different geographies and industries to create a diversified portfolio.

### Investment objective from 1 March 2019

The fund aims to provide a higher total return (the combination of capital growth and income), net of the Ongoing Charge Figure, than that of the MSCI ACWI Index over any five-year period.

### Investment policy from 1 March 2019

At least 80% of the fund is invested in equity securities and equity-related securities of companies across any sectors and market capitalisations that are domiciled in any country, including emerging markets.

The fund may also invest in other transferable securities directly, cash and near cash directly or via collective investment schemes (including funds managed by M&G).

Derivatives may be used for investment purposes, efficient portfolio management and hedging.

### Investment approach from 1 March 2019

The fund employs a disciplined approach to investment which concentrates on the analysis and selection of individual companies.

Recovery investing focuses on companies that have experienced difficulties but have the potential to deliver returns for shareholders through their turnaround over the long term.

The fund looks to benefit from the market's inefficiency in valuing companies going through short-term challenges. This enables the fund manager to identify companies whose long-term prospects are under-appreciated by the market.

When analysing a company, the fund manager focuses on three key factors: people, strategy and cashflow. Developing a constructive dialogue with company management is fundamental to the investment process.

The investment approach means the fund manager is prepared to take a contrarian view and consider areas that are out of favour with other investors. To take this contrarian view, the fund manager focuses on company management, their turnaround strategy and the businesses' ability to generate cashflow.

The fund manager expects individual cases of companies recovering to be the main driver of performance rather than individual sectors, geographies and the global macroeconomic environment.

The fund manager takes a long-term view with a typical holding period of five years or more.

### Risk profile

The fund invests globally in the shares of listed companies and is, therefore, subject to the price volatility of the global stockmarket and the performance of individual companies. The fund's focus is on companies that are out of favour with the market, and these stocks could potentially experience a degree of illiquidity in times of market distress. However, the fund is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. The fund also invests in the shares of smaller companies, which can be more unpredictable and difficult to buy and sell. Diversification across industries and market capitalisation is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

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

# M&G Global Recovery Fund

## Authorised Corporate Director's Report

### Investment review

As at 1 February 2019, for the year ended 31 January 2019

#### Performance against objective

Between 1 February 2018 (the start of the review period) and 1 February 2019, the M&G Global Recovery Fund produced a negative total return (the combination of income and growth of capital) across all its share classes. The fund's returns in all share classes were behind that of a comparative index, the MSCI ACWI (MSCI All Country World Index). Over the 12 months, returns for the index were 1.3%, 1.3% and -6.9% in euros, sterling and US dollars, respectively.

The fund aims to deliver growth of capital over the long term (five years or more) by investing at least 80% of the portfolio in a range of shares in companies from around the world that are out of favour with the stockmarket, where we believe a good management team is making concerted efforts to turn the business around. The fund achieved this objective, with a positive performance in terms of total return across all its share classes over five years and since launch.\*

\* 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

Global equities produced negative returns in local currency terms over the 12 months, with all the major regional markets ending below the start line. However, the strength of the US dollar meant the MSCI ACWI delivered a positive return in euro and sterling terms, as it boosted the performance of the US against these two currencies and the US market represents over half the index.

The 12 months under review, which took in most of 2018, were marked by a return of volatility after a period of relative calm in 2017. Initially, this was partly associated with a greater level of uncertainty around monetary policy in the major economies of the world as central banks, led by the US Federal Reserve, begin the process of withdrawing the stimulus put in place after the 2008/09 financial crisis and normalising interest rates after a decade of 'emergency' low levels. To this end, the Fed raised interest rates four times over the 12 months (the Bank of England followed suit with a quarter-point rise in early August). The market volatility was also attributed to the various economic and geopolitical developments that took place. Most prominent was the boost to corporate earnings from President Trump's tax cuts at the start of 2018. Through the summer months, the US market was led up by reports of a surging economy, falling unemployment and a strong technology sector, but was subsequently undermined by disappointing results from the tech behemoths Apple and Facebook.

Another factor affecting markets in 2018 was a rise in protectionism as the US disputed its trading terms with other countries such as China and Europe. In addition, concerns about the impact on global growth, which moderated as the year progressed led by a slowdown in China, depressed commodity prices.

The UK equity market was increasingly dominated by Brexit. After much controversy and histrionics, which included Theresa May's government surviving a no-confidence vote, the Commons mandated the prime minister to renegotiate the Irish backstop arrangement with only two months to go before the 29 March 2019 deadline. Latterly, the obvious antipathy of a majority of MPs to a 'no deal' scenario and their support for a possible extension to Article 50 was received with relief in the UK equity market, which ended the 12-month period by recording its best January since 2013. However, this only returned the market to the same level it had reached last spring. Sentiment was also assisted in the new year by a return of global risk appetite, encouraged by a more dovish tone from the Fed on further interest rate rises, concerned about falls in asset prices. Some better-than-expected corporate results, signs of progress in the US-China trade talks, and news that China's central bank was boosting lending in its economy to stimulate growth, added to the improved mood.

The dollar's ascent, worries about moderating global growth as the year progressed and the prospect of a trade war weighed on Asian and emerging markets. The advent of slower growth also acted as a restraint on European markets. A rise in populism on the Continent added to the unease, highlighted by the election of a Eurosceptic government in Italy causing a temporary flare-up in fixed income, or bond, markets in May as investors were reminded about the debt crisis that enveloped the eurozone in 2011. However, ultimately, with equity markets increasingly under pressure, government bond markets attracted support from risk-averse investors. (Bonds represent a loan to a government or company.)

In terms of sectors, market trends were mixed, with economically sensitive areas such as technology, retailing, media, transportation and real estate in favour, alongside stocks with more defensive attributes such as consumer staples, healthcare and utilities. On the other hand, financials, industrials, autos, energy, materials and telecommunications lagged.

Against this backdrop, the fund trailed the comparator index, the MSCI ACWI. Stock selection was the main reason for the underperformance, with country allocation subtracting slightly due to a below-index, but still substantial, exposure to the US, while the effect of sector allocation was neutral.

Amongst the largest detractors was the healthcare sector. This was principally due to holdings in two biotech stocks, Hutchison China MediTech and Medical Developments International. Hutchison China MediTech continues to make good progress by broadening and deepening its research and development pipeline; however, it was affected by market concerns around the US' attitude towards China. Medical Developments International's shares consolidated last year after a strong 2017 on expectations of the success of the company's Pentrox pain management international expansion. Colloquially known as the 'green whistle', Pentrox is commonly carried by accident and emergency teams in Australia, parts of Asia, Europe and the UK, and is a very effective alternative to opioid-based drugs.

Another significant detractor was the consumer discretionary sector, mainly due to the fund's holding in Denmark-listed jeweller Pandora. The company's financial performance was disappointing in 2018, forcing it to cut its earnings outlook twice. However, Pandora is a strong brand that resonates well; the company has made changes at board and management level and is working towards improving its operational performance.

# M&G Global Recovery Fund

## Authorised Corporate Director's Report

### Investment review

#### Investment performance (continued)

Elsewhere, shares in DP World, the Dubai-based global ports operator, fell after the government of Djibouti nationalised one of DP World's ports, in which the company has a 30% share, because the government views the facility as a strategic asset. However, this needs to be seen in the context of the 77 ports owned by DP World and the fact that the government in Djibouti could compensate the company. The threat of tariffs weighed on the performance of the world's largest car manufacturer, Volkswagen. Notably, Commerzbank underperformed on concerns around the government forcing the German banking group to merge with struggling national champion Deutsche Bank.

The principal positive contributors were to be found in the consumer services, materials, energy and food retailing sectors. Foremost amongst these was upmarket global hotel group Belmond, owner of the iconic Cipriani in Venice, which performed strongly – initially on the announcement that it was going to sell some of its portfolio, and subsequently on the news that it had received a takeover offer from luxury retailer LVMH.

In the materials sector, Mineral Commodities has made good progress with its titanium mining concession in South Africa and has had some positive initial results from a graphite mine the company is developing in Australia. Kosmos Energy and BP added value in the energy sector, with BP announcing a 2.5% increase in the dividend, the first for four years, together with a share buyback programme over the next year worth around 4% of the company's market capitalisation (the number of shares in use multiplied by the share price).

In the food retailing sector, supermarket chain SuperValu was taken over by food distributor United Natural Foods, forming the leading food wholesaler in the US. In addition, it was not all disappointing news in the healthcare sector, as GW Pharmaceuticals and Pfizer added materially to returns. Following on from FDA and DEA approval in 2018 for Epidiolex (GW Pharmaceutical's treatment for extreme epilepsy in children), the company began the process of commercialising the product late last year. Pfizer, meanwhile, was boosted by a good set of results.

#### Investment activities

We made eight new purchases for the fund over the review period. These included financial technology firm Afterpay Touch, a clinical studies contract research firm, Syneos Health, upstream oil and gas investment company Reabold Resources, brick-laying robot manufacturer Fastbrick Robotics, drug maker Bayer and multinational transport operator ComfortDelgro.

Brought to the market two years ago, Afterpay Touch offers the consumer an alternative method of purchasing goods without resorting to credit cards. The target market is millennials, who are notoriously wary of incurring credit card debt. Afterpay Touch enables a purchaser to pay for their items in four equal instalments over two months, at no additional cost. Retailers like this arrangement because it increases their sale conversion rates and at the same time monitors consumers' creditworthiness – if they don't pay, they are shut out from

the system. The company has two million users in Australia, has also been launched in New Zealand and more recently the US. We bought into the shares at an attractive price when they experienced some volatility due to adverse media attention about potential regulation, which we do not regard to be an issue.

Syneos Health is based in North Carolina and was formed in January 2015 by the merger of two companies providing clinical research and services for drug companies wishing to outsource their clinical trials. Reabold Resources takes stakes in oil and gas projects, with interests in California, the UK and eastern Europe. Reabold normally provides capital to companies close to bringing wells into production. In the UK it is seeking to do this with some ex-BP acreage it has recently acquired, and in California has an interest in an oil project where one well has come on stream. We invested in Reabold to help fund these projects. Fastbrick Robotics has developed a precision technology incorporated in a robot that can build residential homes in one day. This is a revolution in construction that will both simplify and bring down the costs of building new houses at a time when many countries are struggling with housing shortages.

German-listed Bayer got into difficulty over its leveraged acquisition of Monsanto, the US agrochemical company that manufactures Roundup. The weed killer contains glyphosate and there has been a legal claim that it causes cancer. However, there was no scientific or medical basis for the jury to find in the plaintiff's favour. The FDA, EPA and European health bodies have all said they see no danger in glyphosate usage. Monsanto and the industry have performed 800 studies, and not one was found to be harmful. Although Bayer is a pharmaceutical giant, its market capitalisation has sunk to almost the same level as the value it paid for Monsanto.

ComfortDelgro provides transportation services in Singapore and is growing its presence around the world. The company has been perceived to be under threat from new competition in its domestic taxi market and the stock derated, although only one division was under pressure. The fall in the share price ignored a healthy balance sheet and cashflow, plus an attractive dividend.

Aside from SuperValu, another holding that exited the portfolio over the 12 months was the Brunswick Corporation, a US manufacturer of leisure craft and marine engines. The mini-conglomerate had been held in the portfolio since 2012, after it had run into cashflow problems during the global financial crisis when the market for its products dried up. Since then, the company has been restored to health and made some disposals to refocus the business, which it is splitting into two. As we had made a substantial return and the shares had reached fair value, we decided this was an opportune time to move on, as the new entities would be too small individually for inclusion in the portfolio.

In other activity, we took profits in some of our better performing positions, such as Kosmos Energy, which resulted in a complete disposal, and BP to manage the fund's energy exposure. In addition, we reduced gold miners St Barbara and Midas Gold – the latter announced a collaboration with Barrick Gold, the world's largest gold miner – and in the healthcare sector GW Pharmaceuticals and Pfizer. The proceeds were used to add to holdings in companies at the start of the recovery process, such as Advance Auto Parts, Global Brands, Allergan and Bank of Ireland.

# M&G Global Recovery Fund

## Authorised Corporate Director's Report

### Investment review

#### Outlook

We believe there is substantial value in the fund, that it is cheap relative to the market and that it is well placed to perform going forward, particularly as interest rates normalise and investors reappraise risk. Despite the lacklustre performance over the past 12 months, we are encouraged by the number of our companies in the portfolio delivering on their recovery strategy, with operational improvements to come in many.

Ours is a long-term approach to investment. We allow the management teams of companies that we back sufficient time to take the action required to return the business to health, and that means we have to be patient and keep our nerve. It is quite normal for such companies to suffer temporary setbacks as they move through the process of improvement. Equally, it can take time for other investors to recognise the value in the company or begin to reward the management for the improvements they have made.

#### David Williams 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.

### Investments

Portfolio statement			
as at 31 January	2019	2019	2018
Holding	\$'000	%	%
<b>EQUITIES</b>	<b>380,291</b>	<b>100.76</b>	<b>100.65</b>
<b>United Kingdom</b>	<b>55,478</b>	<b>14.70</b>	<b>17.27</b>
1,250,000 African Minerals <sup>[a]</sup>	0	0.00	
165,000 Belmond	4,110	1.09	
1,250,000 BP	8,549	2.26	
70,000 GW Pharmaceuticals ADR	9,831	2.60	
252,050 Hutchison China Meditech <sup>[b]</sup>	10,755	2.85	
18,500,000 International Petroleum <sup>[a]</sup>	0	0.00	
1,551,636 IWG	4,596	1.22	
103,786 Izodia <sup>[a]</sup>	0	0.00	
1,559,043 Kenmare Resources	4,073	1.08	
1,245 Kenmare Resources Warrants 16/11/2019	0	0.00	
894,398 KSK Power Ventur <sup>[a]</sup>	0	0.00	
1,306,430 OPG Power Ventures <sup>[b]</sup>	408	0.11	
225,000 Prudential <sup>[c]</sup>	4,415	1.17	
351,935,187 Reabold Resources	3,235	0.86	
2,038,775 Tullow Oil	5,506	1.46	
<b>Denmark</b>	<b>8,379</b>	<b>2.22</b>	<b>3.13</b>
190,000 Pandora	8,379	2.22	
<b>Finland</b>	<b>0</b>	<b>0.00</b>	<b>1.11</b>
<b>France</b>	<b>8,944</b>	<b>2.37</b>	<b>1.87</b>
45,000 Fnac Darty	3,174	0.84	
275,000 Veolia Environnement	5,770	1.53	
<b>Germany</b>	<b>20,182</b>	<b>5.35</b>	<b>5.31</b>
40,000 Bayer	3,047	0.81	
350,000 Commerzbank	2,592	0.68	
285,000 MagForce	1,909	0.51	
195,000 ThyssenKrupp	3,458	0.92	
54,000 Volkswagen Preference Shares	9,176	2.43	
<b>Ireland</b>	<b>9,013</b>	<b>2.39</b>	<b>1.93</b>
17,900 Adient	346	0.09	
28,000 Allergan	4,029	1.07	
376,667 Bank of Ireland	2,302	0.61	
42,363,876 Ormonde Mining	2,336	0.62	
<b>Netherlands</b>	<b>0</b>	<b>0.00</b>	<b>1.46</b>
<b>Switzerland</b>	<b>10,016</b>	<b>2.65</b>	<b>2.51</b>
314,319 Arbonia	3,799	1.00	
90,000 Garmin	6,217	1.65	
<b>United States</b>	<b>146,260</b>	<b>38.75</b>	<b>39.25</b>
25,000 Advance Auto Parts	3,975	1.05	
125,000 Ally Financial	3,342	0.88	
117,000 American Airlines	4,251	1.13	
107,000 Anadarko Petroleum	5,118	1.36	
4,200,000 Athersys	6,552	1.74	
88,000 Carnival	5,055	1.34	
1,901,774 Cherokee	1,559	0.41	
205,000 Citigroup	13,163	3.49	
158,598 Citizens Financial	5,483	1.45	
200,000 Coty	1,442	0.38	
170,000 eBay	5,797	1.54	
375,053 GameStop	4,193	1.11	
1,079,172 Gurnet Point Capital <sup>[a]</sup>	0	0.00	
300,000 Hewlett-Packard Enterprise	4,656	1.23	
220,267 HP	4,888	1.30	
365,000 Hutchison China MediTech ADR	8,212	2.17	
177,000 Johnson Controls International	5,857	1.55	
23,100 Marriott Vacations Worldwide	2,031	0.54	

# M&G Global Recovery Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at 31 January Holding	2019 \$'000	2019 %	2018 %
<b>United States (continued)</b>			
261,878 Mattel	3,218	0.85	
106,000 Microsoft	11,268	2.98	
65,000 PayPal	6,011	1.59	
205,000 Pfizer	8,526	2.26	
57,000 Polaris Industries	4,819	1.28	
75,000 Stericycle	3,318	0.88	
70,923 Syneos Health	3,614	0.96	
90,000 Tapestry	3,451	0.91	
155,639 Wells Fargo	7,796	2.07	
213,426 Western Union	3,908	1.04	
181,493 Weyerhaeuser REIT	4,757	1.26	
<b>Canada</b>	<b>22,762</b>	<b>6.03</b>	<b>5.27</b>
9,187,407 Fengro Industries	245	0.06	
390,000 First Quantum Minerals	4,219	1.12	
11,585,000 Midas Gold	7,674	2.03	
1,400,000 NexGen Energy	2,430	0.64	
120,000 Nutrien	6,245	1.66	
80,000 Vermilion Energy	1,949	0.52	
<b>Japan</b>	<b>7,371</b>	<b>1.95</b>	<b>1.47</b>
146,600 Sony	7,371	1.95	
<b>Australia</b>	<b>48,364</b>	<b>12.81</b>	<b>8.31</b>
400,610 Afterpay Touch	4,638	1.23	
7,489,641 Bionomics	600	0.16	
65,924,166 FAR	2,783	0.74	
35,419,085 FBR (formerly Fastbrick Robotics)	3,093	0.82	
2,350,000 IPH	9,338	2.47	
3,275,026 Medical Developments International	9,009	2.39	
3,601,846 Mesoblast	3,080	0.81	
450,000 Mesoblast ADR	2,038	0.54	
35,808,750 Mineral Commodities	4,821	1.28	
2,000,000 St Barbara	7,278	1.93	
12,464,387 Vintage Energy	1,451	0.38	
4,678,947 White Energy Company	235	0.06	
<b>China</b>	<b>853</b>	<b>0.23</b>	<b>0.21</b>
450,000 Kingsoft	853	0.23	
<b>Hong Kong</b>	<b>18,115</b>	<b>4.80</b>	<b>4.75</b>
110,250,000 China Financial Services	7,026	1.86	
11,500,000 Genting Hong Kong	2,155	0.57	
65,000,000 Global Brands	3,272	0.87	
6,750,000 Li & Fung	1,144	0.30	
550,065 Standard Chartered	4,518	1.20	
<b>India</b>	<b>507</b>	<b>0.13</b>	<b>0.15</b>
643,041 Great Eastern Energy GDR	507	0.13	
<b>Malaysia</b>	<b>9,834</b>	<b>2.61</b>	<b>3.31</b>
13,250,000 AirAsia	9,834	2.61	
<b>New Zealand</b>	<b>3,480</b>	<b>0.92</b>	<b>0.46</b>
110,000 Xero	3,480	0.92	
<b>Singapore</b>	<b>2,338</b>	<b>0.62</b>	<b>0.52</b>
1,350,000 ComfortDelGro	2,338	0.62	
<b>United Arab Emirates</b>	<b>5,130</b>	<b>1.36</b>	<b>1.62</b>
300,000 DP World	5,130	1.36	
<b>South Africa</b>	<b>3,265</b>	<b>0.87</b>	<b>0.74</b>
500,000 MTN	3,265	0.87	

### Portfolio statement (continued)

as at 31 January Holding	2019 \$'000	2019 %	2018 %
Portfolio of investments (notes 2c & 2d on page 7)	380,291	100.76	100.65
Net other assets / (liabilities)	(2,882)	(0.76)	(0.65)
<b>Net assets attributable to shareholders</b>	<b>377,409</b>	<b>100.00</b>	<b>100.00</b>

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

[a] Suspended.

[b] AIM quoted.

[c] Related party to the fund.

### Top ten portfolio transactions

for the year to 31 January 2019

Largest purchases	\$'000
FBR (formerly Fastbrick Robotics)	4,214
Reabold Resources	3,895
Bayer	3,550
Syneos Health	3,459
IPH	3,336
Medical Developments	3,334
Medical Developments International	3,227
Kenmare Resources	2,860
Veolia Environnement	2,563
Pandora	2,306
Other purchases	24,568
<b>Total purchases</b>	<b>57,312</b>
Largest sales	\$'000
Brunswick	6,614
Kosmos Energy	6,576
Technopolis	5,852
Pfizer	4,890
BP	4,804
Hutchison China MediTech ADR	4,759
ILG	4,381
Aperam	3,912
St Barbara	3,324
Microsoft	3,018
Other sales	33,249
<b>Total sales</b>	<b>81,379</b>

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

# M&G Global Recovery 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 sterling share classes. Performance is shown after deduction of this charge. All UK 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 (12), 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			
	2019	2018	2017
as at 31 January	\$'000	\$'000	\$'000
Fund net asset value (NAV)	377,409	489,612	408,115

### Performance since launch

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



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

### Long-term performance by share class

	One year 01.02.18 % [a]	Three years 01.02.16 % p.a.	Five years 03.02.14 % p.a.	Since launch % p.a.
<b>Euro [b]</b>				
Class 'A'	-11.8	+5.7	n/a	+0.6 [c]
Class 'C'	-10.9	+6.8	n/a	+1.6 [c]
<b>Sterling [d]</b>				
Class 'A'	-11.2	+11.2	+7.4	+7.3 [e]
Class 'I'	-10.6	+12.0	+8.2	+8.1 [e]
Class 'R'	-10.8	+11.7	+7.9	+9.6 [f]
<b>US dollar [b]</b>				
Class 'A'	-18.6	+7.7	n/a	+2.3 [c]
Class 'C'	-17.8	+8.7	n/a	+3.3 [c]

[a] Absolute basis.

[b] Price to price with net income reinvested.

[c] 6 November 2015, the launch date of the share class.

[d] Price to price with income reinvested.

[e] 17 February 2012, the launch date of the fund.

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

# M&G Global Recovery 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.
- **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 31 January	2019	2018	2017	Average <sup>[a]</sup>
<b>Direct portfolio transaction costs <sup>[b]</sup></b>	%	%	%	%
Broker commission	0.01	0.01	0.04	0.02
Taxes	0.01	0.01	0.01	0.01
Costs before dilution adjustments	0.02	0.02	0.05	0.03
Dilution adjustments <sup>[c]</sup>	(0.01)	(0.01)	(0.02)	(0.01)
<b>Total direct portfolio transaction costs</b>	<b>0.01</b>	<b>0.01</b>	<b>0.03</b>	<b>0.02</b>
<b>as at 31 January</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	1.07	0.57	0.64	0.76

<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 Recovery 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 8 February 2019.

#### Euro Class 'A' Accumulation share performance

The share class was launched on 6 November 2015.

for the year to 31 January Change in NAV per share	2019 Euro ¢	2018 Euro ¢	2017 Euro ¢
Opening NAV	1,156.24	1,051.49	842.85
Return before operating charges and after direct portfolio transaction costs	(113.82)	125.81	227.83
Operating charges	(21.34)	(21.06)	(19.19)
Return after operating charges	(135.16)	104.75	208.64
Distributions	(0.49)	(1.79)	(0.89)
Retained distributions	0.49	1.79	0.89
Closing NAV	1,021.08	1,156.24	1,051.49
<b>Direct portfolio transaction costs</b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.27	0.23	0.63
Dilution adjustments <sup>[a]</sup>	(0.07)	(0.07)	(0.20)
Total direct portfolio transaction costs	0.20	0.16	0.43
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.01	0.03
Operating charges	1.93	1.93	1.94
Return after operating charges	-11.69	+9.96	+24.75
Historic yield	0.22	0.17	0.08
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	67	89	66
Closing NAV percentage of total fund NAV (%)	0.02	0.02	0.02
Number of shares	5,722	6,222	5,822
Highest share price (Euro ¢)	1,179.44	1,196.72	1,081.60
Lowest share price (Euro ¢)	921.83	1,005.97	771.42

#### Euro Class 'C' Accumulation share performance

The share class was launched on 6 November 2015.

for the year to 31 January Change in NAV per share	2019 Euro ¢	2018 Euro ¢	2017 Euro ¢
Opening NAV	1,182.27	1,064.46	844.71
Return before operating charges and after direct portfolio transaction costs	(117.24)	128.12	228.97
Operating charges	(10.43)	(10.31)	(9.22)
Return after operating charges	(127.67)	117.81	219.75
Distributions	(10.49)	(11.22)	(6.75)
Retained distributions	10.49	11.22	6.75
Closing NAV	1,054.60	1,182.27	1,064.46
<b>Direct portfolio transaction costs</b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.27	0.24	0.63
Dilution adjustments <sup>[a]</sup>	(0.07)	(0.07)	(0.20)
Total direct portfolio transaction costs	0.20	0.17	0.43
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.01	0.03
Operating charges	0.93	0.93	0.93
Return after operating charges	-10.80	+11.07	+26.01
Historic yield	1.30	1.03	0.62
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	27,655	44	34
Closing NAV percentage of total fund NAV (%)	7.33	0.01	0.01
Number of shares	2,282,855	3,000	3,000
Highest share price (Euro ¢)	1,210.48	1,223.39	1,094.17
Lowest share price (Euro ¢)	951.09	1,024.25	773.40

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

The share class was launched on 17 February 2012.

for the year to 31 January Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	179.51	162.73	115.34
Return before operating charges and after direct portfolio transaction costs	(18.31)	22.87	50.18
Operating charges	(2.89)	(2.87)	(2.45)
Return after operating charges	(21.20)	20.00	47.73
Distributions	(3.15)	(3.22)	(0.34)
Closing NAV	155.16	179.51	162.73
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.04	0.04	0.08
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.03	0.03	0.06
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.01	0.03
Operating charges	1.68	1.68	1.69
Return after operating charges	-11.81	+12.29	+41.38
Historic yield	2.35	1.96	1.35
Effect on yield of charges offset against capital	1.65	1.65	1.65
<b>Other information</b>			
Closing NAV (\$'000)	325,736	466,589	398,630
Closing NAV percentage of total fund NAV (%)	86.30	95.29	97.68
Number of shares	159,894,821	183,553,229	196,584,248
Highest share price (UK p)	183.81	187.02	168.46
Lowest share price (UK p)	145.52	160.71	108.79

# M&G Global Recovery Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 17 February 2012.

for the year to 31 January Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	185.10	164.72	116.49
Return before operating charges and after direct portfolio transaction costs	(19.10)	23.31	50.72
Operating charges	(3.00)	(2.93)	(2.49)
Return after operating charges	(22.10)	20.38	48.23
Distributions	(0.31)	(0.54)	(0.31)
Retained distributions	0.31	0.54	0.31
Closing NAV	163.00	185.10	164.72
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.04	0.04	0.09
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.01)	(0.03)
Total direct portfolio transaction costs	0.03	0.03	0.06
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.01	0.03
Operating charges	1.68	1.68	1.69
Return after operating charges	-11.94	+12.37	+41.40
Historic yield	0.49	0.32	0.19
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	766	1,088	742
Closing NAV percentage of total fund NAV (%)	0.20	0.22	0.18
Number of shares	357,887	415,118	361,622
Highest share price (UK p)	190.51	191.30	170.49
Lowest share price (UK p)	151.52	162.68	109.88

#### Sterling Class 'T' Income share performance

The share class was launched on 17 February 2012.

for the year to 31 January Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	182.12	163.85	115.94
Return before operating charges and after direct portfolio transaction costs	(18.67)	23.14	50.56
Operating charges	(1.63)	(1.62)	(1.37)
Return after operating charges	(20.30)	21.52	49.19
Distributions	(3.21)	(3.25)	(1.28)
Closing NAV	158.61	182.12	163.85
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.04	0.04	0.08
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.03	0.03	0.06
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.01	0.03
Operating charges	0.93	0.93	0.93
Return after operating charges	-11.15	+13.13	+42.43
Historic yield	2.34	1.95	1.40
Effect on yield of charges offset against capital	0.90	0.90	0.90
<b>Other information</b>			
Closing NAV (\$'000)	2,911	3,807	2,348
Closing NAV percentage of total fund NAV (%)	0.77	0.78	0.57
Number of shares	1,398,006	1,476,274	1,150,148
Highest share price (UK p)	186.98	189.70	170.01
Lowest share price (UK p)	148.63	161.83	109.41

#### Sterling Class 'T' Accumulation share performance

The share class was launched on 17 February 2012.

for the year to 31 January Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	193.28	170.71	119.82
Return before operating charges and after direct portfolio transaction costs	(20.04)	24.27	52.33
Operating charges	(1.73)	(1.70)	(1.44)
Return after operating charges	(21.77)	22.57	50.89
Distributions	(1.72)	(1.85)	(1.07)
Retained distributions	1.72	1.85	1.07
Closing NAV	171.51	193.28	170.71
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.05	0.04	0.10
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.01)	(0.03)
Total direct portfolio transaction costs	0.04	0.03	0.07
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.01	0.03
Operating charges	0.93	0.93	0.93
Return after operating charges	-11.26	+13.22	+42.47
Historic yield	1.31	1.05	0.61
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	4,089	4,402	1,922
Closing NAV percentage of total fund NAV (%)	1.08	0.90	0.47
Number of shares	1,815,900	1,608,248	903,361
Highest share price (UK p)	199.92	199.73	176.64
Lowest share price (UK p)	159.28	168.61	113.06

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

The share class was launched on 3 August 2012.

for the year to 31 January Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	195.84	176.64	125.06
Return before operating charges and after direct portfolio transaction costs	(20.05)	25.06	54.46
Operating charges	(2.21)	(2.36)	(1.85)
Return after operating charges	(22.26)	22.70	52.61
Distributions	(3.44)	(3.50)	(1.03)
Closing NAV	170.14	195.84	176.64
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.05	0.04	0.09
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.01)	(0.03)
Total direct portfolio transaction costs	0.04	0.03	0.06
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.01	0.03
Operating charges	1.18	1.18	1.19
Return after operating charges	-11.37	+12.85	+42.07
Historic yield	2.34	1.95	1.38
Effect on yield of charges offset against capital	1.15	1.15	1.15
<b>Other information</b>			
Closing NAV (\$'000)	1,265	1,214	78
Closing NAV percentage of total fund NAV (%)	0.34	0.25	0.02
Number of shares	566,388	437,699	35,248
Highest share price (UK p)	200.89	204.00	183.13
Lowest share price (UK p)	159.47	174.46	118.00

# M&G Global Recovery Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 3 August 2012.

for the year to 31 January Change in NAV per share	2019 UK p	2018 UK p	2017 UK p
Opening NAV	204.43	181.06	127.41
Return before operating charges and after direct portfolio transaction costs	(21.15)	25.83	55.66
Operating charges	(2.32)	(2.46)	(2.01)
Return after operating charges	(23.47)	23.37	53.65
Distributions	(1.33)	(1.58)	(0.72)
Retained distributions	1.33	1.58	0.72
Closing NAV	180.96	204.43	181.06
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.05	0.04	0.11
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.01)	(0.03)
Total direct portfolio transaction costs	0.04	0.03	0.08
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.01	0.03
Operating charges	1.18	1.18	1.19
Return after operating charges	-11.48	+12.91	+42.11
Historic yield	1.04	0.84	0.39
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	14,854	12,298	4,232
Closing NAV percentage of total fund NAV (%)	3.94	2.51	1.03
Number of shares	6,252,022	4,248,093	1,875,512
Highest share price (UK p)	211.11	211.26	187.37
Lowest share price (UK p)	168.10	178.83	120.20

#### US dollar Class 'A' Accumulation share performance

The share class was launched on 6 November 2015.

for the year to 31 January Change in NAV per share	2019 US ¢	2018 US ¢	2017 US ¢
Opening NAV	1,323.96	1,039.36	845.88
Return before operating charges and after direct portfolio transaction costs	(222.50)	306.72	212.75
Operating charges	(22.96)	(22.12)	(19.27)
Return after operating charges	(245.46)	284.60	193.48
Distributions	(0.57)	(1.99)	(0.97)
Retained distributions	0.57	1.99	0.97
Closing NAV	1,078.50	1,323.96	1,039.36
<b>Direct portfolio transaction costs</b>	<b>US ¢</b>	<b>US ¢</b>	<b>US ¢</b>
Costs before dilution adjustments	0.29	0.24	0.63
Dilution adjustments <sup>[a]</sup>	(0.08)	(0.07)	(0.20)
Total direct portfolio transaction costs	0.21	0.17	0.43
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.01	0.03
Operating charges	1.93	1.94	1.94
Return after operating charges	-18.54	+27.38	+22.87
Historic yield	0.23	0.16	0.09
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	32	40	31
Closing NAV percentage of total fund NAV (%)	0.01	0.01	0.01
Number of shares	3,000	3,000	3,000
Highest share price (US ¢)	1,321.87	1,348.57	1,061.00
Lowest share price (US ¢)	965.95	1,041.12	804.09

#### US dollar Class 'C' Accumulation share performance

The share class was launched on 6 November 2015.

for the year to 31 January Change in NAV per share	2019 US ¢	2018 US ¢	2017 US ¢
Opening NAV	1,353.62	1,052.09	847.77
Return before operating charges and after direct portfolio transaction costs	(228.58)	312.35	213.69
Operating charges	(11.34)	(10.82)	(9.37)
Return after operating charges	(239.92)	301.53	204.32
Distributions	(11.24)	(12.38)	(6.83)
Retained distributions	11.24	12.38	6.83
Closing NAV	1,113.70	1,353.62	1,052.09
<b>Direct portfolio transaction costs</b>	<b>US ¢</b>	<b>US ¢</b>	<b>US ¢</b>
Costs before dilution adjustments	0.30	0.25	0.64
Dilution adjustments <sup>[a]</sup>	(0.08)	(0.07)	(0.20)
Total direct portfolio transaction costs	0.22	0.18	0.44
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.01	0.03
Operating charges	0.93	0.93	0.94
Return after operating charges	-17.72	+28.66	+24.10
Historic yield	1.32	0.99	0.64
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	34	41	32
Closing NAV percentage of total fund NAV (%)	0.01	0.01	0.01
Number of shares	3,000	3,000	3,000
Highest share price (US ¢)	1,351.51	1,378.51	1,073.84
Lowest share price (US ¢)	996.44	1,054.09	806.18

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

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

# M&G Global Recovery Fund

## Financial statements and notes

### Financial statements

#### Statement of total return

for the year to 31 January	Note	2019		2018	
		\$'000	\$'000	\$'000	\$'000
Income					
Net capital gains / (losses)	3		(88,328)		107,076
Revenue	5	8,691		9,614	
Expenses	6	(6,890)		(7,238)	
Net revenue / (expense) before taxation		1,801		2,376	
Taxation	7	(750)		(810)	
Net revenue / (expense) after taxation			1,051		1,566
<b>Total return before distributions</b>			<b>(87,277)</b>		<b>108,642</b>
Distributions	8		(7,392)		(8,503)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(94,669)</b>		<b>100,139</b>

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

for the year to 31 January		2019		2018	
		\$'000	\$'000	\$'000	\$'000
<b>Opening net assets attributable to shareholders</b>			<b>489,612</b>		<b>408,115</b>
Amounts received on issue of shares		47,613		20,962	
Amounts paid on cancellation of shares		(65,710)		(39,777)	
			(18,097)		(18,815)
Dilution adjustments			129		100
Change in net assets attributable to shareholders from investment activities (see above)			(94,669)		100,139
Retained distributions on Accumulation shares			431		71
Unclaimed distributions			3		2
<b>Closing net assets attributable to shareholders</b>			<b>377,409</b>		<b>489,612</b>

#### Balance sheet

as at 31 January	Note	2019	2018
		\$'000	\$'000
<b>Assets</b>			
<b>Fixed assets</b>			
Investments		380,291	492,803
<b>Current assets</b>			
Debtors	9	382	7,746
Cash and bank balances	10	131	0
<b>Total assets</b>		<b>380,804</b>	<b>500,549</b>
<b>Liabilities</b>			
<b>Creditors</b>			
Bank overdrafts		0	(398)
Distribution payable		(2,973)	(3,785)
Other creditors	11	(422)	(6,754)
<b>Total liabilities</b>		<b>(3,395)</b>	<b>(10,937)</b>
<b>Net assets attributable to shareholders</b>		<b>377,409</b>	<b>489,612</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 7 and 8.

#### 2 Distribution policy

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

In determining the amount available for distribution, ordinary stock dividends have been transferred to capital, reducing the amount available.

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 31 January	2019	2018
	\$'000	\$'000
Non-derivative securities	(88,298)	106,967
Derivative contracts	(194)	0
Capital gains on US REIT	254	337
Currency gains / (losses)	(84)	(221)
Transaction charges	(6)	(7)
<b>Net capital gains / (losses)</b>	<b>(88,328)</b>	<b>107,076</b>

# M&G Global Recovery 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 17.

for the year to 31 January	2019 \$'000	% of transaction	2018 \$'000	% of transaction
<b>a) Purchases</b>				
<b>Equities</b>				
Equities before transaction costs	57,174		62,214	
Commissions	24	0.04	24	0.04
Taxes	46	0.08	20	0.03
<b>Equities after transaction costs</b>	<b>57,244</b>		<b>62,258</b>	
<b>Other transaction types</b>				
Corporate actions	68		1,145	
<b>Total purchases after transaction costs</b>	<b>57,312</b>		<b>63,403</b>	
<b>b) Sales</b>				
<b>Equities</b>				
Equities before transaction costs	81,413		85,020	
Commissions	(32)	0.04	(37)	0.04
Taxes	(2)	0.00	(11)	0.01
<b>Equities after transaction costs</b>	<b>81,379</b>		<b>84,972</b>	
<b>Other transaction types</b>				
Corporate actions	0		0	
<b>Total sales after transaction costs</b>	<b>81,379</b>		<b>84,972</b>	
<b>c) Direct portfolio transaction costs</b>				
	2019 \$'000	% of average NAV	2018 \$'000	% of average NAV
<b>Commissions paid</b>				
Equities	56	0.01	61	0.01
<b>Taxes paid</b>				
Equities	48	0.01	31	0.01
<b>Total direct portfolio transaction costs [a]</b>	<b>104</b>	<b>0.02</b>	<b>92</b>	<b>0.02</b>
<b>d) Indirect portfolio transaction costs</b>				
Portfolio dealing spread [b]		1.07		0.57

[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 31 January	2019 \$'000	2018 \$'000
Bank interest	2	2
Dividends from equity investments: non-taxable	8,298	9,212
Dividends from equity investments: taxable	323	175
Interest distributions	5	1
Stock dividends	63	212
Underwriting commission	0	12
<b>Total revenue</b>	<b>8,691</b>	<b>9,614</b>

#### 6 Expenses

for the year to 31 January	2019 \$'000	2018 \$'000
<b>Payable to the ACD or associate</b>		
Annual management charge	6,128	6,467
Administration charge	645	652
	6,773	7,119
<b>Payable to the Depositary or associate</b>		
Depositary's charge (including VAT)	32	32
<b>Other expenses</b>		
Audit fee (including VAT)	11	13
Dividend charges	1	0
Interest payable	3	2
Safe custody charge	70	72
	85	87
<b>Total expenses</b>	<b>6,890</b>	<b>7,238</b>

#### 7 Taxation

for the year to 31 January	2019 \$'000	2018 \$'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	0
Withholding tax	750	810
Deferred tax (note 7c)	0	0
<b>Total taxation</b>	<b>750</b>	<b>810</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue / (expense) before taxation	1,801	2,376
Corporation tax at 20%	360	475
Effects of:		
Dividends from equity investments: non-taxable	(1,660)	(1,842)
Stock dividends not taxable	(13)	(43)
Current year expenses not utilised	1,269	1,342
Withholding tax	750	810
Overseas tax expensed	(7)	0
Capital gains tax (US)	51	68
<b>Total tax charge (note 7a)</b>	<b>750</b>	<b>810</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 of \$8,519,000 (2018: \$7,250,000) arising as a result of having excess management expenses and interest distributions. We do not expect this asset to be utilised in the foreseeable future.

#### 8 Distributions

for the year to 31 January	2019		2018	
	Inc [a] \$'000	Acc [b] \$'000	Inc [a] \$'000	Acc [b] \$'000
<b>Dividend distributions</b>				
Interim	3,805	263	4,506	22
Final	2,973	168	3,785	49
<b>Total net distributions</b>		7,209		8,362
Income deducted on cancellation of shares		345		239
Income received on issue of shares		(162)		(98)
<b>Distributions</b>		<b>7,392</b>		<b>8,503</b>
<b>Net revenue / (expense) per statement of total return</b>				
		1,051		1,566
Expenses offset against capital		6,328		7,048
Stock dividends not distributed		(63)		(212)
Capital gains tax offset against capital		76		101
<b>Distributions</b>		<b>7,392</b>		<b>8,503</b>

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

# M&G Global Recovery Fund

## Financial statements and notes

### Notes to the financial statements

#### 9 Debtors

as at 31 January	2019 \$'000	2018 \$'000
Amounts receivable on issues of shares	40	394
Currency deals outstanding	30	2,261
Distributions receivable	1	0
Dividends receivable	55	5
Sales awaiting settlement	0	4,829
Withholding tax recoverable	256	257
<b>Total debtors</b>	<b>382</b>	<b>7,746</b>

#### 10 Cash and bank balances

as at 31 January	2019 \$'000	2018 \$'000
Cash held as bank balances	131	0
<b>Total cash and bank balances</b>	<b>131</b>	<b>0</b>

#### 11 Other creditors

as at 31 January	2019 \$'000	2018 \$'000
ACD's annual management charge payable	248	321
Administration charge payable	26	32
Amounts payable on cancellation of shares	90	529
Currency deals outstanding	31	2,241
Expenses payable	27	41
Purchases awaiting settlement	0	3,590
<b>Total other creditors</b>	<b>422</b>	<b>6,754</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 01.02.18	Movements		Closing 31.01.19
		Issued	Cancelled	
<b>Euro</b>				
Class 'A' Accumulation	6,222	0	(500)	5,722
Class 'C' Accumulation	3,000	2,331,000	(51,145)	2,282,855
<b>Sterling</b>				
Class 'A' Income	183,553,229	2,605,296	(26,263,704)	159,894,821
Class 'A' Accumulation	415,118	102,915	(160,146)	357,887
Class 'I' Income	1,476,274	167,343	(245,611)	1,398,006
Class 'I' Accumulation	1,608,248	465,347	(257,695)	1,815,900
Class 'R' Income	437,699	214,000	(85,311)	566,388
Class 'R' Accumulation	4,248,093	2,416,988	(413,059)	6,252,022
<b>US dollar</b>				
Class 'A' Accumulation	3,000	0	0	3,000
Class 'C' Accumulation	3,000	0	0	3,000

#### 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 %
<b>Euro</b>			
Class 'A'	4.00	n/a	1.75
Class 'C'	1.25	n/a	0.75
<b>Sterling</b>			
Class 'A'	nil	n/a	1.50
Class 'I'	nil	n/a	0.75
Class 'R'	nil	n/a	1.00
<b>US dollar</b>			
Class 'A'	4.00	n/a	1.75
Class 'C'	1.25	n/a	0.75

#### 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.

During the year, there were transactions in Prudential plc, a related party of M&G Securities Limited with a total value of \$nil (2018: \$1,803,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of \$4,415,000 (2018: \$6,086,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 0.00% (2018: 7.80%) of the fund's shares.

#### 16 Events after the balance sheet date

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

# M&G Global Recovery Fund

## Financial statements and notes

### Notes to the financial statements

#### 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 31 January Basis of valuation	Assets		Liabilities	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000
Level 1	380,291	0	492,803	0
Level 2	0	0	0	0
Level 3	0	0	0	0
	<b>380,291</b>	<b>0</b>	<b>492,803</b>	<b>0</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 8 and 9.

#### 19 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by \$19,015,000 (2018: \$24,640,000). A five per cent decrease would have an equal and opposite effect.

#### 20 Currency risk sensitivity and exposure

A five per cent increase in the value of the funds's currency exposure would have the effect of increasing the return and net assets by \$18,870,000 (2018: \$24,481,000). A five per cent decrease would have an equal and opposite effect.

as at 31 January	2019 \$'000	2018 \$'000
<b>Currency exposure in respect of the fund</b>		
Australian dollar	49,806	38,048
Canadian dollar	16,530	20,746
Danish krone	8,608	15,536
Euro	31,454	50,922
Hong Kong dollar	18,969	24,265
Japanese yen	7,371	7,209
Malaysian ringgit	9,834	16,200
New Zealand dollar	0	2,263
Singapore dollar	2,338	0
Sterling	44,433	70,106
South African rand	3,265	3,601
Swiss franc	3,798	5,363
US dollar	181,003	235,353
<b>Total</b>	<b>377,409</b>	<b>489,612</b>

#### 21 Interest rate risk sensitivity and exposure

As the majority of the fund's financial assets are non-interest bearing, the risk is not considered significant and is therefore not disclosed.

#### 22 Credit risk

Credit risk is not considered significant for the fund and is therefore not disclosed.

#### 23 Dividend distribution tables

This fund pays semi-annual ordinary distributions and the following table sets out the distribution periods.

Semi-annual distribution periods				
	Start	End	Xd	Payment
Interim	01.02.18	31.07.18	01.08.18	30.09.18
Final	01.08.18	31.01.19	01.02.19	31.03.19

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 Global Recovery Fund

## Financial statements and notes

### Notes to the financial statements

#### 23 Dividend distribution tables (continued)

##### Euro Class 'A' Accumulation shares

Ordinary distributions for the year to 31 January	Group 2		Group 1 & 2	
	Income 2019	Equalisation 2019	Income 2019	Distribution 2018
Interim	€ 0.0000	€ 0.4894	€ 0.4894	€ 1.7869
Final	0.0000	0.0000	0.0000	0.0000

##### Euro Class 'C' Accumulation shares

Ordinary distributions for the year to 31 January	Group 2		Group 1 & 2	
	Income 2019	Equalisation 2019	Income 2019	Distribution 2018
Interim	€ 2.6368	€ 3.6119	€ 6.2487	€ 6.7889
Final	3.1602	1.0820	4.2422	4.4360

##### Sterling Class 'A' Income shares

Ordinary distributions for the year to 31 January	Group 2		Group 1 & 2	
	Income 2019	Equalisation 2019	Income 2019	Distribution 2018
Interim	£ 0.8098	£ 0.9434	£ 1.7532	£ 1.7806
Final	0.3393	1.0592	1.3985	1.4408

##### Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 31 January	Group 2		Group 1 & 2	
	Income 2019	Equalisation 2019	Income 2019	Distribution 2018
Interim	£ 0.0369	£ 0.2713	£ 0.3082	£ 0.4895
Final	0.0000	0.0000	0.0000	0.0496

##### Sterling Class 'I' Income shares

Ordinary distributions for the year to 31 January	Group 2		Group 1 & 2	
	Income 2019	Equalisation 2019	Income 2019	Distribution 2018
Interim	£ 1.0687	£ 0.7128	£ 1.7815	£ 1.7968
Final	0.3395	1.0849	1.4244	1.4579

##### Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 31 January	Group 2		Group 1 & 2	
	Income 2019	Equalisation 2019	Income 2019	Distribution 2018
Interim	£ 0.3467	£ 0.6883	£ 1.0350	£ 1.1274
Final	0.0000	0.6869	0.6869	0.7249

##### Sterling Class 'R' Income shares

Ordinary distributions for the year to 31 January	Group 2		Group 1 & 2	
	Income 2019	Equalisation 2019	Income 2019	Distribution 2018
Interim	£ 0.3578	£ 1.5570	£ 1.9148	£ 1.9331
Final	0.6920	0.8336	1.5256	1.5674

##### Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 31 January	Group 2		Group 1 & 2	
	Income 2019	Equalisation 2019	Income 2019	Distribution 2018
Interim	£ 0.2755	£ 0.5675	£ 0.8430	£ 1.0499
Final	0.0000	0.4861	0.4861	0.5325

##### US dollar Class 'A' Accumulation shares

Ordinary distributions for the year to 31 January	Group 2		Group 1 & 2	
	Income 2019	Equalisation 2019	Income 2019	Distribution 2018
Interim	¢ 0.5703	¢ 0.0000	¢ 0.5703	¢ 1.9861
Final	0.0000	0.0000	0.0000	0.0000

##### US dollar Class 'C' Accumulation shares

Ordinary distributions for the year to 31 January	Group 2		Group 1 & 2	
	Income 2019	Equalisation 2019	Income 2019	Distribution 2018
Interim	¢ 6.7395	¢ 0.0000	¢ 6.7395	¢ 7.3041
Final	4.5030	0.0000	4.5030	5.0790

# M&G Global Recovery Fund

Financial statements and notes

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# M&G Investment Funds (12)

## Other regulatory disclosures

### Remuneration

In line with the requirements of the Undertakings for Collective Investments in Transferable Securities (UCITS) V, the UCITS Manager is subject to a remuneration policy which is consistent with the principles outlined in SYSC19E of the FCA Handbook (UCITS Remuneration Code).

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 UCITS 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 approved by the M&G Remuneration Committee. The latest review found that the remuneration policy continued to align to all local regulatory requirements and continued to operate as intended.

The UCITS management company is required under UCITS 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 UCITS and non-UCITS 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 UCITS 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 £47,703,371 (£7,395,780 in respect of fixed remuneration and £40,307,591 in respect of variable remuneration) was paid to individuals whose actions may have a material impact on the risk profile of the UCITS Manager, of which £3,523,355 related to senior management.

### Swiss investor information

For funds registered in Switzerland we are required by FINMA to disclose the Total Expense Ratio (TER).

For this fund the TERs are the same as the operating charges disclosed in the fund's financial highlights section under 'Performance and charges'.

# 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.

# Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**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.

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

# Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Yield:** This refers to either the interest received from a fixed income security or to the dividends received from a share. It is usually expressed as a percentage based on the investment's costs, its current market value or its face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

**Yield (equity):** Refers to the dividends received by a holder of company shares and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

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

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

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# Notes

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