M&G Investment Funds (9)

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

M&G INVESTMENTS

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M&G Investment Funds (9)

Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Investment Funds (9) presents its Annual Long Report and audited Financial Statements for the year ended 31 March 2017.

The audited financial statements of M&G Investment Funds (9) and the investment report and audited financial statements and notes of the sub-fund are presented in their individual sections of this report as set out in the contents page.

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

Company information

M&G Investment Funds (9) is an umbrella Open-Ended Investment Company (OEIC) and contains one sub-fund, hereinafter referred to as 'fund' in the rest of this report.This fund is a UCITS (Undertakings for Collective Investment in Transferable Securities) scheme as defined in the Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Conduct Authority (FCA). This OEIC is an Investment Company with Variable Capital (ICVC) incorporated under the Open-Ended Investment Companies Regulations 2001. It is authorised and regulated by the FCA under the Financial Services and Markets Act 2000.

The Company was authorised on 26 August 2010 and the fund was launched on 16 September 2010.

The Company's principal activity is to carry on business as an OEIC. The Company is structured as an umbrella company, and different funds may be established by the ACD from time to time with the agreement of the Depositary and approval from the FCA.

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

Fund manager

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

M&G European Inflation Linked Corporate Bond Fund
Jim Leaviss

ACD

M&G Securities Limited,
Laurence Pountney Hill, London EC4R 0HH, UK
Telephone: 0800 390 390 (UK only)
(Authorised and regulated by the Financial Conduct Authority. M&G Securities Limited is a member of the Investment Association and of the Tax Incentivised Savings Association.)

Directors of the ACD

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

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

International Financial Data Services (UK) Limited,
IFDS House, St. Nicholas Lane, Basildon, Essex SS15 5FS, UK
(Authorised and regulated by the Financial Conduct Authority)

Depositary

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

Independent auditor

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

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

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: +49 69 1338 6767
Email: iocs@mandg.co.uk

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

Investor information

Austrian paying and information agent:

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

Belgian financial agent:

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

Danish representative agent:

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

French centralising agent:

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

German information agent:

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

Greek paying agent and distributor:

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

Irish facilities agent:

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

Italian paying agents:

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

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

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

BNP PARIBAS Securities Services,
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

Authorised Corporate Director's Responsibilities

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

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

Statement of the Depositary's Responsibilities and Report of the Depositary to the Shareholders of M&G Investment Funds (9) ('the Company') for the period ended 31 March 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 (SI 2001/1228) (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
18 May 2017

National Westminster Bank Plc
Trustee and Depositary Services

Independent Auditor's Report to the shareholders of M&G Investment Funds (9) ICVC

We have audited the financial statements of M&G Investment Funds (9) ICVC ('the Company') for the year ended 31 March 2017 which comprise the Statement of Total Return and Statement of Change in Net Assets Attributable to Shareholders together with the Balance Sheet for the Company's sub-fund, the accounting policies of the Company and the related notes for the 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 FRS102 'The Financial Reporting Standard applicable to the UK and the Republic of Ireland'.

This report is made solely to the Company's members, 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 members 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Authorised Corporate Director and Auditor

As explained more fully in the Authorised Corporate Director's responsibilities statement set out on page 2, the Authorised Corporate Director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Authorised Corporate Director; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the financial position of the Company comprising the sub-fund as at 31 March 2017 and of the net revenue and the net capital gains on the scheme property of the Company comprising the sub-fund for the year then ended; and
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Opinion 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 Authorised Corporate Director's report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- 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; and
- we have received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Edinburgh
18 May 2017

Ernst & Young LLP
Statutory Auditor

The financial statements are published at www.mandg.com/IF9-Annual, which is a website maintained by M&G Securities Limited and M&G Financial Services Limited (M&G). The maintenance and integrity of the M&G website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The financial statements for M&G Investment Funds (9) comprise the individual financial statements for the fund and the notes below.

Notes to the financial statements

1 Statement of compliance

The financial statements of M&G Investment Funds (9) 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.

Amendments to FRS 102 'Fair value hierarchy disclosures' effective for annual periods beginning on or after 1 January 2017 have been early adopted. These amendments improve the consistency of fair value disclosures for financial instruments with those required by EU-adopted International Financial Reporting Standards (IFRS).

2 Summary of significant accounting policies

a) Basis of preparation

The financial statements of M&G Investment Funds (9) 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 (9) is euros.

c) Exchange rates

Transactions in currencies other than the fund's functional currency are translated at the rate of exchange ruling on the date of the transaction and where applicable assets and liabilities are translated into the fund's functional currency at the rate of exchange ruling as at 12 noon on 31 March 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 31 March 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.

Notes to the financial statements

2 Summary of significant accounting policies (continued)

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.
- 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.

h) Allocation of returns to share classes

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

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

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

3 Risk management policies

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

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

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

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

Notes to the financial statements

3 Risk management policies (continued)

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, foreign exchange rates, equity and commodity prices or an issuer's creditworthiness.

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

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

Commitment approach

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

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

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

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

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, foreign exchange, 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 European Inflation Linked 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.

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.

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.

P JELFS
L J MUMFORD
Directors

18 May 2017

M&G European Inflation Linked Corporate Bond Fund

Authorised Corporate Director's Report

Investment objective

The fund aims to protect the value of capital and income from inflation by generating a return consistent with or greater than European inflation over a rolling three to five year period. There is no guarantee that the fund will achieve its objective over this, or any other, period. The income distributions and the value of your investment may rise and fall and investors may not recoup the original amount they invested.

Investment policy

The fund invests mainly in investment grade corporate bonds, including inflation-linked corporate bonds, floating rate notes (including asset backed securities) and other fixed income instruments (including bonds not linked to inflation). Derivatives may be used in pursuit of the fund objective and for efficient portfolio management purposes. Corporate bond exposure may be achieved either directly or by investing in a combination of assets, including government securities and credit derivatives. Inflation strategies may, at times, result in a return profile different to that of corporate bonds not linked to inflation. If deemed appropriate by the investment manager, the associated currency risks may be hedged.

The fund may also invest in other assets including collective investment schemes, other transferable securities and debt instruments (including high yield debt, convertible and preference stocks), cash and near cash, deposits, warrants and money market instruments.

Investment approach

The M&G European Inflation Linked Corporate Bond Fund invests in a range of fixed interest securities that should perform well when inflation is high or rising. The fund will be mainly exposed to investment grade credit but can also invest in inflation-linked government bonds, floating rate notes (FRNs), senior secured loans, conventional corporate and government bonds, cash and derivatives such as credit default swaps (CDS). The fund manager may also form assets out of a combination of government bonds and derivatives, whose returns behave in a similar way to inflation-linked corporate bonds. The aim of the fund is to provide returns that are consistent with or exceed inflation, as measured by the Eurostat Eurozone Harmonised Index of Consumer Prices (HICP) over a rolling three- to five-year period.

Risk profile

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

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

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

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

Low risk — High risk

Typically lower rewards — Typically higher rewards

1	2	**3**	4	5	6	7

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 3 April 2017, for the year ended 31 March 2017

Performance against objective

Between 1 April 2016 (the start of the review period) and 3 April 2017, the M&G European Inflation Linked Corporate Bond Fund delivered a positive total return (the combination of income and growth of capital) across the different share classes. The fund's returns were ahead of the change in European inflation, as measured by the Harmonised Index of Consumer Prices (HICP), which the fund seeks to match or exceed over a rolling three- to five-year period.[a]

Investment performance

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

The 12 months under review were a mostly positive period for corporate bond markets. This was especially the case in the first half of the review period, as improved global economic data, coupled with the announcement of further stimulus measures from the Bank of England and the European Central Bank (ECB), helped to support sentiment.

The second half of the review period was somewhat more mixed, as rising inflation expectations and the prospect of further increases in US interest rates weighed on government bond markets, driving down their prices and in turn pushing up yields towards the end of 2016. (Bond yields move in the opposite direction to bond prices.) However, the improving economic backdrop proved broadly supportive for index-linked corporate bonds.

Investment review

Investment performance (continued)

The fund delivered a positive total return over the review period, helped by its significant exposure to inflation-linked bonds issued by high-quality companies. While the fund's low sensitivity to movements in interest rates meant it saw little benefit from the sharp decline in government bond yields in the summer of 2016, this positioning proved helpful in the latter part of the year as government bond yields edged higher.

Investment activities

Financials are a key theme within the fund at the moment as we believe banks are well placed to benefit from an environment of rising inflation and higher government bond yields. We increased exposure to a number of US banks, buying issues from names such as Bank of America, Wells Fargo and Morgan Stanley. We also added a number of issues from UK and European lenders, including HSBC and Nationwide.

In addition, we were active across other sectors, purchasing bonds issued by businesses as diverse as German automaker Daimler, UK rail transport company Network Rail and French energy firm Total S.A. In terms of sales, we closed our positions in German automaker BMW and Deutsche Telekom, while the position in the UK grocery retailer Tesco was reduced.

Another area of the market where we currently see good value is in floating rate notes (FRNs). While not providing direct protection against rising inflation, these instruments benefit from paying a variable coupon which is regularly adjusted in line with interest rates. Since interest rates tend to rise as inflation picks up, we would expect FRNs to perform relatively well in an inflationary environment; we therefore increased our exposure to these assets over the review period.

Within the government bond portion of the portfolio, we currently see good value in inflation-linked German government bonds which are due to mature over the next two to four years. We believe these short-dated instruments are pricing in too little inflation over the next few years and consequently represent good value. We also reduced our exposure to Spanish and Italian inflation-linked government bonds, while adding some US inflation-linked government bonds where we think valuations look more compelling.

The fund's sensitivity to movement in interest rates, otherwise known as duration, was kept at low levels throughout the period as we continue to see little value in government bond yields at current levels. Although duration was slightly increased from around 0.3 years to 0.8 years over the period, this is still significantly shorter than a traditional index-linked or corporate bond strategy, and should help minimise the impact on the fund of any future rise in government bond yields.

Outlook

European inflation crept significantly higher over the period, with the Harmonised Index of Consumer Prices (HICP) rising to 1.5% in March 2017, compared with 0.0% in March 2016. This was mainly driven by the sharp rise in global commodity prices and the historically weak euro.

Underlying inflationary pressures, however, remain relatively subdued with the effect of higher oil prices expected to gradually fade over the next few months. Although unemployment in the eurozone has seen a steady fall over the past couple of years, it remains at elevated levels, and this should limit any meaningful growth in wages for the time being.

That said, a recent upturn in economic activity, coupled with continued ultra-loose monetary policy from the ECB, means the risks to inflation are more finely balanced compared to this time last year. Indeed, recent business surveys indicate that stronger demand has allowed an increasing number of firms to raise prices.

Despite the recent pick-up in consumer prices, index-linked bond markets continue to price in very low levels of inflation over the next few years. For those of the view that the upturn in European inflation will be sustained, we believe this marks an attractive entry-point to be adding inflation protection.

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

Jim Leaviss
Fund manager

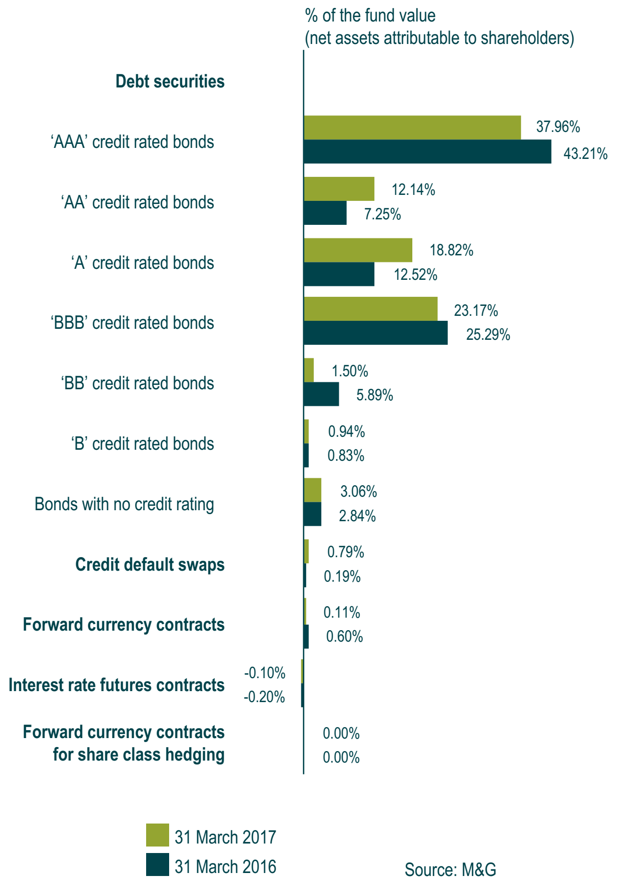
An employee of M&G Limited which is an associate of M&G Securities Limited.

[a] 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.

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.

Investment review

Classification of investments



Investments

Portfolio statement

as at 31 March Holding		2017 €'000	2017 %	2016 %
	Debt securities	**93,874**	**97.59**	**97.83**
	'AAA' credit rated bonds	**36,522**	**37.96**	**43.21**
€200,000	Delft 2017 FRN 2040	200	0.21	
£125,441	Dukinfield FRN 2052	148	0.15	
€50,000	Germany (Federal Republic of) 0.5% IL 2030	59	0.06	
€500,000	Germany (Federal Republic of) 0.1% IL 2023	565	0.59	
€50,000	Germany (Federal Republic of) 0.1% IL 2026	56	0.06	
€50,000	Germany (Federal Republic of) 0.1% IL 2046	60	0.06	
€18,500,000	Germany (Federal Republic of) 0.75% IL 2018	20,133	20.93	
€12,000,000	Germany (Federal Republic of) 1.75% IL 2020	14,544	15.12	

Portfolio statement (continued)

as at 31 March Holding		2017 €'000	2017 %	2016 %
	'AAA' credit rated bonds (continued)			
€206,000	Harvest CLO VII FRN 2031	206	0.21	
$534,209	Paragon Mortgages No.14 FRN 2039 A2C	466	0.48	
£73,198	Thrones FRN 2050	85	0.09	
	'AA' credit rated bonds	**11,682**	**12.14**	**7.25**
€250,509	E-Mac NL (2005-1) FRN 2038	249	0.26	
€341,370	First Flex No 6 FRN 2035	329	0.34	
€1,000,000	France (Govt of) 0.1% IL 2021	1,057	1.10	
€1,000,000	GE Capital European Funding FRN 2021	1,002	1.04	
£400,000	Network Rail Infrastructure Finance 1.75% IL 2027	847	0.88	
€245,067	Paragon Mortgages No.13 FRN 2039 A2B	233	0.24	
€1,750,000	Réseau Ferré de France 2.45% IL 2023	2,541	2.64	
£850,000	Toyota Motor Credit 2.413% IL 2017	1,301	1.35	
$1,000,000	US Treasury 0.125% 2024	946	0.99	
$2,000,000	US Treasury 0.125% IL 2018	1,983	2.06	
$1,200,000	US Treasury 0.625% IL 2024	1,194	1.24	
	'A' credit rated bonds	**18,099**	**18.82**	**12.52**
€238,700	Alba 2006-2 FRN 2038	228	0.24	
€100,000	American Honda Finance FRN 2019	100	0.10	
£506,000	Anglian Water Services 4.125% IL 2020	1,119	1.16	
$115,000	Anheuser-Busch InBev 0% 2021	111	0.12	
€1,000,000	Anheuser-Busch InBev FRN 2020	1,014	1.06	
€163,000	BMW US Capital FRN 2019	163	0.17	
£250,000	BNP Paribas 1.125% 2022	284	0.30	
€513,000	Credit Suisse London FRN 2018	515	0.54	
€500,000	Daimler FRN 2019	503	0.52	
£300,000	Eddystone Finance FRN 2021	348	0.36	
€2,058,000	HSBC FRN 2022	2,058	2.14	
€136,000	John Deere Bank FRN 2020	136	0.14	
€172,120	Money Partners Securities 3 FRN 2039	168	0.17	
£815,000	National Grid Electricity Transmission 2.983% IL 2018	1,570	1.63	
£475,000	National Grid Electricity Transmission 3.806% IL 2020	995	1.03	
£382,593	Nationwide Building Society 3.875% IL 2021	1,499	1.56	
€396,745	Newgate Fund FRN 2050	388	0.40	
€61,787	Paragon Mortgages No.9 FRN 2041	59	0.06	
€63,696	Preferred Residential Securities 8 FRN 2042	63	0.07	
€1,000,000	Rabobank FRN 2018	1,002	1.04	
£91,000	Rabobank Nederland 2.25% IL 2022	164	0.17	
$373,917	RMAC 2005-Nsp2 FRN 2037	333	0.35	
€1,000,000	Santander FRN 2020	1,008	1.05	
£100,000	Southern Water Services Finance 3.816% IL 2023	220	0.23	
£280,000	Thames Water Utilities Finance 3.375% IL 2021	598	0.62	
€300,000	Total Capital International FRN 2020	301	0.31	
€500,000	Total Var. Rate Perp. (3.369%)	493	0.51	
€200,000	UBS FRN 2022	200	0.21	
$200,000	UBS Jersey FRN 2022	192	0.20	
€250,000	Wells Fargo FRN 2020	251	0.26	
€2,000,000	Wells Fargo FRN 2021	2,016	2.10	
	'BBB' credit rated bonds	**22,282**	**23.17**	**25.29**
£150,000	AA Bond Company 2.875% 2043	178	0.18	
£8,000	AA Bond Company 4.7201% 2043	10	0.01	
€690,000	Bank of America FRN 2019	698	0.73	
€1,250,000	Bank of America FRN 2022	1,261	1.31	

Investments

Portfolio statement (continued)

as at 31 March Holding		2017 €'000	2017 %	2016 %
	'BBB' credit rated bonds (continued)			
$1,000,000	Bank of America FRN 2026	850	0.88	
$600,000	Barclays Bank FRN 2021	586	0.61	
€250,000	Bayer Var. Rate 2075 (3%)	255	0.27	
€1,400,000	Channel Link Enterprises Finance FRN 2050	1,403	1.46	
€1,000,000	Citigroup FRN 2019	1,002	1.04	
$185,000	Citigroup FRN 2020	176	0.18	
$100,000	Citigroup FRN 2023	96	0.10	
$200,000	General Motors Financial 4.2% 2021	195	0.20	
€400,000	Goldman Sachs Group FRN 2022	400	0.42	
$300,000	Goldman Sachs Group FRN 2023	290	0.30	
$200,000	Goldman Sachs Group FRN 2027	192	0.20	
$300,000	HBOS FRN 2017	281	0.30	
€400,000	Intesa Sanpaolo Bank FRN 2018	401	0.42	
€250,000	Italy (Republic of) 1.3% IL 2028	250	0.26	
€500,000	Italy (Republic of) 2.1% IL 2021	596	0.62	
€2,750,000	Italy (Republic of) 2.15% IL 2017	2,812	2.92	
£400,000	JPMorgan Chase Var. Rate 2017 (6.125%)	466	0.48	
€300,000	KBC Groep 0.75% 2022	299	0.31	
$168,000	Mellon Capital FRN Perp.	133	0.14	
€1,250,000	Morgan Stanley FRN 2022	1,262	1.31	
$400,000	Morgan Stanley FRN 2023	382	0.40	
€1,000,000	Mylan FRN 2018	1,008	1.05	
€250,000	Nationwide Building Society 6.75% 2020	299	0.31	
€825,000	Orange 3% IL 2018	939	0.98	
£300,000	Royal Bank of Scotland 6.625% 2018	378	0.39	
£50,000	Severn Trent 1.3% IL 2022	71	0.07	
£25,000	South Eastern Power Networks 4.2148% IL 2023	53	0.06	
€4,000,000	Spain (Kingdom of) 0.55% IL 2019	4,201	4.37	
$193,000	USB Capital IX FRN 2099	154	0.16	
€400,000	Vodafone FRN 2019	405	0.42	
€300,000	Volkswagen International FRN 2018	300	0.31	
	'BB' credit rated bonds	**1,438**	**1.50**	**5.89**
€450,000	Ball Corporation 4.375% 2023	498	0.51	
£80,608	Catalyst Healthcare 2.411% IL 2040	163	0.17	
€350,000	Crown European Holdings 3.375% 2025	354	0.38	
€221,000	QuintilesIMS 3.25% 2025	219	0.23	
€200,000	Smurfit Kappa Acquisitions 2.75% 2025	204	0.21	
	'B' credit rated bonds	**905**	**0.94**	**0.83**
€350,000	Matterhorn Telecom 3.875% 2022	354	0.37	
€350,000	Unitymedia Kabel 3.75% 2027 REGS	351	0.36	
€200,000	Xefin Lux SCA FRN 2019	200	0.21	
	Bonds with no credit rating	**2,946**	**3.06**	**2.84**
€750,000	ALME Loan Funding II FRN 2033	757	0.79	
€186,000	Arbour Clo FRN 2030	188	0.20	
€300,000	Commerzbank FRN 2022	303	0.31	
£133,181	Duncan Funding Var. Rate FRN 2063	156	0.16	
€500,000	Eirles Two Var. Rate 2020 (0.366%)	0	0.00	
€250,000	Lock FRN 2020	250	0.26	
£225,000	National Grid 1.25% IL 2021	325	0.34	
£136,404	Nationwide Building Society 4.25% IL 2024	523	0.54	
£200,000	Tesco Personal Finance 1% IL 2019	269	0.28	
£58,773	THFC 5.65% IL 2020	175	0.18	

Portfolio statement (continued)

as at 31 March Holding		2017 €'000	2017 %	2016 %
	Credit default swaps	**755**	**0.79**	**0.19**
€(500,000)	Allianz Dec 2021	14	0.02	
€(500,000)	Aviva Jun 2021	7	0.01	
€(500,000)	AXA Dec 2021	9	0.01	
€(500,000)	BP Jun 2021	8	0.01	
$(1,500,000)	Energy Transfer Partners Dec 2020	10	0.01	
$(2,500,000)	Ford Motor Dec 2020	351	0.37	
$(500,000)	General Motors Dec 2021	78	0.08	
€(500,000)	Glencore Finance Europe Dec 2021	81	0.08	
€(500,000)	Heathrow Funding Dec 2020	5	0.00	
€(500,000)	HSBC Bank Jun 2021	(1)	0.00	
€(500,000)	Lafargeholcim Dec 2021	4	0.00	
€(500,000)	Lloyds Bank Jun 2021	(2)	0.00	
$(5,500,000)	Markit CDX North American Investment Grade Series 21 10 Year Dec 2023	4	0.01	
$(3,000,000)	Markit CDX North American Investment Grade Series 25 5 Year Dec 2025	(14)	(0.01)	
€(5,000,000)	Markit iTraxx Europe Series 24 5 Year Dec 2020	89	0.09	
€(1,000,000)	Markit iTraxx Europe Series 25 5 Year Jun 2021	17	0.02	
€(4,500,000)	Markit iTraxx Europe Series 26 5 Year Dec 2021	71	0.08	
$(500,000)	MetLife Dec 2021	6	0.00	
€(500,000)	Repsol International Finance Dec 2021	1	0.00	
€(500,000)	Sky Dec 2021	8	0.01	
€(200,000)	Telecom Italia Dec 2021	(10)	(0.01)	
€(500,000)	Telefónica Emisiones Jun 2021	4	0.00	
$(1,500,000)	Verizon Communications Sep 2023	3	0.00	
€(500,000)	Zurich Insurance Dec 2021	12	0.01	
	Forward currency contracts	**106**	**0.11**	**0.60**
£(10,343,178)	Sold for €12,092,972 (expires 05.04.17)	34	0.04	
$397,691	Bought for €370,955 (expires 05.04.17)	1	0.00	
$(10,064,491)	Sold for €9,493,578 (expires 05.04.17)	71	0.07	
	Interest rate futures contracts	**(96)**	**(0.10)**	**(0.20)**
(30)	Euro Bobl Jun 2017	(1)	0.00	
(11)	Euro Bund Jun 2017	(8)	(0.01)	
(132)	Euro Schatz Jun 2017	5	0.01	
(37)	UK Long Gilt Bond Jun 2017	(92)	(0.10)	
Portfolio of investments		**94,639**	**98.39**	**98.42**
	Forward currency contracts for share class hedging	**0**	**0.00**	**0.00**
CHF60,867	Bought for €56,796 (expires 03.05.17)	0	0.00	
CHF(449)	Sold for €419 (expires 03.05.17)	0	0.00	
Total portfolio (notes 2c & 2d on page 5)		**94,639**	**98.39**	**98.42**
Net other assets / (liabilities)		**1,553**	**1.61**	**1.58**
Net assets attributable to shareholders		**96,192**	**100.00**	**100.00**

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

M&G European Inflation Linked Corporate Bond Fund

Financial highlights

Fund performance

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

The 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 (9), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

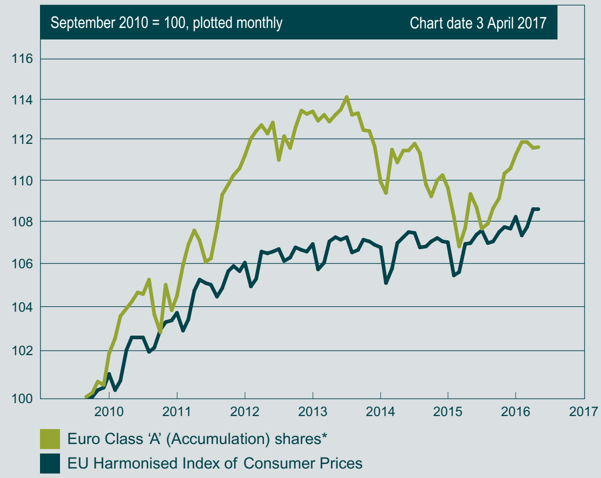
Fund level performance

Fund net asset value

as at 31 March	2017 €'000	2016 €'000	2015 €'000
Fund net asset value (NAV)	96,192	60,228	74,842

Performance since launch

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



* Gross income reinvested

Source: Morningstar, Inc. and M&G

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

Long-term performance by share class

	One year 01.04.16 % [a]	Three years 03.04.14 % p.a.	Five years 03.04.12 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+3.6	-0.4	+0.7	+1.7 [c]
Class 'C'	+4.1	+0.1	+1.3	+2.2 [c]
Swiss franc [b]				
Class 'A-H'	+3.1	-1.0	n/a	+0.0 [d]
Class 'C-H'	+3.6	-0.5	n/a	+0.5 [d]

[a] Absolute basis.

[b] Price to price with gross income reinvested.

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

[d] 28 September 2012, the launch date of the share class.

Operating charges and portfolio transaction costs

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

Operating charges

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

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **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.

Fund performance

Operating charges and portfolio transaction costs

Portfolio transaction costs

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

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

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

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. 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 or by calling M&G Customer Relations.

Portfolio transaction costs

as at 31 March Indirect portfolio transaction costs	2017 %	2016 %	2015 %	Average [a] %
Average portfolio dealing spread	0.26	0.61	0.52	0.46

[a] Average of first three columns.

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' Accumulation share performance

The share class was launched on 16 September 2010.

for the year to 31 March Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,077.46	1,103.99	1,129.23
Return before operating charges and after direct portfolio transaction costs	48.89	(13.48)	(11.78)
Operating charges	(13.19)	(13.05)	(13.46)
Return after operating charges	35.70	(26.53)	(25.24)
Distributions	(10.20)	(10.57)	(7.38)
Retained distributions	10.20	10.57	7.38
Closing NAV	1,113.16	1,077.46	1,103.99
Direct portfolio transaction costs [a]	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.02	0.02	0.03
Dilution adjustments [b]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.02	0.03
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	1.20	1.18	1.20
Return after operating charges	+3.31	-2.40	-2.24
Distribution yield	0.40	0.99	0.76
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	55,123	38,045	45,748
Closing NAV percentage of total fund NAV (%)	57.31	63.18	61.12
Number of shares	4,951,960	3,530,992	4,143,850
Highest share price (Euro ¢)	1,120.39	1,124.40	1,143.70
Lowest share price (Euro ¢)	1,074.01	1,066.09	1,090.45

M&G European Inflation Linked Corporate Bond Fund

Financial highlights

Specific share class performance

Euro Class 'C' Accumulation share performance

The share class was launched on 16 September 2010.

for the year to 31 March Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,107.72	1,129.32	1,149.42
Return before operating charges and after direct portfolio transaction costs	50.39	(13.88)	(12.03)
Operating charges	(7.95)	(7.72)	(8.07)
Return after operating charges	42.44	(21.60)	(20.10)
Distributions	(16.17)	(16.49)	(13.29)
Retained distributions	16.17	16.49	13.29
Closing NAV	1,150.16	1,107.72	1,129.32
Direct portfolio transaction costs [a]	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.02	0.02	0.03
Dilution adjustments [b]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.02	0.03
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	0.70	0.68	0.70
Return after operating charges	+3.83	-1.91	-1.75
Distribution yield	0.90	1.50	1.28
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	41,012	22,129	29,036
Closing NAV percentage of total fund NAV (%)	42.63	36.74	38.80
Number of shares	3,565,717	1,997,715	2,571,147
Highest share price (Euro ¢)	1,157.18	1,151.34	1,165.42
Lowest share price (Euro ¢)	1,105.53	1,095.32	1,114.32

Swiss franc Class 'A-H' Accumulation share performance

The share class was launched on 28 September 2012.

for the year to 31 March Change in NAV per share	2017 Swiss ¢	2016 Swiss ¢	2015 Swiss ¢
Opening NAV	971.28	1,003.89	1,029.77
Return before operating charges and after direct portfolio transaction costs	39.53	(20.60)	(13.34)
Operating charges	(12.00)	(12.01)	(12.54)
Return after operating charges	27.53	(32.61)	(25.88)
Distributions	(9.04)	(9.51)	(5.89)
Retained distributions	9.04	9.51	5.89
Closing NAV	998.81	971.28	1,003.89
Direct portfolio transaction costs [a]	**Swiss ¢**	**Swiss ¢**	**Swiss ¢**
Costs before dilution adjustments	0.02	0.02	0.02
Dilution adjustments [b]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.02	0.02
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	1.21	1.20	1.22
Return after operating charges	+2.83	-3.25	-2.51
Distribution yield	0.38	0.97	0.72
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	28	27	29
Closing NAV percentage of total fund NAV (%)	0.03	0.04	0.04
Number of shares	3,000	3,000	3,000
Highest share price (Swiss ¢)	1,005.62	1,020.52	1,042.02
Lowest share price (Swiss ¢)	967.98	961.96	992.76

Swiss franc Class 'C-H' Accumulation share performance

The share class was launched on 28 September 2012.

for the year to 31 March Change in NAV per share	2017 Swiss ¢	2016 Swiss ¢	2015 Swiss ¢
Opening NAV	987.41	1,015.52	1,037.00
Return before operating charges and after direct portfolio transaction costs	40.16	(21.01)	(13.98)
Operating charges	(7.19)	(7.10)	(7.50)
Return after operating charges	32.97	(28.11)	(21.48)
Distributions	(14.22)	(14.76)	(10.50)
Retained distributions	14.22	14.76	10.50
Closing NAV	1,020.38	987.41	1,015.52
Direct portfolio transaction costs [a]	**Swiss ¢**	**Swiss ¢**	**Swiss ¢**
Costs before dilution adjustments	0.02	0.02	0.02
Dilution adjustments [b]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.02	0.02
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs	0.00	0.00	0.00
Operating charges	0.71	0.70	0.72
Return after operating charges	+3.34	-2.77	-2.07
Distribution yield	0.89	1.49	1.21
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (€'000)	29	27	29
Closing NAV percentage of total fund NAV (%)	0.03	0.04	0.04
Number of shares	3,000	3,000	3,000
Highest share price (Swiss ¢)	1,026.94	1,033.45	1,050.49
Lowest share price (Swiss ¢)	985.14	977.28	1,003.60

[a] As a percentage of average net asset value.

[b] In respect of direct portfolio transaction costs.

M&G European Inflation Linked Corporate Bond Fund

Financial statements and notes

Financial statements

Statement of total return

for the year to 31 March	Note	2017 €'000	2017 €'000	2016 €'000	2016 €'000
Income					
Net capital gains / (losses)	3		1,183		(2,476)
Revenue	5	1,391		1,587	
Expenses	6	(658)		(726)	
Net revenue / (expense) before taxation		733		861	
Taxation	7	(5)		(10)	
Net revenue / (expense) after taxation			728		851
Total return before distributions			**1,911**		**(1,625)**
Distributions	8		(728)		(859)
Change in net assets attributable to shareholders from investment activities			**1,183**		**(2,484)**

Statement of change in net assets attributable to shareholders

for the year to 31 March	2017 €'000	2017 €'000	2016 €'000	2016 €'000
Opening net assets attributable to shareholders		**60,228**		**74,842**
Amounts received on issue of shares	57,609		11,016	
Amounts paid on cancellation of shares	(24,036)		(23,920)	
		33,573		(12,904)
Dilution adjustments		126		71
Change in net assets attributable to shareholders from investment activities (see above)		1,183		(2,484)
Retained distributions on Accumulation shares		1,082		703
Closing net assets attributable to shareholders		**96,192**		**60,228**

Balance sheet

as at 31 March	Note	2017 €'000	2016 €'000
Assets			
Fixed assets			
Investments		94,767	59,749
Current assets			
Debtors	9	1,695	758
Cash and bank balances	10	4,231	4,308
Total assets		**100,693**	**64,815**
Liabilities			
Investment liabilities		(128)	(473)
Creditors			
Bank overdrafts		0	(3,770)
Other creditors	11	(4,373)	(344)
Total liabilities		**(4,501)**	**(4,587)**
Net assets attributable to shareholders		**96,192**	**60,228**

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 5 and 6.

2 Distribution policy

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

3 Net capital gains / (losses)

for the year to 31 March	2017 €'000	2016 €'000
Non-derivative securities	362	(3,190)
Derivative contracts	1,031	500
Currency gains / (losses)	(203)	220
Transaction charges	(7)	(6)
Net capital gains / (losses)	**1,183**	**(2,476)**

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on pages 13 and 14.

for the year to 31 March	2017 €'000	% of transaction	2016 €'000	% of transaction
a) Purchases				
Debt securities [a]	**74,402**		**37,467**	
b) Sales				
Debt securities [a]	38,425		42,705	
Other asset classes				
Corporate actions	1,267		0	
Total sales after transaction costs	**39,692**		**42,705**	

c) Direct portfolio transaction costs	2017 €'000	% of average NAV	2016 €'000	% of average NAV
Commissions paid				
Derivatives	1	0.00	1	0.00
Total direct portfolio transaction costs [b]	**1**	**0.00**	**1**	**0.00**
d) Indirect portfolio transaction costs		%		%
Portfolio dealing spread [c]		0.26		0.61

[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.

5 Revenue

for the year to 31 March	2017 €'000	2016 €'000
Bank interest	3	1
Derivative revenue	268	154
Interest on debt securities	1,120	1,432
Total revenue	**1,391**	**1,587**

Notes to the financial statements

6 Expenses

for the year to 31 March	2017 €'000	2016 €'000
Payable to the ACD or associate		
Annual management charge	522	587
Administration charge	99	111
	621	698
Payable to the Depositary or associate		
Depositary's charge (including VAT)	6	7
Other expenses		
Audit fee (including VAT)	17	9
Interest payable	11	9
Safe custody charge	3	3
	31	21
Total expenses	**658**	**726**

7 Taxation

for the year to 31 March	2017 €'000	2016 €'000
a) Analysis of charge in the year		
Corporation tax	1	0
Withholding tax	5	10
Current double taxation relief	(1)	0
Deferred tax (note 7c)	0	0
Total taxation	**5**	**10**
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	733	861
Corporation tax at 20%	147	172
Effects of:		
Interest distributions	(146)	(173)
Retail Prices Index adjustment to gilts	0	1
Withholding tax	5	10
Total double taxation relief	(1)	0
Total tax charge (note 7a)	**5**	**10**
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	**0**	**0**

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

8 Distributions

for the year to 31 March Interest distributions	2017 Inc [a] €'000	2017 Acc [b] €'000	2016 Inc [a] €'000	2016 Acc [b] €'000
Final	n/a	1,082	n/a	703
Interest distributions		1,082		703
Income deducted on cancellation of shares		208		187
Income received on issue of shares		(562)		(31)
Distributions		**728**		**859**
Net revenue / (expense) per statement of total return		728		851
Effective yield adjustments not distributed		0		8
Distributions		**728**		**859**

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 31 March	2017 €'000	2016 €'000
Amounts receivable on issues of shares	779	0
Currency deals outstanding	289	293
Debt security interest receivable	555	456
Derivative revenue receivable	14	0
Futures interest receivable	7	9
Sales awaiting settlement	51	0
Total debtors	**1,695**	**758**

10 Cash and bank balances

as at 31 March	2017 €'000	2016 €'000
Amounts held at futures clearing houses and brokers	310	463
Cash held as bank balances	3,921	3,845
Total cash and bank balances	**4,231**	**4,308**

11 Other creditors

as at 31 March	2017 €'000	2016 €'000
ACD's annual management charge payable	37	23
Administration charge payable	7	4
Amounts payable on cancellation of shares	3,554	0
Currency deals outstanding	291	295
Derivative expense payable	0	11
Expenses payable	16	11
Purchases awaiting settlement	468	0
Total other creditors	**4,373**	**344**

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 01.04.16	Movements Issued	Movements Cancelled	Closing 31.03.17
Euro				
Class 'A' Accumulation (Gross)	3,530,992	2,040,747	(619,779)	4,951,960
Class 'C' Accumulation (Gross)	1,997,715	3,099,503	(1,531,501)	3,565,717
Swiss franc				
Class 'A-H' Accumulation (Gross)	3,000	0	0	3,000
Class 'C-H' Accumulation (Gross)	3,000	0	0	3,000

Notes to the financial statements

14 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 %
Euro				
Class 'A'	3.25	n/a	1.00	n/a
Class 'C'	1.25	n/a	0.50	n/a
Swiss franc				
Class 'A-H'	3.25	n/a	1.00	[a]
Class 'C-H'	1.25	n/a	0.50	[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, there were no material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary (2016: same).

16 Events after the balance sheet date

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

17 Portfolio 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: Quoted prices for identical instruments in active markets

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 techniques using observable market data

This includes publicly traded corporate bonds and instruments which have been valued using models with observable market data inputs such as quoted prices for similar instruments, interest rates, yield curves or credit spreads. Over-the-counter instruments have also been included in the category.

Level 3: Valuation techniques using non-observable market data

This refers to instruments which have been valued using models with non-observable market data inputs. This includes private equity, unlisted closed-ended funds and investment analyst recommended prices where the market price is deemed to not be a true representation of fair value. However no such financial instruments were held.

as at 31 March Valuation technique	Assets 2017 €'000	Liabilities 2017 €'000	Assets 2016 €'000	Liabilities 2016 €'000
Level 1	46,801	(101)	35,732	(157)
Level 2	47,966	(27)	24,017	(316)
Level 3	0	0	0	0
	94,767	**(128)**	**59,749**	**(473)**

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

18 Risk management policies

The general risk management policies for the fund are described in note 3 to the financial statements on pages 6 and 7.

19 Market risk

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 March 2017 was 10% (2016: 10%).

The lowest, highest and average VaR calculated during the financial years ended 31 March 2017 and 31 March 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 March	2017 %	2016 %
Lowest	0.72	1.27
Highest	2.04	1.94
Average	1.42	1.56

Notes to the financial statements

20 Credit risk

as at 31 March	2017 €'000	2016 €'000
Investment grade securities	88,585	53,152
Below investment grade securities	2,343	4,052
Unrated securities	2,946	1,710
Other investments	765	362
Total	**94,639**	**59,276**

21 Counterparty exposure

as at 31 March 2017	Credit default swaps €'000	Forward currency contracts €'000	Futures €'000	Collateral held as cash €'000	Net exposure €'000
Bank of America Merrill Lynch	(10)	0	(96)	(310)	(416)
BNP Paribas	4	51	0	0	55
Barclays Bank	108	0	0	0	108
Credit Suisse	593	0	0	0	593
Goldman Sachs	28	0	0	0	28
HSBC	16	(8)	0	0	8
JPMorgan	16	0	0	0	16
National Australia Bank	0	2	0	0	2
State Street Bank	0	61	0	0	61
Total	**755**	**106**	**(96)**	**(310)**	**455**

as at 31 March 2016	Credit default swaps €'000	Forward currency contracts €'000	Futures €'000	Collateral held as cash €'000	Net exposure €'000
Bank of America Merrill Lynch	0	0	(119)	(463)	(582)
BNP Paribas	(81)	0	0	0	(81)
Credit Suisse	417	0	0	0	417
Goldman Sachs	(218)	0	0	0	(218)
State Street Bank	0	363	0	0	363
Total	**118**	**363**	**(119)**	**(463)**	**(101)**

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.

22 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 March 2017 and 31 March 2016 are disclosed in the table below.

for the year to 31 March	2017 €'000	2017 %	2016 €'000	2016 %
Lowest	97,788	168	116,654	182
Highest	174,802	237	183,066	245
Average	123,906	190	146,444	199

23 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.

24 Interest distribution tables

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

Annual distribution period

	Start	End	Xd	Payment
Final	01.04.16	31.03.17	03.04.17	31.05.17

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 gross 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 gross income and equalisation. Equalisation is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. The tables below show the split of the Group 2 rates into the gross income and equalisation components.

Euro Class 'A' Accumulation shares

Interest distributions for the year to 31 March	Gross income 2017	Equal-isation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢
Final	10.2008	-	10.2008	10.5727
Group 2				
Final	1.8562	8.3446	10.2008	10.5727

Euro Class 'C' Accumulation shares

Interest distributions for the year to 31 March	Gross income 2017	Equal-isation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢
Final	16.1672	-	16.1672	16.4886
Group 2				
Final	3.9359	12.2313	16.1672	16.4886

Notes to the financial statements

24 Interest distribution tables (continued)

Swiss franc Class 'A-H' Accumulation shares

Interest distributions for the year to 31 March	Gross income 2017	Equal-isation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢
Final	9.0393	-	9.0393	9.5082
Group 2				
Final	9.0393	0.0000	9.0393	9.5082

Swiss franc Class 'C-H' Accumulation shares

Interest distributions for the year to 31 March	Gross income 2017	Equal-isation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢
Final	14.2196	-	14.2196	14.7612
Group 2				
Final	14.2196	0.0000	14.2196	14.7612

M&G Investment Funds (9)

Other regulatory disclosures

Remuneration

In line with the requirements of the Undertakings for Collective Investment in Transferable Securities (UCITS) V, the 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 it manages. Further details of the remuneration policy applicable at an M&G Limited level can be found here: http://www.mandg.com/en/corporate/about-mg/our-people/.

Implementation of the UCITS Remuneration Code remains ongoing and will apply in full for the first time for M&G's 2017 performance year. Quantitative remuneration disclosures will be made following completion 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 this fund the TERs are the same as the operating charges disclosed in the fund's financial highlights section.

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.

Glossary

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

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

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

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

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

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

Equities: Shares of ownership in a company.

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

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

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

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

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

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

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

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

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.

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.

Glossary

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.