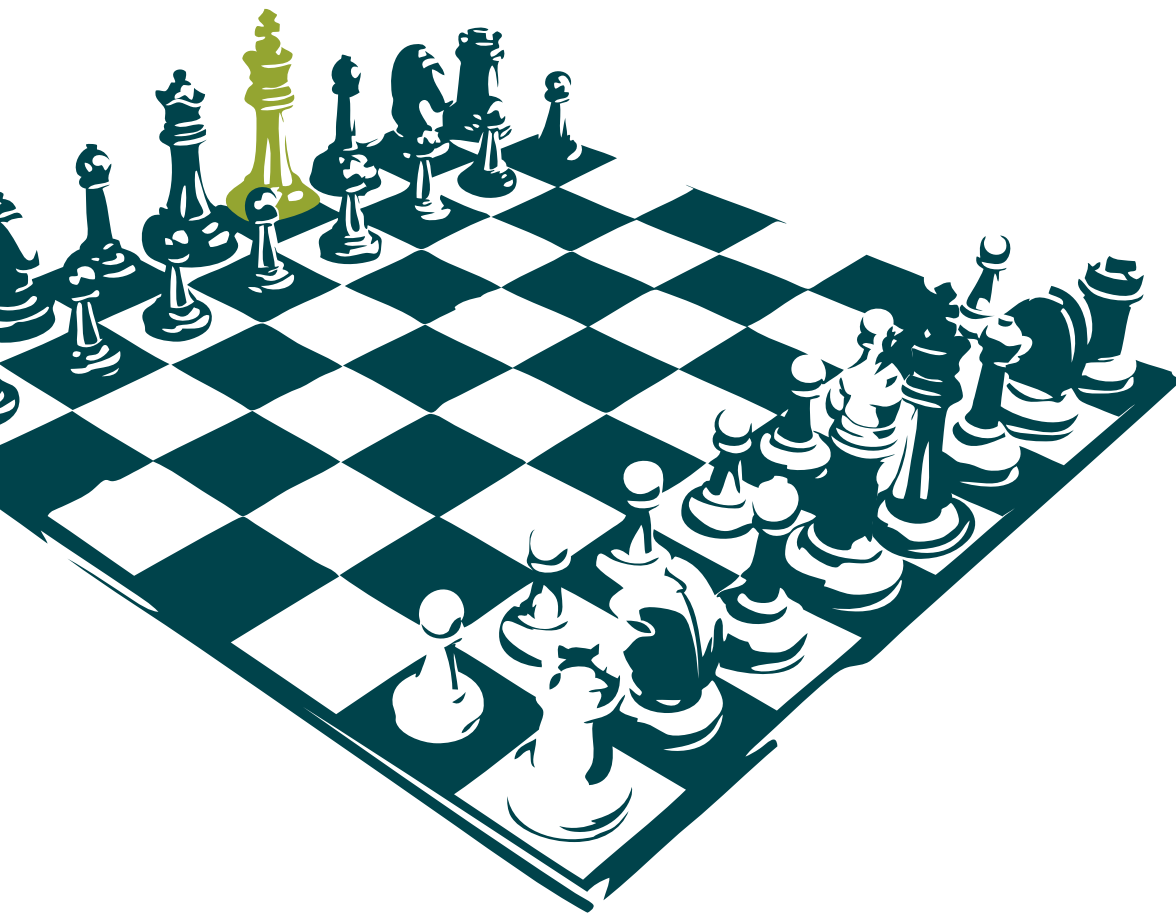




# M&G Investment Funds (5)

Annual Long Report and audited Financial Statements  
for the year ended 31 December 2017



# Contents

## **M&G Investment Funds (5)**

<b>Authorised Corporate Director's Report</b>	<b>Page 1</b>
Directors' statement	Page 3
<b>Depository's Responsibilities and Report</b>	<b>Page 4</b>
<b>Independent Auditor's Report</b>	<b>Page 5</b>
<b>Financial statements and notes</b>	<b>Page 7</b>
<b>Authorised Corporate Director's Reports, including the financial highlights and financial statements and notes for:</b>	
M&G Episode Macro Fund	Page 11
M&G Global Corporate Bond Fund	Page 25
<b>Other regulatory disclosures</b>	<b>Page 43</b>
<b>Glossary</b>	<b>Page 44</b>

# M&G Investment Funds (5)

## Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Investment Funds (5) presents its Annual Long Report and audited Financial Statements for the year ended 31 December 2017.

The audited financial statements of M&G Investment Funds (5) and the investment report and audited financial statements and notes of each sub-fund are presented in their individual sections of this report as set out in the contents page.

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

### Company information

M&G Investment Funds (5) is an umbrella Open-Ended Investment Company (OEIC) and contains two sub-funds, hereinafter referred to as 'funds' in the rest of this report. Each fund is a UCITS (Undertakings for Collective Investment in Transferable Securities) scheme as defined in the Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Conduct Authority (FCA). This OEIC is an Investment Company with Variable Capital (ICVC) incorporated under the Open-Ended Investment Companies Regulations 2001. It is authorised and regulated by the FCA under the Financial Services and Markets Act 2000.

The Company was authorised on 24 December 2002, the M&G Episode Macro Fund was launched on 3 June 2010 and the M&G Global Corporate Bond Fund was launched on 5 September 2013.

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

As at 31 December 2017, none of the funds held shares of the other funds within this OEIC.

A shareholder is not liable for the debts of the Company and will never be liable to make any further payment to the Company after paying the purchase price of the shares.

### Fund managers

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

#### **M&G Episode Macro Fund**

David Fishwick & Eric Lonergan

#### **M&G Global Corporate Bond Fund**

Ben Lord

### ACD

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

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

### Directors of the ACD

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

\* Appointed 9 June 2017.

W J Nott resigned with effect from 31 December 2017.

### Investment manager

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

(Authorised and regulated by the Financial Conduct Authority)

### Registrar

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

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

### Depositary

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

### Independent auditor

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

# M&G Investment Funds (5)

## Authorised Corporate Director's Report

### Investor information

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

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

M&G Securities Limited,  
PO Box 9039, Chelmsford CM99 2XG, UK

Please remember to quote your name and M&G client reference and sign any written communication to M&G. Failure to provide this will affect your ability to transact with us.

Telephone: 0800 390 390 (UK only)

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

#### 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.

#### 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,  
Via Ansperto 5, 20123 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 operationel, 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

#### Swiss paying agent and representative:

Société Générale, Paris, Zurich Branch,  
Talacker 50, P.O. Box 5070, 8021 Zurich, Switzerland

# M&G Investment Funds (5)

## Authorised Corporate Director's Report

### Authorised Corporate Director's Responsibilities

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

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

### Directors' statement

This report has been prepared in accordance with the requirements of the Collective Investment Schemes sourcebook, as issued and amended by the Financial Conduct Authority.

G W MACDOWALL }  
L J MUMFORD } Directors

13 February 2018

# M&G Investment Funds (5)

## Depositary's Responsibilities and Report

### Statement of the Depositary's Responsibilities and Report of the Depositary to the Shareholders of M&G Investment Funds (5) ('the Company') for the period ended 31 December 2017

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

The Depositary 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 Depositary must ensure that:

- the Company's cashflows are properly monitored (this requirement on the Depositary applied from 18 March 2016) 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 Depositary 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 Depositary 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  
13 February 2018

National Westminster Bank Plc  
Trustee and Depositary Services

# M&G Investment Funds (5)

## Independent Auditor's Report

### Independent Auditor's Report to the shareholders of M&G Investment Funds (5)

#### Opinion

We have audited the financial statements of M&G Investment Funds (5) ("the Company") comprising its sub-funds for the year ended 31 December 2017 which comprise the Statement of Total Return and Statement of Change in Net Assets Attributable to Shareholders together with the Balance Sheet, the accounting and risk policies of the Company, the related notes and the Distribution tables for each sub fund. 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 December 2017 and of the net revenue / (expense) and the net capital gains 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 has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

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

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

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

We have nothing to report in this regard.

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

In our opinion:

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

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

We have nothing to report in respect of the following matter in relation to which the Collective Investment Schemes sourcebook of the Financial Conduct Authority rules requires 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 (5)

## Independent Auditor's Report

### Independent Auditor's Report to the shareholders of M&G Investment Funds (5)

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

As explained more fully in the ACD's responsibilities statement as set out on page 3, 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.

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.

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.

Edinburgh  
13 February 2018

Ernst & Young LLP  
Statutory Auditor



# M&G Investment Funds (5)

## Financial statements and notes

The financial statements for M&G Investment Funds (5) comprise the individual financial statements for each fund and the notes below.

### Notes to the financial statements

#### 1 Statement of compliance

The financial statements of M&G Investment Funds (5) 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 (5) 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 (5) is US dollars.

##### c) Exchange rates

Transactions in currencies other than each fund's functional currency are translated at the rate of exchange ruling on the date of the transaction and where applicable assets and liabilities are translated into the fund's functional currency at the rate of exchange ruling as at 12 noon on 29 December 2017 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 29 December 2017, 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.
  - 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.

# M&G Investment Funds (5)

## Financial statements and notes

### Notes to the financial statements

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

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

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

##### g) Tax

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

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

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

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

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

The annual management charge, any share class hedging returns and associated share class hedging charge are directly attributable to individual share classes. All other returns are apportioned to each fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

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

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

#### 3 Risk management policies

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

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

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

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

##### Market risk

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

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

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

# M&G Investment Funds (5)

## 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 Episode Macro Fund	VaR
M&G Global Corporate Bond Fund	VaR

##### Liquidity risk

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

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

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

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

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

##### Credit risk

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

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

Funds investing in derivatives are exposed to counterparty risk. This is the risk that the other party to the transaction fails to fulfil their obligations, either by failing to pay or failing to deliver securities. To minimise this risk, carefully selected, financially strong and well-established counterparties are selected following a thorough due diligence review and collateral is posted daily (in the form of cash or high-quality government bonds). Derivative positions are valued on 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 (5)

Financial statements and notes

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# M&G Episode Macro Fund

## Authorised Corporate Director's Report

### Investment objective

The fund aims to deliver a higher total return, with lower volatility on average, than global equities over a rolling three to five year period. There is no guarantee that the fund will achieve a positive return over this, or any other, period and investors may not recoup the original amount they invested.

### Investment policy

The fund manager adopts a flexible approach to the allocation of capital between asset classes in response to changes in economic conditions and the valuation of assets. Central to this approach is the identification of episodes, which are periods of time during which, in the fund manager's view, asset prices become over- or under-stated, relative to objective valuation measures, due to the emotional reaction of investors to events. These episodes can exist over both the short and medium term. The short term volatility of the fund may be high.

The fund will typically invest in a variety of equity index futures, currency forwards, interest rate swaps, and other highly-liquid derivatives. The portfolio may therefore comprise a high proportion of cash and near cash, the majority of which is likely to be held in cash deposits. In addition to derivatives, the fund may invest in a range of equities, fixed income and other assets, including collective investment schemes, other transferable securities, deposits, warrants and money market instruments.

Subject to rigorous risk management, the fund is likely to operate with a gross asset exposure in excess of net assets. This will be achieved through the use of derivative contracts, often with a view to increasing diversification.

### Investment approach

The managers believe the best approach for achieving the fund objective lies in the flexible allocation of capital between asset classes, guided by a robust valuation framework. In particular, they seek to respond where asset prices move away from a reasonable sense of 'fair' value due to investors reacting emotionally to events. They believe such 'episodes' create opportunities because emotions should be less important than underlying fundamentals over the medium and long term.

The fund is fully flexible and is not bound by any sense of neutrality or benchmark. The fund's investment strategy is likely to involve the use of financial instruments to take short positions, that is, positions that profit from a fall in the price of an asset, or to generate modest amounts of leverage (gain exposure to greater investment than the net asset value of the fund).

### Risk profile

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

In association with the use of derivatives, including those instruments not traded through an exchange, collateral is deposited, in order to mitigate the risk that a counterparty may default on its obligations or become insolvent.

The fund is fully flexible and is managed aggressively, although the managers will seek to maximise portfolio diversity wherever possible. However, in cases where the managers believe that the opportunities are limited to a few areas, there may be a higher-than-usual concentration of asset or market exposure. Such strategies may result in higher volatility of the fund's short-term performance.

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

The following table shows the risk number associated with the fund and is based on Sterling Class 'S-H' 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 Episode Macro Fund

## Authorised Corporate Director's Report

### Investment review

As at 2 January 2018, for the year ended 31 December 2017

#### Performance against objective

Between 3 January 2017 (the start of the review period) and 2 January 2018, the M&G Episode Macro Fund delivered a positive return across all share classes.\* Exposure to a geographically diversified selection of equities (company shares) was the main source of positive return, while 'short' positions (which are designed to profit from a decline in an asset's value) in government bonds were flat overall. (Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'.)

Over rolling periods of three to five years, the fund has not achieved its aim of delivering a higher total return, with lower volatility on average, than global equities. While volatility of the fund has been lower, total returns have lagged that of global equities, as measured by the MSCI AC World Index.

\* 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

Whereas returns from financial assets in 2016 had been driven to a meaningful extent by tactical scaling (increasing or decreasing the size of fund positions) around short-term 'episodes' (periods of short-term volatility, often driven by investor emotion rather than fundamentals), returns in 2017 were more clearly driven by the fund's key themes performing well in a less volatile environment.

In 2016, we had observed that markets had been on a journey from deep pessimism in the middle of that year to greater optimism as the global economic backdrop improved. However, at the start of 2017, it still seemed clear that investors were predominantly sceptical about how long these improvements would last, with many expecting unpleasant volatility in markets in the year ahead. In our opinion, this pessimism resulted in attractive returns being on offer in those assets perceived as 'risky,' most notably stocks, while government bonds in most developed markets looked very unattractive.

The fund therefore started the year with a preference for 'long' exposure (designed to profit from a rise in asset prices) to diversified global stocks and 'short' exposure to government bonds from the UK, US, and Germany. The fund also had exposure to a selection of emerging market currencies versus less attractive currencies, primarily in developed markets.

These themes were maintained throughout the year and the preference for global stocks was the main contributor to the fund's return. In particular, there were strong gains from positions in the US banking sector, South Korea, Japan, and Italy.

Despite lower volatility in many assets, there were nevertheless some notable short-term 'episodic' opportunities during the year. Most notably, the fund added profitably to stock positions and short bond positions in the summer. There were also more idiosyncratic opportunities in the Mexican peso and Turkish lira at the start of the year, and in a basket of stocks made up of global mining companies in July. Both of these opportunities added to the fund return in 2017 as a whole.

In global bond markets, the main trend of the year was a material increase in yields on US government bonds with short maturities (those with a short time to final repayment) as economic conditions improved and the US Federal Reserve began to increase the US policy rate. (Bond yields refer to the interest received from a fixed interest security, which is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.) However, this increase had only a limited impact on the yields of bonds with longer maturities in the US, UK, and Germany. The fund's returns from its short positions were enhanced by the increase in exposure in the middle of the year (a change which was quickly unwound after rapid subsequent price movements in the fund's favour), although returns from this theme were flat for 2017 as a whole.

Currency positions in the fund proved beneficial over the period under review. The main positive contributors were long positions in the Mexican peso and Turkish lira, and a short position in the Australian dollar. Strength from some short positions, most notably the euro and Czech koruna, limited the extent of the fund's currency gains.

The fund ended the period with the same key themes still intact. Although prices of many stocks around the world have risen rapidly, this has generally been because delivered corporate profits have also been strong. As a result, valuations in selected areas continue to look compelling, while yields on many developed market government bonds remain extremely low. Importantly, the fund is positioned to be able to respond to future volatility wherever it should emerge.

#### Outlook

Market sentiment has clearly improved since 2016 and in some areas is even beginning to look overly optimistic. However, broad observations of value around the world continue to support a preference for selected stocks over government bonds and certain emerging market currencies versus unattractive counterparts. A more attractive picture in terms of global economic growth and profits news is clearly supportive in this respect, while any sign of weakening growth is likely to be a challenge for the current portfolio.

The increase in US interest rates that took place in 2017 is likely to have important implications for all assets should it continue. The fund has the flexibility to construct a portfolio able to achieve diversification in such an environment and respond rapidly should the fundamental backdrop change. Market participants today seem far more relaxed and upbeat about the potential for uncomfortable short-term volatility than they did at the start of the year. Perhaps ironically, this could mean that markets are more vulnerable to any negative surprises that may emerge. The fund approach is designed to respond to this type of volatility, but as 2017 illustrated, is also positioned so as to benefit from more benign environments.

#### David Fishwick & Eric Lonergan

Co-fund managers

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

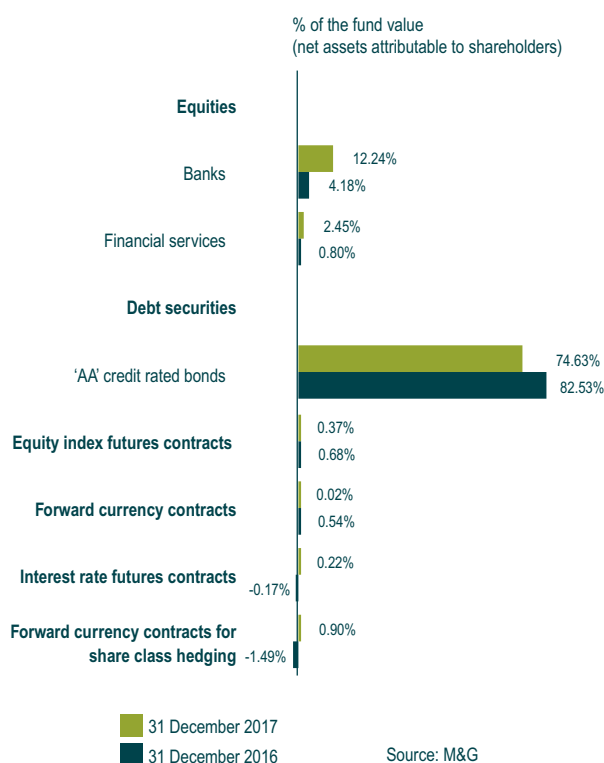
Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial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

# M&G Episode Macro Fund

## Authorised Corporate Director's Report

### Investment review

#### Classification of investments



### Investments

#### Portfolio statement

as at 31 December	2017	2017	2016
Holding	\$'000	%	%
<b>Equities</b>	<b>58,370</b>	<b>14.69</b>	<b>4.98</b>
<b>Banks</b>	<b>48,647</b>	<b>12.24</b>	<b>4.18</b>
330,705 Bank of America	9,852	2.48	
126,962 Citigroup	9,531	2.40	
90,444 JPMorgan Chase	9,747	2.45	
10,597,282 Lloyds Banking Group	9,678	2.44	
160,559 Wells Fargo	9,839	2.47	
<b>Financial services</b>	<b>9,723</b>	<b>2.45</b>	<b>0.80</b>
97,543 American Express	9,723	2.45	
<b>Debt securities</b>	<b>296,572</b>	<b>74.63</b>	<b>82.53</b>
<b>'AA' credit rated bonds</b>	<b>296,572</b>	<b>74.63</b>	<b>82.53</b>
\$25,420,000 US Treasury 0% 2018 (11 Jan)	25,410	6.40	
\$29,260,000 US Treasury 0% 2018 (18 Jan)	29,241	7.36	
\$55,300,000 US Treasury 0% 2018 (25 Jan)	55,252	13.90	
\$35,705,000 US Treasury 0% 2018 (8 Feb)	35,656	8.97	
\$63,470,000 US Treasury 0% 2018 (1 Mar)	63,331	15.94	
\$55,560,000 US Treasury 0% 2018 (15 Mar)	55,409	13.94	
\$32,372,000 US Treasury 0% 2018 (22 Mar)	32,273	8.12	
<b>Equity index futures contracts</b>	<b>1,458</b>	<b>0.37</b>	<b>0.68</b>
25 DAX Index Mar 2018	(199)	(0.05)	
227 Euro Stoxx 50 Index Mar 2018	(220)	(0.06)	
145 FTSE MIB Index Mar 2018	(655)	(0.16)	
129 Hang Sei China Enterprise Index Jan 18	98	0.02	
206 KOSPI 200 Index Mar 2018	188	0.05	
328 MSCI Singapore Index Jan 2018	87	0.02	
246 MSCI Taiwan Index Jan 2018	165	0.04	
1,404 SET50 Index Mar 2018	23	0.01	
743 STOXX 600 Basic Resources Mar 18	1,534	0.39	
119 TOPIX Index Mar 2018	437	0.11	
<b>Forward currency contracts</b>	<b>96</b>	<b>0.02</b>	<b>0.54</b>
AUD1,357,800 Bought for \$1,038,520 (expires 19.01.18)	23	0.01	
AUD(21,410,279) Sold for \$16,684,528 (expires 19.01.18)	(59)	(0.02)	
BRL37,877,490 Bought for \$11,739,821 (expires 19.01.18)	(341)	(0.09)	
CZK24,618,952 Bought for \$1,122,718 (expires 19.01.18)	32	0.01	
CZK(315,206,287) Sold for \$14,501,937 (expires 19.01.18)	(283)	(0.07)	
€15,775,682 Bought for \$18,814,851 (expires 19.01.18)	115	0.03	
€(18,805,221) Sold for \$22,409,243 (expires 19.01.18)	(156)	(0.04)	
HKD(12,919,506) Sold for \$1,658,441 (expires 19.01.18)	5	0.00	
¥(192,275,899) Sold for \$1,703,749 (expires 19.01.18)	(6)	0.00	
MXN235,724,853 Bought for \$12,311,019 (expires 19.01.18)	(380)	(0.10)	
MXN(15,670,823) Sold for \$807,608 (expires 19.01.18)	15	0.00	
RUB724,286,251 Bought for \$12,424,269 (expires 19.01.18)	83	0.02	
RUB(53,055,644) Sold for \$897,727 (expires 19.01.18)	(19)	0.00	
SGD1,508,985 Bought for \$1,108,203 (expires 19.01.18)	22	0.01	
SGD(23,391,034) Sold for \$17,268,589 (expires 19.01.18)	(245)	(0.06)	
ZAR161,088,169 Bought for \$11,765,927 (expires 19.01.18)	1,288	0.32	

# M&G Episode Macro Fund

## Authorised Corporate Director's Report

### Investments

<b>Portfolio statement</b> (continued)			
as at 31 December	2017	2017	2016
Holding	\$'000	%	%
<b>Forward currency contracts</b> (continued)			
ZAR(5,949,460) Sold for \$415,689 (expires 19.01.18)	(66)	(0.02)	
KRW14,805,318,114 Bought for \$13,231,449 (expires 19.01.18)	603	0.15	
KRW(1,772,153,300) Sold for \$1,584,176 (expires 19.01.18)	(72)	(0.02)	
£954,746 Bought for \$1,273,173 (expires 19.01.18)	18	0.00	
£(7,287,255) Sold for \$9,627,098 (expires 19.01.18)	(224)	(0.06)	
CHF1,163,982 Bought for \$1,171,757 (expires 19.01.18)	23	0.01	
CHF(16,202,985) Sold for \$16,578,018 (expires 19.01.18)	(50)	(0.01)	
TWD40,741,912 Bought for \$1,358,064 (expires 19.01.18)	12	0.00	
TWD(498,028,170) Sold for \$16,571,555 (expires 19.01.18)	(178)	(0.04)	
TRY46,152,070 Bought for \$12,192,752 (expires 19.01.18)	(53)	(0.01)	
TRY(1,899,595) Sold for \$489,238 (expires 19.01.18)	(11)	0.00	
<b>Interest rate futures contracts</b>	<b>869</b>	<b>0.22</b>	<b>(0.17)</b>
(458) 10 Year US Treasury Note Mar 2018	403	0.10	
(397) Euro Bund Mar 2018	617	0.16	
(96) Euro Buxl Mar 2018	293	0.07	
(457) UK Long Gilt Bond Mar 2018	(444)	(0.11)	
<b>Portfolio of investments</b>	<b>357,365</b>	<b>89.93</b>	<b>88.56</b>
<b>Forward currency contracts for share class hedging</b>			
€146,020,007 Bought for \$173,009,199 (expires 10.01.18)	2,118	0.53	(1.49)
€(132,815) Sold for \$157,791 (expires 10.01.18)	(1)	0.00	
£123,186,339 Bought for \$165,009,362 (expires 10.01.18)	1,470	0.37	
£(19,359) Sold for \$25,940 (expires 10.01.18)	0	0.00	
CHF177,774 Bought for \$180,418 (expires 10.01.18)	2	0.00	
<b>Total portfolio (notes 2c &amp; 2d on page 7)</b>	<b>360,954</b>	<b>90.83</b>	<b>87.07</b>
<b>Net other assets / (liabilities)</b>	<b>36,451</b>	<b>9.17</b>	<b>12.93</b>
<b>Net assets attributable to shareholders</b>	<b>397,405</b>	<b>100.00</b>	<b>100.00</b>

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



# M&G Episode Macro 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.

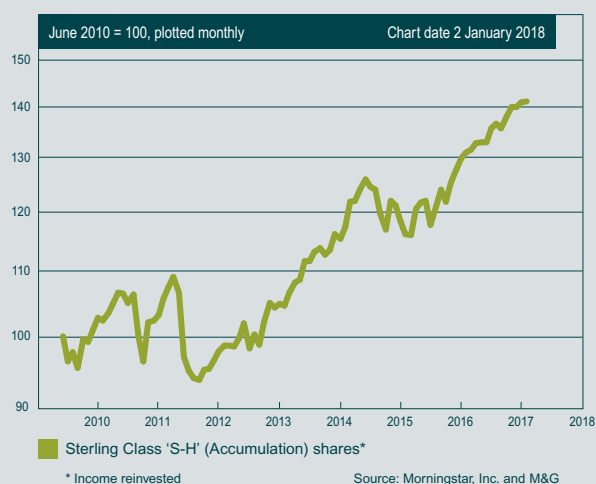
The following chart and table reflect the key financial information of a representative share class, Sterling Class 'S-H' (Accumulation) shares. As different share classes have different attributes, for example charging structures, please be aware that their performance may be different. Please refer to the Prospectus for M&G Investment Funds (5) which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

### Fund level performance

Fund net asset value			
as at 31 December	2017 \$'000	2016 \$'000	2015 \$'000
Fund net asset value (NAV)	397,405	229,325	106,905

### Performance since launch

To give an indication of how the fund has performed since launch, the chart below shows total return of Sterling Class 'S-H' (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 03.01.17 % <sup>[a]</sup>	Three years 02.01.15 % p.a.	Five years 02.01.13 % p.a.	Since launch % p.a.
<b>Euro<sup>[b]</sup></b>				
Class 'B-H'	+6.8	+5.7	+6.3	+3.7 <sup>[c]</sup>
Class 'S-H'	+7.3	+6.0	+6.8	+4.0 <sup>[d]</sup>
Class 'T-H'	+6.7	+5.8	+6.3	+3.7 <sup>[d]</sup>
<b>Sterling<sup>[e]</sup></b>				
Class 'S-H'	+8.2	+7.0	+7.5	+4.7 <sup>[d]</sup>
Class 'T-H'	+7.5	+6.6	+6.9	+4.4 <sup>[d]</sup>
<b>Swiss franc<sup>[b]</sup></b>				
Class 'S-H'	+6.9	+5.6	+6.4	+6.7 <sup>[f]</sup>
Class 'T-H'	+8.0	+6.6	+7.1	+7.4 <sup>[f]</sup>
<b>US dollar<sup>[b]</sup></b>				
Class 'N'	+18.6	+8.7	+9.3	+5.7 <sup>[d]</sup>
Class 'S'	+9.6	+7.4	+7.5	+4.7 <sup>[d]</sup>
Class 'T'	+10.7	+8.4	+8.3	+5.3 <sup>[d]</sup>

<sup>[a]</sup> Absolute basis.

<sup>[b]</sup> Price to price with net income reinvested.

<sup>[c]</sup> 19 April 2012, the launch date of the share class.

<sup>[d]</sup> 3 June 2010, the launch date of the fund.

<sup>[e]</sup> Price to price with income reinvested.

<sup>[f]</sup> 28 September 2012, the launch date of the share class.

# M&G Episode Macro 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).
- **Performance fee:** Fee based on fund performance.
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Share class hedging:** Charge paid to M&G for currency hedging services to minimise exchange rate risk for the share class.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.

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 December	2017	2016	2015	Average <sup>[a]</sup>
<b>Direct portfolio transaction costs <sup>[b]</sup></b>	%	%	%	%
Broker commission	0.03	0.06	0.02	0.04
Taxes	0.01	0.03	0.02	0.02
Costs before dilution adjustments	0.04	0.09	0.04	0.06
Dilution adjustments <sup>[c]</sup>	(0.01)	(0.01)	0.00	(0.01)
<b>Total direct portfolio transaction costs</b>	<b>0.03</b>	<b>0.08</b>	<b>0.04</b>	<b>0.05</b>
<b>as at 31 December</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>Average <sup>[a]</sup></b>
<b>Indirect portfolio transaction costs</b>	%	%	%	%
Average portfolio dealing spread	0.00	0.00	0.01	0.00

<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 Episode Macro 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.

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

The share class was launched on 19 April 2012.

for the year to 31 December Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,146.19	1,057.73	1,040.85
Return before operating charges and after direct portfolio transaction costs	112.14	114.97	43.71
Operating charges	(29.69)	(26.51)	(26.83)
Return after operating charges	82.45	88.46	16.88
Distributions	0.00	0.00	0.00
Retained distributions	0.00	0.00	0.00
Closing NAV	1,228.64	1,146.19	1,057.73
<b>Direct portfolio transaction costs</b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.49	0.93	0.37
Dilution adjustments <sup>[a]</sup>	(0.10)	(0.14)	(0.01)
Total direct portfolio transaction costs	0.39	0.79	0.36
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.03	0.08	0.04
Operating charges	2.44	2.47	2.45
Return after operating charges	+7.19	+8.36	+1.62
Historic yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	2,284	167	29
Closing NAV percentage of total fund NAV (%)	0.58	0.07	0.03
Number of shares	155,073	13,765	2,500
Highest share price (Euro ¢)	1,232.44	1,152.63	1,140.66
Lowest share price (Euro ¢)	1,145.12	971.05	1,031.09

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

The share class was launched on 3 June 2010.

for the year to 31 December Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,252.26	1,150.41	1,134.24
Return before operating charges and after direct portfolio transaction costs	121.73	124.82	39.31
Operating charges	(25.56)	(22.97)	(23.14)
Return after operating charges	96.17	101.85	16.17
Distributions	0.00	0.00	0.00
Retained distributions	0.00	0.00	0.00
Closing NAV	1,348.43	1,252.26	1,150.41
<b>Direct portfolio transaction costs</b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.53	1.02	0.41
Dilution adjustments <sup>[a]</sup>	(0.11)	(0.16)	(0.01)
Total direct portfolio transaction costs	0.42	0.86	0.40
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.03	0.08	0.04
Operating charges	1.94	1.97	1.95
Return after operating charges	+7.68	+8.85	+1.43
Historic yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	121,687	20,387	1,383
Closing NAV percentage of total fund NAV (%)	30.62	8.89	1.29
Number of shares	7,527,455	1,541,650	110,366
Highest share price (Euro ¢)	1,352.26	1,259.08	1,237.25
Lowest share price (Euro ¢)	1,251.47	1,056.58	1,123.77

#### Euro Class 'T-H' Accumulation share performance

The share class was launched on 3 June 2010.

for the year to 31 December Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,229.94	1,139.00	1,087.58
Return before operating charges and after direct portfolio transaction costs	127.70	126.22	66.93
Operating charges	(12.46)	(11.03)	(11.04)
Performance fee	(29.16)	(24.25)	(4.47)
Return after operating charges	86.08	90.94	51.42
Distributions	0.00	0.00	0.00
Retained distributions	0.00	0.00	0.00
Closing NAV	1,316.02	1,229.94	1,139.00
<b>Direct portfolio transaction costs</b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.53	0.99	0.40
Dilution adjustments <sup>[a]</sup>	(0.11)	(0.16)	(0.01)
Total direct portfolio transaction costs	0.42	0.83	0.39
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.03	0.08	0.04
Operating charges	0.94	0.95	0.95
Performance fee	2.18	2.09	0.39
Return after operating charges	+7.00	+7.98	+4.73
Historic yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	51,457	4,084	3,600
Closing NAV percentage of total fund NAV (%)	12.95	1.78	3.37
Number of shares	3,261,511	314,484	290,156
Highest share price (Euro ¢)	1,318.99	1,235.09	1,202.03
Lowest share price (Euro ¢)	1,229.93	1,047.70	1,102.15

# M&G Episode Macro Fund

## Financial highlights

### Specific share class performance

#### Sterling Class 'S-H' Accumulation share performance

The share class was launched on 3 June 2010.

for the year to 31 December Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	129.90	118.41	115.43
Return before operating charges and after direct portfolio transaction costs	13.73	13.74	5.36
Operating charges	(2.62)	(2.25)	(2.38)
Return after operating charges	11.11	11.49	2.98
Distributions	0.00	0.00	0.00
Retained distributions	0.00	0.00	0.00
Closing NAV	141.01	129.90	118.41

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.10	0.04
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.02)	0.00
Total direct portfolio transaction costs	0.04	0.08	0.04

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.03	0.08	0.04
Operating charges	1.94	1.96	1.95
Return after operating charges	+8.55	+9.70	+2.58
Historic yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00

#### Other information

Closing NAV (\$'000)	154,127	116,597	291
Closing NAV percentage of total fund NAV (%)	38.78	50.84	0.27
Number of shares	80,893,353	72,965,663	166,000
Highest share price (UK p)	141.34	130.57	126.80
Lowest share price (UK p)	129.91	108.47	114.39

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

The share class was launched on 3 June 2010.

for the year to 31 December Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	128.05	117.59	114.42
Return before operating charges and after direct portfolio transaction costs	13.64	13.57	5.33
Operating charges	(1.25)	(1.17)	(1.14)
Performance fee	(2.36)	(1.94)	(1.02)
Return after operating charges	10.03	10.46	3.17
Distributions	0.00	0.00	0.00
Retained distributions	0.00	0.00	0.00
Closing NAV	138.08	128.05	117.59

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.05	0.11	0.04
Dilution adjustments <sup>[a]</sup>	(0.01)	(0.02)	0.00
Total direct portfolio transaction costs	0.04	0.09	0.04

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.03	0.08	0.04
Operating charges	0.94	0.95	0.95
Performance fee	1.75	1.56	0.86
Return after operating charges	+7.83	+8.90	+2.77
Historic yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00

#### Other information

Closing NAV (\$'000)	12,430	5,241	30,326
Closing NAV percentage of total fund NAV (%)	3.13	2.28	28.37
Number of shares	6,662,807	3,326,872	17,403,312
Highest share price (UK p)	138.33	128.54	123.47
Lowest share price (UK p)	128.13	108.13	113.12

#### Swiss franc Class 'S-H' Accumulation share performance

The share class was launched on 28 September 2012.

for the year to 31 December Change in NAV per share	2017 Swiss ¢	2016 Swiss ¢	2015 Swiss ¢
Opening NAV	1,306.83	1,207.00	1,194.66
Return before operating charges and after direct portfolio transaction costs	121.73	123.78	36.78
Operating charges	(26.36)	(23.95)	(24.44)
Return after operating charges	95.37	99.83	12.34
Distributions	0.00	0.00	0.00
Retained distributions	0.00	0.00	0.00
Closing NAV	1,402.20	1,306.83	1,207.00

Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.55	1.05	0.43
Dilution adjustments <sup>[a]</sup>	(0.12)	(0.16)	(0.01)
Total direct portfolio transaction costs	0.43	0.89	0.42

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.03	0.08	0.04
Operating charges	1.94	1.95	1.95
Return after operating charges	+7.30	+8.27	+1.03
Historic yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00

#### Other information

Closing NAV (\$'000)	138	38	36
Closing NAV percentage of total fund NAV (%)	0.03	0.02	0.03
Number of shares	9,609	3,000	3,000
Highest share price (Swiss ¢)	1,406.62	1,314.62	1,304.85
Lowest share price (Swiss ¢)	1,305.80	1,108.12	1,183.54

#### Swiss franc Class 'T-H' Accumulation share performance

The share class was launched on 28 September 2012.

for the year to 31 December Change in NAV per share	2017 Swiss ¢	2016 Swiss ¢	2015 Swiss ¢
Opening NAV	1,341.75	1,227.00	1,202.38
Return before operating charges and after direct portfolio transaction costs	125.39	126.68	36.70
Operating charges	(13.05)	(11.93)	(12.08)
Return after operating charges	112.34	114.75	24.62
Distributions	0.00	0.00	0.00
Retained distributions	0.00	0.00	0.00
Closing NAV	1,454.09	1,341.75	1,227.00

Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.56	1.07	0.44
Dilution adjustments <sup>[a]</sup>	(0.12)	(0.17)	(0.01)
Total direct portfolio transaction costs	0.44	0.90	0.43

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.03	0.08	0.04
Operating charges	0.94	0.95	0.95
Return after operating charges	+8.37	+9.35	+2.05
Historic yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00

#### Other information

Closing NAV (\$'000)	45	40	37
Closing NAV percentage of total fund NAV (%)	0.01	0.02	0.03
Number of shares	3,000	3,000	3,000
Highest share price (Swiss ¢)	1,458.66	1,349.09	1,318.47
Lowest share price (Swiss ¢)	1,341.56	1,127.48	1,191.44

# M&G Episode Macro Fund

## Financial highlights

### Specific share class performance

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

US dollar Class 'N' shares are not generally available to all investors.

The share class was launched on 3 June 2010.

for the year to 31 December Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,436.22	1,284.00	1,234.10
Return before operating charges and after direct portfolio transaction costs	173.44	154.65	52.29
Operating charges	(2.56)	(2.43)	(2.39)
Return after operating charges	170.88	152.22	49.90
Distributions	(2.90)	0.00	0.00
Retained distributions	2.90	0.00	0.00
Closing NAV	1,607.10	1,436.22	1,284.00
<b>Direct portfolio transaction costs</b>	<b>US ¢</b>	<b>US ¢</b>	<b>US ¢</b>
Costs before dilution adjustments	0.60	1.14	0.45
Dilution adjustments <sup>[a]</sup>	(0.13)	(0.18)	(0.01)
Total direct portfolio transaction costs	0.47	0.96	0.44
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.03	0.08	0.04
Operating charges	0.17	0.18	0.18
Return after operating charges	+11.90	+11.86	+4.04
Historic yield	0.18	0.00	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	40,017	71,563	63,994
Closing NAV percentage of total fund NAV (%)	10.07	31.21	59.86
Number of shares	2,489,977	4,982,754	4,982,754
Highest share price (US ¢)	1,607.83	1,441.90	1,362.98
Lowest share price (US ¢)	1,438.12	1,179.53	1,223.21

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

The share class was launched on 3 June 2010.

for the year to 31 December Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,283.34	1,168.00	1,142.19
Return before operating charges and after direct portfolio transaction costs	153.55	138.47	48.91
Operating charges	(25.69)	(23.13)	(23.10)
Return after operating charges	127.86	115.34	25.81
Distributions	0.00	0.00	0.00
Retained distributions	0.00	0.00	0.00
Closing NAV	1,411.20	1,283.34	1,168.00
<b>Direct portfolio transaction costs</b>	<b>US ¢</b>	<b>US ¢</b>	<b>US ¢</b>
Costs before dilution adjustments	0.54	1.03	0.41
Dilution adjustments <sup>[a]</sup>	(0.11)	(0.16)	(0.01)
Total direct portfolio transaction costs	0.43	0.87	0.40
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.03	0.08	0.04
Operating charges	1.92	1.93	1.93
Return after operating charges	+9.96	+9.88	+2.26
Historic yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	10,728	9,923	5,363
Closing NAV percentage of total fund NAV (%)	2.70	4.33	5.02
Number of shares	760,179	773,230	459,187
Highest share price (US ¢)	1,412.30	1,289.27	1,252.49
Lowest share price (US ¢)	1,283.87	1,070.90	1,131.73

#### US dollar Class 'T' Accumulation share performance

The share class was launched on 3 June 2010.

for the year to 31 December Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,325.07	1,194.00	1,156.14
Return before operating charges and after direct portfolio transaction costs	159.44	142.55	49.30
Operating charges	(12.83)	(11.48)	(11.44)
Return after operating charges	146.61	131.07	37.86
Distributions	0.00	0.00	0.00
Retained distributions	0.00	0.00	0.00
Closing NAV	1,471.68	1,325.07	1,194.00
<b>Direct portfolio transaction costs</b>	<b>US ¢</b>	<b>US ¢</b>	<b>US ¢</b>
Costs before dilution adjustments	0.56	1.05	0.42
Dilution adjustments <sup>[a]</sup>	(0.12)	(0.16)	(0.01)
Total direct portfolio transaction costs	0.44	0.89	0.41
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.03	0.08	0.04
Operating charges	0.92	0.93	0.93
Return after operating charges	+11.06	+10.98	+3.27
Historic yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	4,492	1,285	1,846
Closing NAV percentage of total fund NAV (%)	1.13	0.56	1.73
Number of shares	305,226	96,970	154,635
Highest share price (US ¢)	1,472.55	1,330.68	1,272.71
Lowest share price (US ¢)	1,326.30	1,095.72	1,145.78

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

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

# M&G Episode Macro Fund

## Financial statements and notes

### Financial statements

Statement of total return					
for the year to 31 December		2017		2016	
Note		\$'000	\$'000	\$'000	\$'000
Income					
Net capital gains / (losses)	2		55,879		12,878
Revenue	4	1,057		(93)	
Expenses	5	(4,871)		(1,096)	
Interest payable		(23)		(2)	
Net revenue / (expense) before taxation		(3,837)		(1,191)	
Taxation	6	(82)		(34)	
Net revenue / (expense) after taxation			(3,919)		(1,225)
<b>Total return before distributions</b>			<b>51,960</b>		<b>11,653</b>
Distributions	7		(1,785)		(2,074)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>50,175</b>		<b>9,579</b>

Statement of change in net assets attributable to shareholders					
for the year to 31 December		2017		2016	
		\$'000	\$'000	\$'000	\$'000
Opening net assets attributable to shareholders					
Amounts received on issue of shares		178,540		140,886	
Amounts paid on cancellation of shares		(60,738)		(28,066)	
			117,802		112,820
Dilution adjustments			31		21
Change in net assets attributable to shareholders from investment activities (see above)			50,175		9,579
Retained distributions on Accumulation shares			72		0
<b>Closing net assets attributable to shareholders</b>			<b>397,405</b>		<b>229,325</b>

Balance sheet			
as at 31 December		2017	2016
Note		\$'000	\$'000
<b>Assets</b>			
<b>Fixed assets</b>			
Investments		364,616	206,268
<b>Current assets</b>			
Debtors	8	509	5,938
Cash and bank balances	9	36,887	26,755
<b>Total assets</b>		<b>402,012</b>	<b>238,961</b>
<b>Liabilities</b>			
Investment liabilities		(3,662)	(6,604)
<b>Creditors</b>			
Other creditors	10	(945)	(3,032)
<b>Total liabilities</b>		<b>(4,607)</b>	<b>(9,636)</b>
<b>Net assets attributable to shareholders</b>		<b>397,405</b>	<b>229,325</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 Net capital gains / (losses)

for the year to 31 December	2017	2016
	\$'000	\$'000
Non-derivative securities	10,013	5,824
Derivative contracts	44,657	7,302
Currency gains / (losses)	1,223	(240)
Transaction charges	(14)	(8)
<b>Net capital gains / (losses)</b>	<b>55,879</b>	<b>12,878</b>

#### 3 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 16.

for the year to 31 December	2017	% of	2016	% of
	\$'000	transaction	\$'000	transaction
<b>a) Purchases</b>				
<b>Equities</b>				
Equities before transaction costs	44,363		32,840	
Commissions	16	0.04	17	0.05
Taxes	41	0.09	35	0.11
<b>Equities after transaction costs</b>	<b>44,420</b>		<b>32,892</b>	
<b>Debt securities after transaction costs [a]</b>				
	<b>1,016,282</b>		<b>389,719</b>	
<b>Total purchases after transaction costs</b>	<b>1,060,702</b>		<b>422,611</b>	
<b>b) Sales</b>				
<b>Equities</b>				
Equities before transaction costs	7,456		39,756	
Commissions	(2)	0.03	(20)	0.05
<b>Equities after transaction costs</b>	<b>7,454</b>		<b>39,736</b>	
<b>Debt securities after transaction costs [a]</b>				
	<b>910,968</b>		<b>287,777</b>	
<b>Total sales after transaction costs</b>	<b>918,422</b>		<b>327,513</b>	
<b>c) Direct portfolio transaction costs</b>				
	2017	% of	2016	% of
	\$'000	average NAV	\$'000	average NAV
<b>Commissions paid</b>				
Equities	18	0.01	37	0.04
Derivatives	64	0.02	25	0.02
<b>Total commissions paid</b>	<b>82</b>	<b>0.03</b>	<b>62</b>	<b>0.06</b>
<b>Taxes paid</b>				
Equities	41	0.01	35	0.03
<b>Total direct portfolio transaction costs [b]</b>	<b>123</b>	<b>0.04</b>	<b>97</b>	<b>0.09</b>
<b>d) Indirect portfolio transaction costs</b>				
Portfolio dealing spread [c]		0.00		0.00

[a] These transaction types do not attract direct portfolio transaction costs.

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

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

# M&G Episode Macro Fund

## Financial statements and notes

### Notes to the financial statements

#### 4 Revenue

for the year to 31 December	2017 \$'000	2016 \$'000
Bank interest	19	14
Derivative revenue	(1,588)	(773)
Dividends from equity investments: non-taxable	754	372
Dividends from equity investments: taxable	40	17
Interest on debt securities	1,908	239
Share class hedging revenue / (expense)	(76)	38
<b>Total revenue</b>	<b>1,057</b>	<b>(93)</b>

#### 5 Expenses

for the year to 31 December	2017 \$'000	2016 \$'000
<b>Payable to the ACD or associate</b>		
Annual management charge	4,007	703
Administration charge	463	169
Performance fee	314	189
Share class hedging charge	42	8
	4,826	1,069
<b>Payable to the Depository or associate</b>		
Depository's charge (including VAT)	24	10
<b>Other expenses</b>		
Audit fee (including VAT)	16	15
Safe custody charge	5	2
	21	17
<b>Total expenses</b>	<b>4,871</b>	<b>1,096</b>

#### 6 Taxation

for the year to 31 December	2017 \$'000	2016 \$'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	0
Withholding tax	82	34
Deferred tax (note 6c)	0	0
<b>Total taxation</b>	<b>82</b>	<b>34</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue/ (expense) before taxation	(3,837)	(1,191)
Corporation tax at 20%	(767)	(238)
Effects of:		
Dividends from equity investments: non-taxable	(151)	(75)
Current year expenses not utilised	918	313
Withholding tax	82	34
<b>Total tax charge (note 6a)</b>	<b>82</b>	<b>34</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 6a)	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 \$2,750,000 (2016: \$1,832,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

#### 7 Distributions

for the year to 31 December	2017		2016	
	Inc <sup>[a]</sup> \$'000	Acc <sup>[b]</sup> \$'000	Inc <sup>[a]</sup> \$'000	Acc <sup>[b]</sup> \$'000
<b>Dividend distributions</b>				
Final	n/a	72	n/a	0
Total net distributions		72		0
Income deducted on cancellation of shares		(142)		(71)
Income received on issue of shares		1,855		2,145
<b>Distributions</b>		<b>1,785</b>		<b>2,074</b>
Net revenue / (expense) per statement of total return		(3,919)		(1,225)
Income deficit transferred to capital		5,704		3,299
<b>Distributions</b>		<b>1,785</b>		<b>2,074</b>

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

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

#### 8 Debtors

as at 31 December	2017 \$'000	2016 \$'000
Amounts receivable on issues of shares	249	3,320
Currency deals outstanding	260	2,618
<b>Total debtors</b>	<b>509</b>	<b>5,938</b>

#### 9 Cash and bank balances

as at 31 December	2017 \$'000	2016 \$'000
Amounts held at futures clearing houses and collateral manager	15,735	16,849
Cash held as bank balances	21,152	9,906
<b>Total cash and bank balances</b>	<b>36,887</b>	<b>26,755</b>

#### 10 Other creditors

as at 31 December	2017 \$'000	2016 \$'000
ACD's annual management charge payable	166	78
Administration charge payable	18	10
Amounts payable on cancellation of shares	14	0
Currency deals outstanding	261	2,653
Derivative expense payable	150	82
Expenses payable	20	19
Performance fee payable	314	189
Share class hedging charge payable	2	1
<b>Total other creditors</b>	<b>945</b>	<b>3,032</b>

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

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2016: same).

# M&G Episode Macro Fund

## Financial statements and notes

### Notes to the financial statements

#### 12 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 13.

Share class	Opening 01.01.17	Movements		Closing 31.12.17
		Issued	Cancelled	
<b>Euro</b>				
Class 'B-H' Accumulation	13,765	153,627	(12,319)	155,073
Class 'S-H' Accumulation	1,541,650	5,996,056	(10,251)	7,527,455
Class 'T-H' Accumulation	314,484	3,176,216	(229,189)	3,261,511
<b>Sterling</b>				
Class 'S-H' Accumulation	72,965,663	7,959,967	(32,277)	80,893,353
Class 'T-H' Accumulation	3,326,872	3,765,863	(429,928)	6,662,807
<b>Swiss franc</b>				
Class 'S-H' Accumulation	3,000	7,032	(423)	9,609
Class 'T-H' Accumulation	3,000	0	0	3,000
<b>US dollar</b>				
Class 'N' Accumulation	4,982,754	0	(2,492,777)	2,489,977
Class 'S' Accumulation	773,230	1,095,256	(1,108,307)	760,179
Class 'T' Accumulation	96,970	331,704	(123,448)	305,226

#### 13 Charging structure

The table below sets out the charging structure for each class of share.

Share class	Entry charge %	Exit charge %	Annual management charge %	Share class hedging charge %	Performance fee %
<b>Euro</b>					
Class 'B-H'	1.25	n/a	2.25	[a]	n/a
Class 'S-H'	4.00	n/a	1.75	[a]	n/a
Class 'T-H'	4.00	n/a	0.75	[a]	[b]
<b>Sterling</b>					
Class 'S-H'	nil	n/a	1.75	[a]	n/a
Class 'T-H'	nil	n/a	0.75	[a]	[b]
<b>Swiss franc</b>					
Class 'S-H'	4.00	n/a	1.75	[a]	n/a
Class 'T-H'	4.00	n/a	0.75	[a]	[b]
<b>US dollar</b>					
Class 'N'	0.00	n/a	0.00	n/a	n/a
Class 'S'	4.00	n/a	1.75	n/a	n/a
Class 'T'	4.00	n/a	0.75	n/a	[b]

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

[b] Fee based on fund performance. For more information, please refer to the Prospectus for M&G Investment Funds (5).

#### 14 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 7. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 8 and 10 where applicable.

Amounts paid to M&G Securities Limited in respect of the ACD's annual management charge, administration charge, share class hedging charge and performance fee are disclosed in note 5. Amounts due at the year end in respect of the ACD's annual management charge, administration charge, share class hedging charge and performance fee are disclosed in note 10.

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 76.92% (2016: 91.31%) of the fund's shares.

#### 15 Events after the balance sheet date

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

#### 16 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 December	Assets 2017	Liabilities 2017	Assets 2016	Liabilities 2016
Basis of valuation	\$'000	\$'000	\$'000	\$'000
Level 1	358,787	(1,518)	202,422	(580)
Level 2	5,829	(2,144)	3,846	(6,024)
Level 3	0	0	0	0
	<b>364,616</b>	<b>(3,662)</b>	<b>206,268</b>	<b>(6,604)</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 12 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

#### 17 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.



# M&G Episode Macro Fund

## Financial statements and notes

### Notes to the financial statements

#### 18 Market risk sensitivity and exposure

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

The VaR limit set during the financial year to 31 December 2017 was 15% (2016: 15%).

The lowest, highest and average VaR calculated during the financial years ended 31 December 2017 and 31 December 2016 are disclosed in the table below. The lowest, highest and average utilisation of VaR is with reference to the limit above.

for the year to 31 December	2017 %	2016 %
Lowest	3.12	2.83
Highest	4.49	10.24
Average	3.70	5.78

#### 19 Credit risk

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

as at 31 December	2017 \$'000	2016 \$'000
Investment grade securities	296,572	189,262
Below investment grade securities	0	0
Unrated securities	0	0
Other investments	64,382	10,402
<b>Total</b>	<b>360,954</b>	<b>199,664</b>

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

as at 31 December 2017	Forward currency contracts \$'000	Futures \$'000
Bank of America Merrill Lynch	(32)	2,327
BNP Paribas	(31)	0
Citigroup	(68)	0
HSBC	(585)	0
State Street Bank	3,689	0
UBS	712	0
<b>Total</b>	<b>3,685</b>	<b>2,327</b>

as at 31 December 2016	Forward currency contracts \$'000	Futures \$'000
Bank of America Merrill Lynch	0	1,170
BNP Paribas	556	0
Citigroup	121	0
HSBC	1,021	0
JPMorgan	0	0
State Street Bank	(3,418)	0
UBS	(458)	0
<b>Total</b>	<b>(2,178)</b>	<b>1,170</b>

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

#### 20 Leverage risk

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

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

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 31 December 2017 and 31 December 2016 are disclosed in the table below.

for the year to 31 December	2017 \$'000	2017 %	2016 \$'000	2016 %
Lowest	411,321	89	170,250	203
Highest	1,438,001	204	819,166	530
Average	664,879	131	323,617	292

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

This fund contains hedged share classes. These share classes operate currency hedges designed to reduce the impact of exchange rates in certain circumstances. As a result, profit and loss on the currency hedges may impact the liquidity of the overall fund. On a day to day basis this is monitored using reporting from the outsourced provider of the hedged share class service. On an ongoing basis the size of the hedged share classes is monitored to ensure that unforeseen exchange rate volatility can be adequately managed without significantly impacting all shareholders.

#### 22 Dividend distribution tables

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

Annual distribution period	Start	End	Xd	Payment
Final	01.01.17	31.12.17	02.01.18	28.02.18

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

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

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

#### Euro Class 'B-H' Accumulation shares

Ordinary distributions for the year to 31 December	Group 2 Income 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	2016
Final	€ 0.0000	€ -	€ 0.0000	€ 0.0000

# M&G Episode Macro Fund

## Financial statements and notes

### Notes to the financial statements

#### 22 Dividend distribution tables (continued)

##### Euro Class 'S-H' Accumulation shares

Ordinary distributions for the year to 31 December	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
Final	€ 0.0000	€ -	€ 0.0000	€ 0.0000

##### Euro Class 'T-H' Accumulation shares

Ordinary distributions for the year to 31 December	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
Final	€ 0.0000	€ -	€ 0.0000	€ 0.0000

##### Sterling Class 'S-H' Accumulation shares

Ordinary distributions for the year to 31 December	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
Final	£ 0.0000	£ -	£ 0.0000	£ 0.0000

##### Sterling Class 'T-H' Accumulation shares

Ordinary distributions for the year to 31 December	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
Final	£ 0.0000	£ -	£ 0.0000	£ 0.0000

##### Swiss franc Class 'S-H' Accumulation shares

Ordinary distributions for the year to 31 December	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
Final	CHF 0.0000	CHF -	CHF 0.0000	CHF 0.0000

##### Swiss franc Class 'T-H' Accumulation shares

Ordinary distributions for the year to 31 December	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
Final	CHF 0.0000	CHF -	CHF 0.0000	CHF 0.0000

##### US dollar Class 'N' Accumulation shares

Ordinary distributions for the year to 31 December	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
Final	USD 2.9013	USD -	USD 2.9013	USD 0.0000

##### US dollar Class 'S' Accumulation shares

Ordinary distributions for the year to 31 December	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
Final	USD 0.0000	USD -	USD 0.0000	USD 0.0000

##### US dollar Class 'T' Accumulation shares

Ordinary distributions for the year to 31 December	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
Final	USD 0.0000	USD -	USD 0.0000	USD 0.0000

# M&G Global Corporate Bond Fund

## Authorised Corporate Director's Report

### Investment objective

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

### Investment policy

The fund invests on a global basis mainly in investment grade corporate bonds denominated in any currency. The fund's exposure to investment grade corporate bonds may be gained through the use of derivatives.

The fund may also invest in high yield corporate bonds, government and public securities, collective investment schemes, other transferable securities, cash and near cash, deposits, warrants and money market instruments which may be denominated in any currency.

Any currency exposures within the fund may be managed by currency hedges.

Derivatives may be used in pursuit of the fund objective and for efficient portfolio management purposes.

### Investment approach

The fund manager believes that bond returns are driven by a combination of macroeconomic, asset class, sector, geographic and individual credit-level factors. A dynamic investment approach combining top-down and bottom-up stock selection is followed, allowing the fund manager to change the blend of duration and credit exposure based on his outlook for bond markets. An in-house team of independent credit analysts assists the fund manager in individual credit selection along with the monitoring of names held by the fund.

The fund is not managed closely to a benchmark, which allows for a flexible and high-conviction investment approach. The fund's currency exposure is typically hedged back to its base currency.

### Risk profile

The fund invests mainly in investment grade corporate bonds denominated in any currency. It is therefore subject to the price volatility of the global bond market as well as the performance of individual issuers. It is also subject to fluctuations in currency exchange rates.

The fund's focus is on high-quality corporate bonds, securities that are normally traded with relative ease. Up to 20% of the fund may be invested in other fixed income investments, such as government bonds, which are typically highly liquid assets, or high yield corporate bonds, which are higher risk assets that could potentially experience a degree of illiquidity in times of market distress.

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

Portfolio diversification is key in managing liquidity and default risks as well as reducing market risk. The 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-H' shares.



The above number:

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

### Investment review

**As at 2 January 2018, for the year ended 31 December 2017**

#### Performance against objective

Between 3 January 2017 (the start of the review period) and 2 January 2018, the M&G Global Corporate Bond Fund delivered a solid positive total return (the combination of income and growth of capital) across all of its share classes.\*

The M&G Global Corporate Bond Fund invests predominantly in investment grade corporate bonds from around the world, with the aim of maximising total return (the combination of income and growth of capital).

Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'. Investment grade corporate bonds refer to 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 of non-repayment than those issued by companies with lower credit ratings (known as high yield bonds). The performance of investment grade corporate bond markets can be influenced by the performance of government bonds.

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

# M&G Global Corporate Bond Fund

## Authorised Corporate Director's Report

### Investment review

#### Investment performance

The first half of 2017 was once again dominated by political developments. Voters in the Netherlands rejected populism in parliamentary elections held in March, as Geert Wilders' anti-immigration party failed to become the largest in parliament, beaten into second place by incumbent Prime Minister Mark Rutte's centre-right party. Also in March, the UK formally triggered Article 50, the process by which the country will leave the European Union in 2019. Meanwhile, market attention was focused on the run-up to hotly contested presidential elections in France.

For the first time in a long time, the economic situation in Europe in particular looks considerably brighter. The unemployment rate has fallen back below 10% for the first time since 2011, while business surveys suggest a further steady pick-up in economic growth over the coming months. Political tensions also receded, with Emmanuel Macron's decisive victory in May's second-round French election helping to boost European markets. In the UK, snap parliamentary elections held in June that resulted in a hung parliament only served to muddy the waters as Brexit talks formally began.

The summer period was characterised by investor speculation that leading central banks (including the Bank of England, US Federal Reserve and European Central Bank) might be edging closer to the next stage in gradually withdrawing the support that they have been providing financial markets over the 10 years since the global financial crisis. This took place against a backdrop of broadly positive economic data releases, indicating that the global economy is in good health. Central banks have so far been careful to communicate to markets that this process will only happen slowly and in a controlled manner. If this is indeed the case, markets may not experience big movements, although any changes that happen more suddenly and in greater scale than investors expect could lead to volatility.

In this vein, the European Central Bank announced in October that it would gradually reduce the amount of money it spends each month on its bond-buying programme, but would continue to support markets until at least September 2018.

Meanwhile, a speech by Bank of England governor, Mark Carney, in September, in which he signalled that "some withdrawal of monetary stimulus is likely in coming months" causing investors to judge that a first interest rate increase in some 10 years might take place before the end of 2017, had the effect of pushing sterling higher. In November, the Bank confirmed investors' expectations, with a small rise of 0.25%, taking interest rates back to their level immediately before 2016's Brexit referendum vote.

The US Federal Reserve increased interest rates again in December 2017, making a total of four times it has raised rates in the 12 months since December 2016, with further increases expected in 2018.

This continued environment of relatively low interest rates and steady economic growth proved generally supportive for global investment grade corporate bond markets. As a result of the fund's well-diversified portfolio of bonds issued in a number of markets and currencies, all of the fund's share classes rose over the review period.

#### Investment activities

An important driver of a bond fund's performance is its ability to adjust its sensitivity to changes in interest rates, known as 'duration'. While we made certain small changes to the fund's duration over the course of the reporting period, we kept it short versus a comparable index for the entire period, meaning that the portfolio would be less sensitive to interest rate changes than the market average.

A significant position for the fund in 2017 was its exposure to inflation-linked bonds (also known as index-linked bonds). These are bonds where both the value of the loans and the interest payments are adjusted in line with inflation over the life of the securities, thus providing protection from rising inflation. As the review period began, we had an exposure to these securities of around 8%. We then adjusted the size of our exposure over the 12 months, reflecting our view of whether these instruments currently offered value. By the end of 2017, exposure stood at just over 5%.

We were active in the new issue market, buying many new bonds from a wide range of companies that were issued at attractive price levels compared to where their existing debt was trading. This was particularly the case at the beginning of the year, when many companies traditionally look to pre-finance their year's borrowing requirements.

We had a sizeable exposure to bonds issued by financials during the reporting period. Where possible, we have preferred bank bonds from lower down the capital structure, as we believe these bonds provide a good trade-off in terms of the potential risk and reward offered.

We found some good opportunities in the asset-backed securities market, especially those backed by residential and commercial mortgages. Such securities tend to be floating rate in nature, meaning they adjust periodically depending on the change in a reference interest rate, and should therefore perform well even when interest rates rise.

We chose to reduce the amount of risk we took over the course of the review period, as we believe that the higher yielding segment of the market looked expensive.

#### Outlook

We expect to see a continuation of many of the key themes from 2017 – strong economics, falling unemployment – as we move further into 2018.

This is particularly the case in the US, where full employment, moderate wage growth and the potential for rising inflation have caused the US Federal Reserve to raise rates. Meanwhile, Europe presents an improving economic story: its growth outlook has improved and political risk has receded. As the European Central Bank slowly begins to reduce the amount of support it provides to bond markets, this may have an impact on bond prices. However, we do not expect to see any interest rate rises imminently.

# M&G Global Corporate Bond Fund

## Authorised Corporate Director's Report

### Investment review

#### Outlook (continued)

We have a positive outlook on corporate bonds and continue to see value in these securities as we believe companies are generally in good financial health. We believe that this asset class remains attractive relative to cash and government bonds, can perform well during periods of uncertainty and can spread risk away from investment in company shares. As ever, our focus is on finding relative value among corporate bond markets.

There remain selected opportunities in the European corporate bond market, especially from US companies that choose to issue euro-denominated debt. Their bonds are not eligible to be purchased by the European Central Bank as part of its bond-buying programme, and so often trade at more attractive prices than bonds from similar European companies.

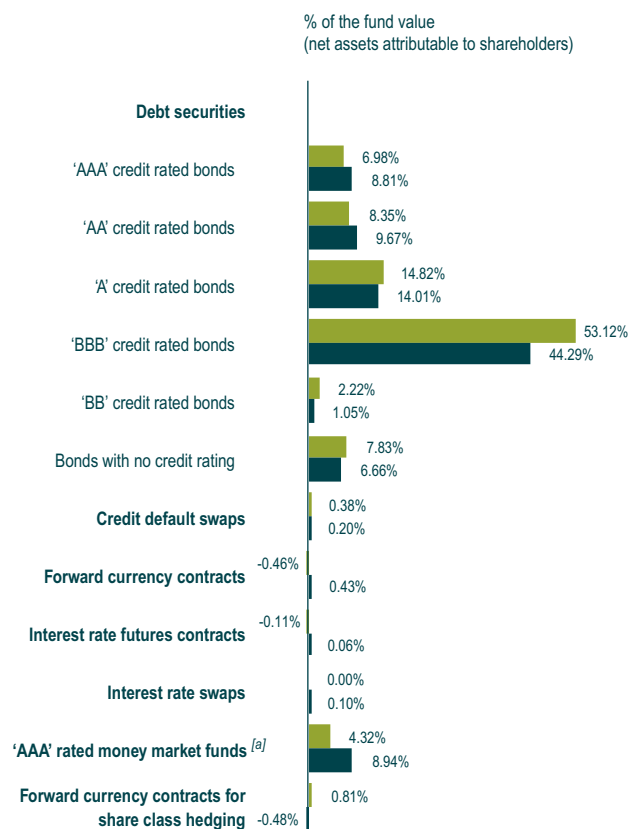
#### Ben Lord

Fund manager

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

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

### Classification of investments



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

■ 31 December 2017  
■ 31 December 2016

Source: M&G

# M&G Global Corporate Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement			
as at 31 December Holding	31.12.17 \$'000	31.12.17 %	31.12.16 %
<b>Debt securities</b>	<b>56,213</b>	<b>93.32</b>	<b>84.49</b>
<b>'AAA' credit rated bonds</b>	<b>4,205</b>	<b>6.98</b>	<b>8.81</b>
£112,694 Dukinfield FRN 2052	154	0.26	
€150,000 European Investment Bank 0.5% 2027	179	0.30	
€1,000,000 Germany (Federal Republic of) 0.50% 2025	1,234	2.04	
€1,185,000 Germany (Federal Republic of) 1.75% 2024	1,574	2.61	
€150,000 KFW 0.5% 2027	178	0.30	
\$115,000 Microsoft 3.7% 2046	119	0.20	
£564,302 Ripon Mortgages FRN 2056	767	1.27	
<b>'AA' credit rated bonds</b>	<b>5,030</b>	<b>8.35</b>	<b>9.67</b>
\$274,000 Apple 4.65% 2046	319	0.53	
€200,000 HSBC Holdings 4.75% Perp.	254	0.42	
\$200,000 HSBC Holdings Var. Rate Perp. (6%)	210	0.35	
\$125,000 Oracle 3.85% 2036	131	0.22	
\$350,000 Oracle 6.5% 2038	494	0.82	
£289,000 Towd Point Mortgage Funding FRN 2046	394	0.65	
£80,000 Treasury 2.5% IL 2024	394	0.65	
\$2,650,000 US Treasury 0.125% 2022	2,834	4.71	
<b>'A' credit rated bonds</b>	<b>8,929</b>	<b>14.82</b>	<b>14.01</b>
\$400,000 AIG Sunamer 6.9% 2032	532	0.88	
\$400,000 Airbus Group 3.15% 2027	400	0.66	
\$28,000 Bank of America 3.419% 2028	28	0.05	
\$33,000 Bank of America 4% 2024	35	0.06	
\$400,000 Bank of America FRN 2023	406	0.67	
\$250,000 Bank of New York Mellon 2.2% 2023	241	0.40	
\$600,000 BNP Paribas 3.5% 2027	596	0.99	
€557,000 BNP Paribas FRN 2024	683	1.13	
\$301,512 British Airways 4.625% 2025	319	0.53	
\$200,000 Cloverie Var. Rate 2046 (5.625%)	220	0.37	
\$700,000 GE Capital International Fund 4.418% 2035	754	1.25	
£157,854 Greene King Finance FRN 2033	210	0.35	
\$400,000 Home Depot 5.875% 2036	539	0.90	
£350,000 HSBC Holdings Var. Rate 2026 (2.256%)	475	0.79	
\$500,000 John Deere Capital 2.8% 2023	501	0.83	
\$200,000 JPMorgan Chase FRN 2023	205	0.34	
\$500,000 Lowe's 3.1% 2027	501	0.83	
\$349,919 Mitchells & Butlers Finance FRN 2030	322	0.54	
\$244,444 S-JETS 2017-1 3.967% 2042	245	0.41	
\$600,000 Target 2.5% 2026	574	0.95	
\$400,000 United Parcel Service FRN 2023	400	0.66	
\$700,000 Wells Fargo & Company 4.3% 2027	743	1.23	
<b>'BBB' credit rated bonds</b>	<b>31,998</b>	<b>53.12</b>	<b>44.29</b>
\$260,000 Abbott Laboratories 3.75% 2026	266	0.44	
\$600,000 ABN AMRO Bank Var. Rate 2028 (4.4%)	617	1.02	
£199,000 Akelius Residential Property 2.375% 2025	265	0.44	
€100,000 American Tower 1.375% 2025	120	0.20	
€100,000 Anglo American Capital 1.625% 2025	120	0.20	
£317,000 Annington Funding 2.646% 2025	436	0.72	
\$100,000 Aptiv Plc 4.25% Mtn 15/01/26	105	0.17	
£100,000 Aroundtown Property 3% 2029	136	0.23	
£100,000 AT&T 4.375% 2029	154	0.26	

### Portfolio statement (continued)

as at 31 December Holding	31.12.17 \$'000	31.12.17 %	31.12.16 %
<b>'BBB' credit rated bonds (continued)</b>			
\$149,000 AT&T 5.15% 2050	150	0.25	
\$625,000 AT&T 5.25% 2037	657	1.09	
\$200,000 AT&T 5.3% 2058	200	0.33	
£100,000 Aviva Var. Rate 2049 (4.375%)	145	0.24	
£100,000 Aviva Var. Rate Perp. (6.125%)	155	0.26	
£100,000 AXA Var. Rate Perp. (6.6862%)	165	0.27	
€200,000 Banco De Sabadell 0.875% 2023	237	0.39	
\$200,000 Banco Santander 3.8% 2028	200	0.33	
\$817,000 Bank of America 3.95% 2025	842	1.40	
\$180,000 Bank of America 4.25% 2026	189	0.31	
£275,000 Barclays Bank 3.125% 2024	388	0.64	
€400,000 Bayer Var. Rate 2075 (2.375%)	494	0.82	
\$266,000 BNP Paribas 4.625% 2027	283	0.47	
€200,000 BPCE Var. Rate 2027 (2.75%)	259	0.43	
\$250,000 BPCE 3.5% 2027	246	0.41	
£136,000 Bunzl Finance 2.25% 2025	185	0.31	
\$500,000 Capital One Financial 3.75% 2027	503	0.84	
€100,000 Channel Link Enterprises Finance Var. Rate 2050 (1.761%)	122	0.20	
£127,000 Channel Link Enterprises Finance Var. Rate 2050 (3.043%)	174	0.29	
\$300,000 Charter Communications Operating 3.75% 2028	287	0.48	
\$225,000 Citigroup 4.3% 2026	234	0.39	
\$158,000 Citigroup 4.4% 2025	166	0.28	
\$300,000 Citigroup FRN 2024	303	0.50	
\$1,150,000 Crédit Agricole 4.125% 2027	1,193	1.98	
£217,000 Credit Suisse Var. Rate 2025 (2.125%)	291	0.48	
\$329,000 CRH America Finance 3.4% 2027	328	0.54	
\$200,000 Deutsche Telekom International Finance 3.6% 2027	201	0.33	
\$625,000 Deutsche Telekom International Finance 8.75% 2030	908	1.51	
\$74,000 Diamond 1 and 2 Finance 5.45% 2023	80	0.13	
£100,000 Digital Stout Holding 2.75% 2024	139	0.23	
\$212,000 Enel Finance International 3.625% 2027	210	0.35	
\$300,000 Energy Transfer Partners 6.125% 2045	323	0.54	
\$250,000 Enterprise Products Operations 4.45% 2043	258	0.43	
£104,000 Eversholt Funding 3.529% 2042	142	0.24	
\$200,000 Exelon Generation 5.6% 2042	218	0.36	
\$350,000 Express Scripts 3.4% 2027	343	0.57	
\$250,000 Express Scripts 3.5% 2024	252	0.42	
\$150,000 Express Scripts 4.8% 2046	159	0.26	
\$200,000 Ford Motor Credit 4.389% 2026	209	0.35	
£110,000 GKN Holdings 3.375% 2032	146	0.24	
\$60,000 Goldman Sachs Group 3.85% 2024	62	0.10	
\$100,000 Goldman Sachs Group 4.25% 2025	104	0.17	
\$250,000 Goldman Sachs Group FRN 2023 (Jun)	252	0.42	
\$132,000 Goldman Sachs Group FRN 2023 (Nov)	137	0.23	
\$200,000 Goldman Sachs Group FRN 2027	211	0.35	
£100,000 HSBC Holdings 6.75% 2028	181	0.30	
\$700,000 ING Bank Var. Rate 2023 (4.125%)	708	1.18	
€100,000 ING Groep Var. Rate 2029 (1.625%)	120	0.20	
\$100,000 International Paper 3% 2027	97	0.16	
\$700,000 International Paper 4.8% 2044	762	1.26	
€2,300,000 Italy (Republic of) 1.85% 2024	2,853	4.74	
\$850,000 JPMorgan Chase 4.25% 2027	901	1.50	
£106,000 LafargeHolcim Sterling Finance 3% 2032	142	0.24	
£150,000 Legal & General Group 5.375% 2045	231	0.38	
\$264,000 Legal & General Group Var. Rate 2047 (5.25%)	279	0.46	

# M&G Global Corporate Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at 31 December Holding	31.12.17 \$'000	31.12.17 %	31.12.16 %
<b>'BBB' credit rated bonds (continued)</b>			
£195,000 Lloyds Bank 2.25% 2024	266	0.44	
£80,000 Lloyds Bank 7.625% 2025	145	0.24	
€100,000 Lloyds Bank FRN 2024	123	0.20	
£139,000 Morgan Stanley 2.625% 2027	192	0.32	
\$115,000 Morgan Stanley 3.95% 2027	117	0.19	
\$550,000 Morgan Stanley 5% 2025	600	1.00	
\$150,000 Morgan Stanley FRN 2023	154	0.26	
\$400,000 Morgan Stanley FRN 2024	407	0.68	
\$200,000 Mylan 3.95% 2026	200	0.34	
\$300,000 Mylan 5.4% 2043	326	0.54	
\$1,000,000 Nationwide Building Society 4% 2026	1,010	1.68	
€137,000 Nationwide Building Society Var. Rate 2029 (2%)	166	0.28	
£100,000 Orange Var. Rate Perp. (5.75%)	151	0.25	
\$375,000 O'Reilly Auto Parts 3.55% 2026	376	0.62	
\$600,000 Rabobank 4% 2029	608	1.01	
\$1,150,000 Reynolds American 5.85% 2045	1,428	2.37	
\$220,000 Royal Bank of Scotland FRN 2023	222	0.37	
£120,000 RSA Insurance Var. Rate 2045 (5.125%)	185	0.31	
\$200,000 Sabine Pass Liquef 5% 2027	213	0.35	
\$100,000 Santander 7.95% 2029	130	0.22	
€100,000 Santander Consumer Bank 0.75% 2022	120	0.20	
€139,000 Santander UK FRN 2023	170	0.28	
\$300,000 Société Générale 4.75% 2025	315	0.52	
€300,000 Société Générale FRN 2024	368	0.61	
\$150,000 Telefónica Emisiones 7.045% 2036	199	0.33	
€200,000 Teva Pharmaceutical Finance 1.125% 2024	207	0.34	
\$152,000 Teva Pharmaceutical Industries 2.8% 2023	132	0.22	
\$75,000 Teva Pharmaceutical Industries 3.15% 2026	62	0.10	
£158,000 Thames Water Utilities Cayman 2.375% 2023	212	0.35	
€300,000 Verizon Communications 2.875% 2038	364	0.60	
\$235,000 Verizon Communications 4.272% 2036	232	0.39	
\$445,000 Verizon Communications 5.25% 2037	487	0.81	
\$600,000 Western Gas Partner 4.65% 2026	620	1.03	
\$180,000 Weyerhaeuser 7.375% 2032	248	0.41	
<b>'BB' credit rated bonds</b>	<b>1,335</b>	<b>2.22</b>	<b>1.05</b>
\$270,000 Barclays Bank 4.836% 2028	279	0.46	
\$200,000 Intesa Sanpaolo 5.017% 2024	204	0.34	
\$100,000 Royal Bank of Scotland 5.125% 05/2024	106	0.18	
\$400,000 Santander 4.75% 2025	419	0.70	
\$300,000 Tesco 6.15% 2037	327	0.54	
<b>Bonds with no credit rating</b>	<b>4,716</b>	<b>7.83</b>	<b>6.66</b>
€300,000 Altarea 2.25% 2024	361	0.60	
€186,000 Arbour Clo FRN 2030	224	0.37	
€238,000 ATON 3.875% 2018	288	0.48	
£403,000 Coventry Building Society 1.875% 2023	544	0.90	
£154,713 Finsbury Square FRN 2065	210	0.35	
\$259,266 Gosforth Funding 2017-1 FRN 2059	259	0.43	
€300,000 Groupe Bruxelles Lambert 1.375% 2024	362	0.60	
\$243,970 Home Partners of America Trust 2016-2 FRN 2033	245	0.41	
€100,000 Lagardère 1.625% 2024	119	0.20	

### Portfolio statement (continued)

as at 31 December Holding	31.12.17 \$'000	31.12.17 %	31.12.16 %
<b>Bonds with no credit rating (continued)</b>			
£299,964 London Wall Mortgage Capital FRN 2049	407	0.68	
£90,000 Old Mutual 8% 2021	142	0.24	
£173,000 Principality Building Society 2.375% 2023	234	0.39	
\$224,000 Progress Residential Trust FRN 2034	226	0.37	
£161,000 Shaftesbury 2.348% 2027	215	0.36	
€200,000 Suez Environnement Var. Rate Perp. (2.875%)	252	0.42	
£200,000 Vodafone Group 3.375% 2049	256	0.41	
£251,000 Yorkshire Building Society 3.5% 2026	372	0.62	
<b>Credit default swaps</b>	<b>227</b>	<b>0.38</b>	<b>0.20</b>
\$(300,000) América Móvil Dec 2021	0	0.00	
€(250,000) Anglo American Capital Dec 2022	55	0.09	
\$100,000 Bristol-Myers Squibb Sep 2020	(2)	(0.01)	
€(400,000) Enel Dec 2022	10	0.02	
€(120,000) Glencore Finance Europe Dec 2021	23	0.04	
€(500,000) Glencore Finance Europe Jun 2022	101	0.17	
€(60,000) Glencore International Jun 2021	0	0.00	
€(1,600,000) Markit iTraxx Europe Series 27 10 Year Jun 2027	38	0.07	
€(200,000) Markit iTraxx Europe Snr Fin Series 28 5 Year Dec 2027	3	0.00	
€(175,000) Telecom Italia Jun 2022	(1)	0.00	
<b>Forward currency contracts</b>	<b>(279)</b>	<b>(0.46)</b>	<b>0.43</b>
€(10,013,248) Sold for \$11,829,410 (expires 10.01.18)	(180)	(0.30)	
£(7,228,856) Sold for \$9,670,055 (expires 10.01.18)	(99)	(0.16)	
<b>Interest rate futures contracts</b>	<b>(65)</b>	<b>(0.11)</b>	<b>0.06</b>
(9) 10 Years US Treasury Note Mar 2018	5	0.01	
79 5 Years US Treasury Note Mar 2018	(38)	(0.06)	
(2) Euro Bund Mar 2018	4	0.01	
(1) Euro Buxl Mar 2018	3	0.00	
(21) Long Gilt March 2018	(29)	(0.05)	
(22) US Ultra Long Treasury Bond Mar 2018	(10)	(0.02)	
<b>Interest rate swaps</b>	<b>2</b>	<b>0.00</b>	<b>0.10</b>
£200,000 Pay 0.789% Receive VAR Feb 2022	2	0.00	
<b>Portfolio of investments</b>	<b>56,098</b>	<b>93.13</b>	<b>85.28</b>
<b>'AAA' rated money market funds <sup>[a]</sup></b>			
2,605,000 Northern Trust Global Fund - US dollar	2,605	4.32	8.94
<b>Forward currency contracts for share class hedging</b>	<b>485</b>	<b>0.81</b>	<b>(0.48)</b>
€30,606,101 Bought for \$36,256,546 (expires 10.01.18)	450	0.75	
£2,780,210 Bought for \$3,723,442 (expires 10.01.18)	34	0.06	
£(18,339) Sold for \$24,488 (expires 10.01.18)	0	0.00	
CHF51,653 Bought for \$52,423 (expires 10.01.18)	1	0.00	
<b>Total portfolio (notes 2c &amp; 2d on page 7)</b>	<b>59,188</b>	<b>98.26</b>	<b>93.74</b>
<b>Net other assets / (liabilities)</b>	<b>1,050</b>	<b>1.74</b>	<b>6.26</b>
<b>Net assets attributable to shareholders</b>	<b>60,238</b>	<b>100.00</b>	<b>100.00</b>

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

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

# M&G Global Corporate Bond Fund

## Financial highlights

### Fund performance

Please note past performance is not a guide to future performance and the value of investments, and the income from them, will fluctuate. This will cause the fund price to fall as well as rise and you may not get back the original amount you invested.

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

We show performance for these two share classes because:

- The performance of the Sterling Class 'A-H' (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-H' (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.

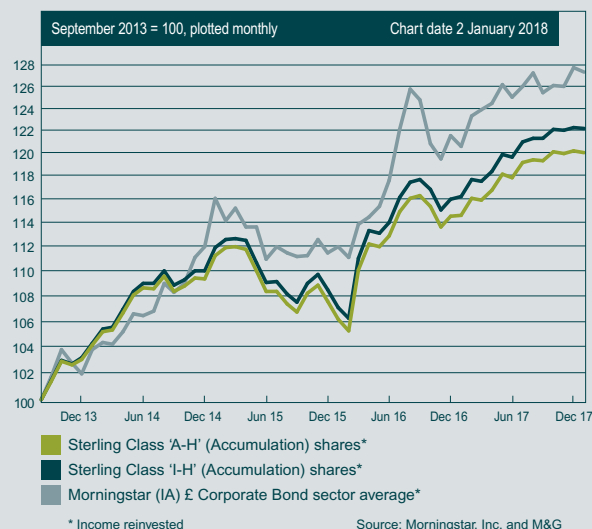
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (5), which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

### Fund level performance

Fund net asset value			
	2017	2016	2015
as at 31 December	\$'000	\$'000	\$'000
Fund net asset value (NAV)	60,238	27,954	21,179

### 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-H' (Accumulation) shares and Sterling Class 'I-H' (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 03.01.17 % [a]	Three years 02.01.15 % p.a.	Five years 02.01.13 % p.a.	Since launch % p.a.
<b>Euro [b]</b>				
Class 'A-H'	+3.9	+2.4	n/a	+3.8 [c]
Class 'C-H'	+4.5	+2.9	n/a	+4.3 [c]
<b>Sterling [d]</b>				
Class 'A-H'	+5.0	+3.2	n/a	+4.3 [c]
Class 'I-H'	+5.4	+3.6	n/a	+4.7 [c]
Class 'R-H'	+5.3	+3.4	n/a	+4.5 [c]
<b>Swiss franc [b]</b>				
Class 'A-H'	+3.5	+1.6	n/a	+3.1 [c]
Class 'C-H'	+4.1	+2.2	n/a	+3.7 [c]
<b>US dollar [b]</b>				
Class 'A'	+6.1	+3.8	n/a	+4.7 [c]
Class 'C'	+6.6	+4.3	n/a	+5.3 [c]

[a] Absolute basis.

[b] Price to price with gross income reinvested.

[c] 5 September 2013, the launch date of the fund.

[d] Price to price with income reinvested.



# M&G Global Corporate Bond Fund

## Financial highlights

### Fund performance

## Operating charges and portfolio transaction costs

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

### Operating charges

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

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Share class hedging:** Charge paid to M&G for currency hedging services to minimise exchange rate risk for the share class.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.
- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated.

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

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

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

### Portfolio transaction costs

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

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

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

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

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

### Portfolio transaction costs

as at 31 December	2017	2016	2015	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.55	0.81	1.07	0.81

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

# M&G Global Corporate Bond Fund

## Financial highlights

### Specific share class performance

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

#### Euro Class 'A-H' Income share performance

The share class was launched on 5 September 2013.

for the year to 31 December Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,051.76	1,017.37	1,061.65
Return before operating charges and after direct portfolio transaction costs	56.76	71.90	(9.43)
Operating charges	(13.35)	(13.23)	(13.14)
Return after operating charges	43.41	58.67	(22.57)
Distributions	(31.09)	(24.28)	(21.71)
Closing NAV	1,064.08	1,051.76	1,017.37
<b>Direct portfolio transaction costs</b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.03	0.04	0.05
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.03	0.04	0.05
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	1.23	1.26	1.27
Return after operating charges	+4.13	+5.77	-2.13
Distribution yield <sup>[c]</sup>	2.83	2.98	2.50
Effect on yield of charges offset against capital	1.17	1.17	0.00
<b>Other information</b>			
Closing NAV (\$'000)	868	427	161
Closing NAV percentage of total fund NAV (%)	1.44	1.53	0.76
Number of shares	68,073	38,445	14,477
Highest share price (Euro ¢)	1,088.28	1,090.95	1,098.05
Lowest share price (Euro ¢)	1,057.71	986.89	1,026.95

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

The share class was launched on 5 September 2013.

for the year to 31 December Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,122.40	1,060.99	1,084.26
Return before operating charges and after direct portfolio transaction costs	60.43	75.48	(9.34)
Operating charges	(14.41)	(14.07)	(13.93)
Return after operating charges	46.02	61.41	(23.27)
Distributions	(20.15)	(24.53)	(22.36)
Retained distributions	20.15	24.53	22.36
Closing NAV	1,168.42	1,122.40	1,060.99
<b>Direct portfolio transaction costs</b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.03	0.05	0.05
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.03	0.05	0.05
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	1.23	1.27	1.27
Return after operating charges	+4.10	+5.79	-2.15
Distribution yield	1.68	1.81	2.51
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	769	226	268
Closing NAV percentage of total fund NAV (%)	1.28	0.81	1.27
Number of shares	54,890	19,109	23,217
Highest share price (Euro ¢)	1,179.27	1,150.92	1,126.85
Lowest share price (Euro ¢)	1,128.64	1,028.90	1,063.89

#### Euro Class 'C-H' Income share performance

The share class was launched on 5 September 2013.

for the year to 31 December Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,049.28	1,014.28	1,058.75
Return before operating charges and after direct portfolio transaction costs	56.23	72.26	(9.29)
Operating charges	(7.96)	(8.15)	(8.20)
Return after operating charges	48.27	64.11	(17.49)
Distributions	(31.09)	(29.11)	(26.98)
Closing NAV	1,066.46	1,049.28	1,014.28
<b>Direct portfolio transaction costs</b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.03	0.05	0.05
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.03	0.05	0.05
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.74	0.77	0.77
Return after operating charges	+4.60	+6.32	-1.65
Distribution yield <sup>[c]</sup>	2.83	2.98	3.01
Effect on yield of charges offset against capital	0.67	0.67	0.00
<b>Other information</b>			
Closing NAV (\$'000)	13	11	11
Closing NAV percentage of total fund NAV (%)	0.02	0.04	0.05
Number of shares	1,000	1,000	1,000
Highest share price (Euro ¢)	1,088.27	1,089.13	1,095.68
Lowest share price (Euro ¢)	1,055.58	984.49	1,023.69

# M&G Global Corporate Bond Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 5 September 2013.

for the year to 31 December Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,140.15	1,072.30	1,090.62
Return before operating charges and after direct portfolio transaction costs	61.75	76.18	(9.88)
Operating charges	(8.82)	(8.33)	(8.44)
Return after operating charges	52.93	67.85	(18.32)
Distributions	(26.33)	(30.33)	(28.11)
Retained distributions	26.33	30.33	28.11
Closing NAV	1,193.08	1,140.15	1,072.30

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.03	0.04	0.05
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.03	0.04	0.05

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.73	0.75	0.77
Return after operating charges	+4.64	+6.33	-1.68
Distribution yield	2.17	2.31	3.02
Effect on yield of charges offset against capital	0.00	0.00	0.00

#### Other information

Closing NAV (\$'000)	35,243	5,989	192
Closing NAV percentage of total fund NAV (%)	58.51	21.42	0.91
Number of shares	2,463,957	497,422	16,433
Highest share price (Euro ¢)	1,203.35	1,167.75	1,134.35
Lowest share price (Euro ¢)	1,146.91	1,040.48	1,073.89

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

The share class was launched on 5 September 2013.

for the year to 31 December Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	107.43	102.60	106.32
Return before operating charges and after direct portfolio transaction costs	6.78	8.79	(0.16)
Operating charges	(1.36)	(1.36)	(1.39)
Return after operating charges	5.42	7.43	(1.55)
Distributions	(3.21)	(2.60)	(2.17)
Closing NAV	109.64	107.43	102.60

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.01

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	1.23	1.27	1.27
Return after operating charges	+5.05	+7.24	-1.46
Distribution yield <sup>[c]</sup>	2.84	3.03	2.55
Effect on yield of charges offset against capital	1.17	1.17	0.00

#### Other information

Closing NAV (\$'000)	281	219	213
Closing NAV percentage of total fund NAV (%)	0.47	0.78	1.01
Number of shares	189,431	165,748	140,000
Highest share price (UK p)	111.60	110.93	110.04
Lowest share price (UK p)	108.12	99.45	103.36

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

The share class was launched on 5 September 2013.

for the year to 31 December Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	113.67	106.46	108.47
Return before operating charges and after direct portfolio transaction costs	7.24	9.16	(0.20)
Operating charges	(1.45)	(1.43)	(1.37)
Return after operating charges	5.79	7.73	(1.57)
Distributions	(2.07)	(2.61)	(2.22)
Retained distributions	2.07	2.09	1.78
Closing NAV	119.46	113.67	106.46

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.01

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	1.24	1.27	1.27
Return after operating charges	+5.09	+7.26	-1.45
Distribution yield	1.68	1.85	2.55
Effect on yield of charges offset against capital	0.00	0.00	0.00

#### Other information

Closing NAV (\$'000)	156	101	131
Closing NAV percentage of total fund NAV (%)	0.26	0.36	0.62
Number of shares	96,652	72,115	83,061
Highest share price (UK p)	120.32	116.22	112.68
Lowest share price (UK p)	114.31	103.18	106.66

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

The share class was launched on 5 September 2013.

for the year to 31 December Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	107.51	102.66	106.40
Return before operating charges and after direct portfolio transaction costs	6.80	8.74	(0.23)
Operating charges	(0.82)	(0.81)	(0.83)
Return after operating charges	5.98	7.93	(1.06)
Distributions	(3.23)	(3.08)	(2.68)
Closing NAV	110.26	107.51	102.66

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.01

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.73	0.77	0.76
Return after operating charges	+5.56	+7.72	-1.00
Distribution yield <sup>[c]</sup>	2.84	3.03	3.06
Effect on yield of charges offset against capital	0.67	0.67	0.00

#### Other information

Closing NAV (\$'000)	172	87	47
Closing NAV percentage of total fund NAV (%)	0.28	0.31	0.22
Number of shares	115,761	65,794	31,065
Highest share price (UK p)	112.02	111.11	110.14
Lowest share price (UK p)	108.21	99.55	103.45

# M&G Global Corporate Bond Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 5 September 2013.

for the year to 31 December Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	115.18	107.35	109.12
Return before operating charges and after direct portfolio transaction costs	7.27	9.38	(0.41)
Operating charges	(0.88)	(0.90)	(0.80)
Return after operating charges	6.39	8.48	(1.21)
Distributions	(2.70)	(3.23)	(2.79)
Retained distributions	2.70	2.58	2.23
Closing NAV	121.57	115.18	107.35
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.01	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.01	0.01
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.73	0.78	0.76
Return after operating charges	+5.55	+7.90	-1.11
Distribution yield	2.18	2.35	3.06
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	3,033	636	3,124
Closing NAV percentage of total fund NAV (%)	5.03	2.28	14.75
Number of shares	1,846,264	448,737	1,963,496
Highest share price (UK p)	122.41	117.67	113.38
Lowest share price (UK p)	115.81	104.09	107.43

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

The share class was launched on 5 September 2013.

for the year to 31 December Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	107.45	102.62	106.44
Return before operating charges and after direct portfolio transaction costs	6.76	8.74	(0.31)
Operating charges	(1.08)	(1.07)	(1.08)
Return after operating charges	5.68	7.67	(1.39)
Distributions	(3.22)	(2.84)	(2.43)
Closing NAV	109.91	107.45	102.62
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.00	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.01
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.98	1.01	1.01
Return after operating charges	+5.29	+7.47	-1.31
Distribution yield <sup>[c]</sup>	2.84	3.04	2.82
Effect on yield of charges offset against capital	0.92	0.92	0.00
<b>Other information</b>			
Closing NAV (\$'000)	25	26	15
Closing NAV percentage of total fund NAV (%)	0.04	0.09	0.07
Number of shares	16,757	20,000	10,000
Highest share price (UK p)	111.77	111.05	110.11
Lowest share price (UK p)	108.14	99.50	103.38

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

The share class was launched on 5 September 2013.

for the year to 31 December Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	114.30	106.82	108.70
Return before operating charges and after direct portfolio transaction costs	7.35	9.21	(0.27)
Operating charges	(1.20)	(1.15)	(1.11)
Return after operating charges	6.15	8.06	(1.38)
Distributions	(2.38)	(2.89)	(2.50)
Retained distributions	2.38	2.31	2.00
Closing NAV	120.45	114.30	106.82
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.00	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.01
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.99	1.02	1.01
Return after operating charges	+5.38	+7.55	-1.27
Distribution yield	1.92	2.10	2.82
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	70	14	16
Closing NAV percentage of total fund NAV (%)	0.11	0.05	0.08
Number of shares	43,000	10,000	10,000
Highest share price (UK p)	121.30	116.85	112.91
Lowest share price (UK p)	114.94	103.56	106.97

#### Swiss franc Class 'A-H' Accumulation share performance

The share class was launched on 5 September 2013.

for the year to 31 December Change in NAV per share	2017 Swiss ¢	2016 Swiss ¢	2015 Swiss ¢
Opening NAV	1,097.27	1,043.37	1,080.58
Return before operating charges and after direct portfolio transaction costs	54.06	67.51	(23.51)
Operating charges	(13.89)	(13.61)	(13.70)
Return after operating charges	40.17	53.90	(37.21)
Distributions	(19.83)	(23.96)	(22.03)
Retained distributions	19.83	23.96	22.03
Closing NAV	1,137.44	1,097.27	1,043.37
<b>Direct portfolio transaction costs</b>	<b>Swiss ¢</b>	<b>Swiss ¢</b>	<b>Swiss ¢</b>
Costs before dilution adjustments	0.03	0.05	0.05
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.03	0.05	0.05
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	1.24	1.26	1.27
Return after operating charges	+3.66	+5.17	-3.44
Distribution yield	1.67	1.82	2.51
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	31	61	175
Closing NAV percentage of total fund NAV (%)	0.05	0.22	0.83
Number of shares	2,700	5,700	16,700
Highest share price (Swiss ¢)	1,149.09	1,127.17	1,115.17
Lowest share price (Swiss ¢)	1,103.22	1,011.10	1,048.83

# M&G Global Corporate Bond Fund

## Financial highlights

### Specific share class performance

#### Swiss franc Class 'C-H' Accumulation share performance

The share class was launched on 5 September 2013.

for the year to 31 December Change in NAV per share	2017 Swiss ¢	2016 Swiss ¢	2015 Swiss ¢
Opening NAV	1,116.97	1,058.17	1,087.58
Return before operating charges and after direct portfolio transaction costs	55.99	67.21	(21.02)
Operating charges	(8.49)	(8.41)	(8.39)
Return after operating charges	47.50	58.80	(29.41)
Distributions	(25.92)	(29.66)	(27.76)
Retained distributions	25.92	29.66	27.76
Closing NAV	1,164.47	1,116.97	1,058.17

Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.03	0.05	0.05
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.03	0.05	0.05

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.74	0.77	0.77
Return after operating charges	+4.25	+5.56	-2.70
Distribution yield	2.16	2.32	3.02
Effect on yield of charges offset against capital	0.00	0.00	0.00

#### Other information

Closing NAV (\$'000)	22	20	51
Closing NAV percentage of total fund NAV (%)	0.04	0.07	0.24
Number of shares	1,815	1,815	4,815
Highest share price (Swiss ¢)	1,175.39	1,145.81	1,126.56
Lowest share price (Swiss ¢)	1,123.34	1,026.60	1,062.52

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

The share class was launched on 8 August 2014.

for the year to 31 December Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,085.15	1,034.75	1,075.24
Return before operating charges and after direct portfolio transaction costs	81.27	88.94	(5.36)
Operating charges	(13.57)	(13.46)	(13.35)
Return after operating charges	67.70	75.48	(18.71)
Distributions	(32.83)	(25.08)	(21.78)
Closing NAV	1,120.02	1,085.15	1,034.75

Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.03	0.04	0.05
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.03	0.04	0.05

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	1.22	1.25	1.25
Return after operating charges	+6.24	+7.29	-1.74
Distribution yield <sup>[c]</sup>	2.86	3.00	2.52
Effect on yield of charges offset against capital	1.15	1.15	0.00

#### Other information

Closing NAV (\$'000)	185	103	72
Closing NAV percentage of total fund NAV (%)	0.31	0.37	0.34
Number of shares	16,561	9,461	6,961
Highest share price (US ¢)	1,135.08	1,120.07	1,111.96
Lowest share price (US ¢)	1,092.36	1,004.05	1,042.70

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

The share class was launched on 5 September 2013.

for the year to 31 December Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,144.41	1,066.39	1,085.67
Return before operating charges and after direct portfolio transaction costs	86.39	92.02	(5.63)
Operating charges	(14.44)	(14.00)	(13.65)
Return after operating charges	71.95	78.02	(19.28)
Distributions	(21.36)	(25.00)	(22.23)
Retained distributions	21.36	25.00	22.23
Closing NAV	1,216.36	1,144.41	1,066.39

Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.03	0.05	0.05
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.03	0.05	0.05

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	1.22	1.25	1.25
Return after operating charges	+6.29	+7.32	-1.78
Distribution yield	1.71	1.85	2.51
Effect on yield of charges offset against capital	0.00	0.00	0.00

#### Other information

Closing NAV (\$'000)	18,896	17,810	16,210
Closing NAV percentage of total fund NAV (%)	31.37	63.71	76.53
Number of shares	1,553,442	1,556,216	1,520,103
Highest share price (US ¢)	1,223.15	1,168.89	1,127.50
Lowest share price (US ¢)	1,151.81	1,034.69	1,067.43

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

The share class was launched on 8 August 2014.

for the year to 31 December Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,090.62	1,039.30	1,079.74
Return before operating charges and after direct portfolio transaction costs	81.77	89.36	(5.26)
Operating charges	(7.61)	(7.94)	(7.98)
Return after operating charges	74.16	81.42	(13.24)
Distributions	(33.28)	(30.10)	(27.20)
Closing NAV	1,131.50	1,090.62	1,039.30

Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.03	0.05	0.05
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.03	0.05	0.05

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.68	0.73	0.74
Return after operating charges	+6.80	+7.83	-1.23
Distribution yield <sup>[c]</sup>	2.88	3.02	3.03
Effect on yield of charges offset against capital	0.65	0.65	0.00

#### Other information

Closing NAV (\$'000)	5	5	5
Closing NAV percentage of total fund NAV (%)	0.01	0.02	0.02
Number of shares	459	459	459
Highest share price (US ¢)	1,146.40	1,126.66	1,118.02
Lowest share price (US ¢)	1,097.94	1,009.04	1,047.26

# M&G Global Corporate Bond Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 5 September 2013.

for the year to 31 December	2017	2016	2015
Change in NAV per share	US ¢	US ¢	US ¢
Opening NAV	1,163.77	1,079.03	1,093.06
Return before operating charges and after direct portfolio transaction costs	87.94	93.26	(5.80)
Operating charges	(8.64)	(8.52)	(8.23)
Return after operating charges	79.30	84.74	(14.03)
Distributions	(27.82)	(31.01)	(27.97)
Retained distributions	27.82	31.01	27.97
Closing NAV	1,243.07	1,163.77	1,079.03
<b>Direct portfolio transaction costs</b>	<b>US ¢</b>	<b>US ¢</b>	<b>US ¢</b>
Costs before dilution adjustments	0.03	0.05	0.05
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.03	0.05	0.05
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.72	0.75	0.74
Return after operating charges	+6.81	+7.85	-1.28
Distribution yield	2.21	2.35	3.02
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (\$'000)	469	2,219	488
Closing NAV percentage of total fund NAV (%)	0.78	7.94	2.30
Number of shares	37,742	190,659	45,200
Highest share price (US ¢)	1,249.77	1,187.59	1,136.82
Lowest share price (US ¢)	1,171.37	1,047.58	1,078.72

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

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

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

# M&G Global Corporate Bond Fund

## Financial statements and notes

### Financial statements

#### Statement of total return

for the year to 31 December	Note	2017		2016	
		\$'000	\$'000	\$'000	\$'000
Income					
Net capital gains / (losses)	3		5,338		234
Revenue	5	1,518		801	
Expenses	6	(449)		(257)	
Net revenue / (expense) before taxation		1,069		544	
Taxation	7	0		(4)	
Net revenue / (expense) after taxation			1,069		540
<b>Total return before distributions</b>			<b>6,407</b>		<b>774</b>
Distributions	8		(1,036)		(532)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>5,371</b>		<b>242</b>

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

for the year to 31 December	2017		2016	
	\$'000	\$'000	\$'000	\$'000
<b>Opening net assets attributable to shareholders</b>		<b>27,954</b>		<b>21,179</b>
Amounts received on issue of shares	28,782		9,146	
Amounts paid on cancellation of shares	(2,987)		(3,178)	
		25,795		5,968
Dilution adjustments		87		36
Change in net assets attributable to shareholders from investment activities (see above)		5,371		242
Retained distributions on Accumulation shares		1,031		529
<b>Closing net assets attributable to shareholders</b>		<b>60,238</b>		<b>27,954</b>

#### Balance sheet

as at 31 December	Note	2017 \$'000	2016 \$'000
<b>Assets</b>			
<b>Fixed assets</b>			
Investments		59,547	26,394
<b>Current assets</b>			
Debtors	9	461	347
Cash and bank balances	10	634	1,452
<b>Total assets</b>		<b>60,642</b>	<b>28,193</b>
<b>Liabilities</b>			
Investment liabilities		(359)	(191)
<b>Creditors</b>			
Distribution payable		(12)	(9)
Other creditors	11	(33)	(39)
<b>Total liabilities</b>		<b>(404)</b>	<b>(239)</b>
<b>Net assets attributable to shareholders</b>		<b>60,238</b>	<b>27,954</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, administration charge and share class hedging charge are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

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

for the year to 31 December	2017 \$'000	2016 \$'000
Non-derivative securities	3,483	266
Derivative contracts	1,922	(10)
Currency gains / (losses)	(58)	(16)
Transaction charges	(9)	(6)
<b>Net capital gains / (losses)</b>	<b>5,338</b>	<b>234</b>

#### 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 31.

for the year to 31 December	2017 \$'000	2016 \$'000		
<b>a) Purchases</b>				
Debt securities <sup>[a]</sup>	60,911	21,420		
<b>b) Sales</b>				
Debt securities <sup>[a]</sup>	30,955	17,301		
<b>Other transaction types</b>				
Corporate actions	796	789		
<b>Total sales after transaction costs</b>	<b>31,751</b>	<b>18,090</b>		
<b>c) Direct portfolio transaction costs</b>				
	2017 \$'000	% of average NAV	2016 \$'000	% of average NAV
<b>Commissions paid</b>				
Derivatives	1	0.00	1	0.00
<b>d) Indirect portfolio transaction costs</b>				
Portfolio dealing spread <sup>[b]</sup>		0.55		0.81

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

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

# M&G Global Corporate Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 5 Revenue

for the year to 31 December	2017 \$'000	2016 \$'000
Bank interest	2	0
Derivative revenue	(8)	(32)
Interest distributions	35	6
Interest on debt securities	1,483	829
Share class hedging revenue	6	(2)
<b>Total revenue</b>	<b>1,518</b>	<b>801</b>

#### 6 Expenses

for the year to 31 December	2017 \$'000	2016 \$'000
<b>Payable to the ACD or associate</b>		
Annual management charge	346	205
Administration charge	74	34
Share class hedging charge	6	1
	426	240
<b>Payable to the Depositary or associate</b>		
Depositary's charge (including VAT)	4	2
<b>Other expenses</b>		
Audit fee (including VAT)	15	13
Interest payable	2	0
Legal fees	0	2
Safe custody charge	2	0
	19	15
<b>Total expenses</b>	<b>449</b>	<b>257</b>

#### 7 Taxation

for the year to 31 December	2017 \$'000	2016 \$'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	0
Withholding tax	3	4
Withholding tax recoverable: written off	(1)	0
Prior year adjustment	(2)	0
Deferred tax (note 7c)	0	0
<b>Total taxation</b>	<b>0</b>	<b>4</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue before taxation	1,069	544
Corporation tax at 20%	214	109
Effects of:		
Interest distributions	(214)	(109)
Withholding tax	3	4
Withholding tax recoverable: written off	(1)	0
Prior year adjustment	(2)	0
<b>Total tax charge (note 7a)</b>	<b>0</b>	<b>4</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The fund has not recognised a deferred tax asset in the current financial year (2016: same).

Interest distributions have been made in respect of all distributions during the current and preceding periods. Income tax at 20% was accounted for on shareholders' behalf to HM Revenue & Customs up to 31 December 2016.

#### 8 Distributions

for the year to 31 December	2017		2016	
	Inc <sup>[a]</sup> \$'000	Acc <sup>[b]</sup> \$'000	Inc <sup>[a]</sup> \$'000	Acc <sup>[b]</sup> \$'000
<b>Interest distributions</b>				
First interim	6	150	3	129
Second interim	7	264	3	132
Third interim	10	294	4	128
Final	12	323	5	140
<b>Total net distributions</b>		<b>1,066</b>		<b>544</b>
Income tax deducted at source		0		13
<b>Interest distributions</b>		<b>1,066</b>		<b>557</b>
Income deducted on cancellation of shares		12		7
Income received on issue of shares		(42)		(32)
<b>Distributions</b>		<b>1,036</b>		<b>532</b>
<b>Net revenue / (expense) per statement of total return</b>		<b>1,069</b>		<b>540</b>
Expenses offset against capital		12		1
Undistributed income carried forward		(45)		(9)
<b>Distributions</b>		<b>1,036</b>		<b>532</b>

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

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

#### 9 Debtors

as at 31 December	2017 \$'000	2016 \$'000
Amounts receivable on issues of shares	0	128
Debt security interest receivable	454	214
Derivative revenue receivable	2	2
Distributions receivable	3	1
Tax recoverable	2	2
<b>Total debtors</b>	<b>461</b>	<b>347</b>

#### 10 Cash and bank balances

as at 31 December	2017 \$'000	2016 \$'000
Amounts held at futures clearing houses and collateral manager	215	83
Cash held as bank balances	419	1,369
<b>Total cash and bank balances</b>	<b>634</b>	<b>1,452</b>

#### 11 Other creditors

as at 31 December	2017 \$'000	2016 \$'000
ACD's annual management charge payable	12	16
Administration charge payable	2	1
Futures interest payable	1	6
Expenses payable	18	16
<b>Total other creditors</b>	<b>33</b>	<b>39</b>



# M&G Global Corporate Bond Fund

## Financial statements and notes

### Notes to the financial statements

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

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2016: 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 01.01.17	Movements		Closing 31.12.17
		Issued	Cancelled	
<b>Euro</b>				
Class 'A-H' Income	38,445	38,667	(9,039)	68,073
Class 'A-H' Accumulation	19,109	36,781	(1,000)	54,890
Class 'C-H' Income	1,000	0	0	1,000
Class 'C-H' Accumulation	497,422	1,969,635	(3,100)	2,463,957
<b>Sterling</b>				
Class 'A-H' Income	165,748	76,891	(53,208)	189,431
Class 'A-H' Accumulation	72,115	25,565	(1,028)	96,652
Class 'I-H' Income	65,794	74,587	(24,620)	115,761
Class 'I-H' Accumulation	448,737	1,501,883	(104,356)	1,846,264
Class 'R-H' Income	20,000	0	(3,243)	16,757
Class 'R-H' Accumulation	10,000	33,000	0	43,000
<b>Swiss franc</b>				
Class 'A-H' Accumulation	5,700	0	(3,000)	2,700
Class 'C-H' Accumulation	1,815	0	0	1,815
<b>US dollar</b>				
Class 'A' Income	9,461	10,100	(3,000)	16,561
Class 'A' Accumulation	1,556,216	5,226	(8,000)	1,553,442
Class 'C' Income	459	0	0	459
Class 'C' Accumulation	190,659	45,083	(198,000)	37,742

#### 14 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %	Share class hedging charge %
<b>Euro</b>				
Class 'A-H'	4.00	n/a	1.00	[a]
Class 'C-H'	1.25	n/a	0.50	[a]
<b>Sterling</b>				
Class 'A-H'	nil	n/a	1.00	[a]
Class 'I-H'	nil	n/a	0.50	[a]
Class 'R-H'	nil	n/a	0.75	[a]
<b>Swiss franc</b>				
Class 'A-H'	4.00	n/a	1.00	[a]
Class 'C-H'	1.25	n/a	0.50	[a]
<b>US dollar</b>				
Class 'A'	4.00	n/a	1.00	n/a
Class 'C'	1.25	n/a	0.50	n/a

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

#### 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, administration charge and share class hedging charge are disclosed in note 6. Amounts due at the year end in respect of the ACD's annual management charge, administration charge and share class hedging charge are disclosed in note 11.

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 45.66% (2016: 57.78%) of the fund's shares.

#### 16 Events after the balance sheet date

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

#### 17 Fair value analysis

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

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

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

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

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

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

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

as at 31 December	Assets 2017	Liabilities 2017	Assets 2016	Liabilities 2016
Basis of valuation	\$'000	\$'000	\$'000	\$'000
Level 1	8,901	(77)	2,238	(28)
Level 2	50,646	(282)	24,156	(163)
Level 3	0	0	0	0
	<b>59,547</b>	<b>(359)</b>	<b>26,394</b>	<b>(191)</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'.

# M&G Global Corporate Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 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 and exposure

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

The VaR limit set during the financial year to 31 December 2017 was 13% (2016: 13%).

The lowest, highest and average VaR calculated during the financial years ended 31 December 2017 and 31 December 2016 are disclosed in the table below. The lowest, highest and average utilisation of VaR is with reference to the limit above.

for the year to 31 December	2017 %	2016 %
Lowest	1.81	2.21
Highest	2.71	3.64
Average	2.30	3.05

#### 20 Credit risk

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

as at 31 December	2017 \$'000	2016 \$'000
Investment grade securities	50,162	21,461
Below investment grade securities	1,335	294
Unrated securities	4,716	1,863
Other investments	2,975	2,585
<b>Total</b>	<b>59,188</b>	<b>26,203</b>

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

as at 31 December 2017	Swaps \$'000	Forward currency contracts \$'000	Futures \$'000
Bank of America Merrill Lynch	60	0	(65)
Citigroup	33	0	0
J.P.Morgan	136	(6)	0
State Street Bank	0	377	0
UBS	0	(165)	0
<b>Total</b>	<b>229</b>	<b>206</b>	<b>(65)</b>

as at 31 December 2016	Swaps \$'000	Forward currency contracts \$'000	Futures \$'000
Bank of America Merrill Lynch	(5)	0	16
BNP Paribas	(3)	0	0
Citigroup	8	0	0
Credit Suisse	(2)	0	0
Goldman Sachs	15	0	0
J.P.Morgan	71	0	0
State Street Bank	0	(13)	0
<b>Total</b>	<b>84</b>	<b>(13)</b>	<b>16</b>

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

#### 21 Leverage risk

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

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

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 31 December 2017 and 31 December 2016 are disclosed in the table below.

for the year to 31 December	2017 \$'000	2017 %	2016 \$'000	2016 %
Lowest	29,942	52	39,940	171
Highest	209,260	108	73,735	273
Average	64,887	66	45,816	200

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

This fund contains hedged share classes. These share classes operate currency hedges designed to reduce the impact of exchange rates in certain circumstances. As a result, profit and loss on the currency hedges may impact the liquidity of the overall fund. On a day to day basis this is monitored using reporting from the outsourced provider of the hedged share class service. On an ongoing basis the size of the hedged share classes is monitored to ensure that unforeseen exchange rate volatility can be adequately managed without significantly impacting all shareholders.

#### 23 Interest distribution tables

This fund pays quarterly interest distributions and the following table sets out the distribution periods.

Quarterly distribution periods				
	Start	End	Xd	Payment
First interim	01.01.17	31.03.17	03.04.17	31.05.17
Second interim	01.04.17	30.06.17	03.07.17	31.08.17
Third interim	01.07.17	30.09.17	02.10.17	30.11.17
Final	01.10.17	31.12.17	02.01.18	28.02.18

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 Corporate Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 23 Interest distribution tables (continued)

##### Euro Class 'A-H' Income shares

Interest distributions for the year to 31 December	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017	Distribution 2016
	€	€	€	€
First interim	3.5237	4.1263	7.6500	6.2487
Second interim	1.9734	5.5424	7.5158	6.1675
Third interim	3.0698	4.6956	7.7654	5.7014
Final	3.4555	4.7055	8.1610	6.1658

##### Euro Class 'A-H' Accumulation shares

Interest distributions for the year to 31 December	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017	Distribution 2016
	€	€	€	€
First interim	2.3884	2.5912	4.9796	6.5096
Second interim	2.8054	1.9326	4.7380	6.4705
Third interim	0.1762	4.8418	5.0180	6.0142
Final	3.2830	2.1359	5.4189	5.5317

##### Euro Class 'C-H' Income shares

Interest distributions for the year to 31 December	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017	Distribution 2016
	€	€	€	€
First interim	7.6161	0.0000	7.6161	7.5075
Second interim	7.5096	0.0000	7.5096	7.4716
Third interim	7.8042	0.0000	7.8042	7.0297
Final	8.1570	0.0000	8.1570	7.0980

##### Euro Class 'C-H' Accumulation shares

Interest distributions for the year to 31 December	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017	Distribution 2016
	€	€	€	€
First interim	6.1202	0.3157	6.4359	7.8818
Second interim	5.1205	1.1400	6.2605	7.9495
Third interim	4.2724	2.3135	6.5859	7.5528
Final	2.8647	4.1784	7.0431	6.9470

##### Sterling Class 'A-H' Income shares

Interest distributions for the year to 31 December	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017	Distribution 2016
	£	£	£	£
First interim	0.2601	0.5385	0.7986	0.5196
Second interim	0.4812	0.2948	0.7760	0.5120
Third interim	0.1676	0.6338	0.8014	0.4760
Final	0.4325	0.4052	0.8377	0.5712

##### Sterling Class 'A-H' Accumulation shares

Interest distributions for the year to 31 December	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017	Distribution 2016
	£	£	£	£
First interim	0.2710	0.2496	0.5206	0.5388
Second interim	0.0712	0.3980	0.4692	0.5332
Third interim	0.2946	0.2370	0.5316	0.4988
Final	0.1775	0.3738	0.5513	0.5156

##### Sterling Class 'I-H' Income shares

Interest distributions for the year to 31 December	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017	Distribution 2016
	£	£	£	£
First interim	0.0316	0.7697	0.8013	0.6200
Second interim	0.5323	0.2465	0.7788	0.6184
Third interim	0.4773	0.3275	0.8048	0.5844
Final	0.2768	0.5648	0.8416	0.6440

##### Sterling Class 'I-H' Accumulation shares

Interest distributions for the year to 31 December	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017	Distribution 2016
	£	£	£	£
First interim	0.1773	0.4909	0.6682	0.6468
Second interim	0.3109	0.3134	0.6243	0.6508
Third interim	0.2631	0.4256	0.6887	0.6256
Final	0.3513	0.3635	0.7148	0.6576

##### Sterling Class 'R-H' Income shares

Interest distributions for the year to 31 December	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017	Distribution 2016
	£	£	£	£
First interim	0.2665	0.5323	0.7988	0.5696
Second interim	0.2451	0.5313	0.7764	0.5656
Third interim	0.8032	0.0000	0.8032	0.5308
Final	0.5303	0.3084	0.8387	0.6056

##### Sterling Class 'R-H' Accumulation shares

Interest distributions for the year to 31 December	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017	Distribution 2016
	£	£	£	£
First interim	0.5887	0.0000	0.5887	0.5900
Second interim	0.5508	0.0000	0.5508	0.5884
Third interim	0.6143	0.0000	0.6143	0.5556
Final	0.3145	0.3158	0.6303	0.5744

##### Swiss franc Class 'A-H' Accumulation shares

Interest distributions for the year to 31 December	Group 2		Group 1 & 2	
	Income 2017	Equalisation 2017	Distribution 2017	Distribution 2016
	CHF	CHF	CHF	CHF
First interim	4.9004	0.0000	4.9004	6.3031
Second interim	4.6263	0.0000	4.6263	6.3267
Third interim	4.9789	0.0000	4.9789	5.8886
Final	5.3248	0.0000	5.3248	5.4452

# M&G Global Corporate Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 23 Interest distribution tables (continued)

##### Swiss franc Class 'C-H' Accumulation shares

Interest distributions for the year to 31 December	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
First interim	6.3307	0.0000	6.3307	7.5509
Second interim	6.1234	0.0000	6.1234	7.8037
Third interim	6.5292	0.0000	6.5292	7.3931
Final	6.9392	0.0000	6.9392	6.9171

##### US dollar Class 'A' Income shares

Interest distributions for the year to 31 December	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
First interim	7.4627	0.6096	8.0723	6.5791
Second interim	7.8725	0.0000	7.8725	6.3646
Third interim	3.6904	4.5631	8.2535	5.9174
Final	8.6304	0.0000	8.6304	6.2168

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

Interest distributions for the year to 31 December	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
First interim	1.9079	3.3742	5.2821	6.7617
Second interim	0.4510	4.5156	4.9666	6.6040
Third interim	1.3157	4.0637	5.3794	6.1710
Final	5.7299	0.0000	5.7299	5.4680

##### US dollar Class 'C' Income shares

Interest distributions for the year to 31 December	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
First interim	8.1477	0.0000	8.1477	7.7757
Second interim	7.9734	0.0000	7.9734	7.6949
Third interim	8.3794	0.0000	8.3794	7.3250
Final	8.7752	0.0000	8.7752	7.3035

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

Interest distributions for the year to 31 December	Group 2		Group 1 & 2 Distribution	
	Income 2017	Equalisation 2017	2017	2016
	€	€	€	€
First interim	3.0637	3.7407	6.8044	8.1742
Second interim	3.6045	2.9552	6.5597	8.1105
Third interim	1.6002	5.4161	7.0163	7.7315
Final	7.4368	0.0000	7.4368	6.9888

# M&G Investment Funds (5)

## 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 [www.mandg.com/en/corporate/about-mg/our-people](http://www.mandg.com/en/corporate/about-mg/our-people). M&G's remuneration policy is reviewed on an annual basis, or more frequently where required, and approved by the M&G Remuneration Committee.

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.

The UCITS Remuneration Code applies in full for the first time for the M&G's 2017 performance year. Quantitative remuneration disclosures will be made following sign off of the 2017 performance year (the relevant data/information to make these disclosures will only be available at this time).

### Swiss investor information

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

For these funds the TERs are the same as the operating charges disclosed in each 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.

**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



