

M&G Optimal Income Fund

Annual Long Report and audited Financial Statements
for the year ended 30 September 2018

Contents

M&G Optimal Income Fund	
Authorised Corporate Director's Report	Page 1
Directors' statement	Page 2
Depository's Responsibilities and Report	Page 3
Independent Auditor's Report	Page 4
Authorised Corporate Director's Report, including the financial highlights and financial statements and notes	Page 7
Other regulatory disclosures	Page 42
Glossary	Page 43

M&G Optimal Income Fund

Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Optimal Income Fund presents its Annual Long Report and audited Financial Statements for the year ended 30 September 2018.

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

Company information

This Open-Ended Investment Company (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 Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000. The Company 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 FCA.

The Company was authorised on 17 November 2006 and the fund was launched on 8 December 2006.

The Company's principal activity is to carry on business as an OEIC.

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

Fund manager

Richard Woolnough is employed by M&G Limited which is an associate of M&G Securities Limited.

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

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

* Appointed 26 July 2018.

W J Nott resigned with effect from 31 December 2017.

Investment manager

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

(Authorised and regulated by the Financial Conduct Authority)

Registrar

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

Depository

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

Independent auditor

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

Important information

As a result of the Extraordinary General Meetings of Shareholders held on 4 October 2018, the non-sterling share classes of the M&G Optimal Income Fund will be merged into corresponding share classes of the M&G (Lux) Optimal Income Fund, a sub-fund of M&G (Lux) Investment Funds 1.

For further details on the mergers and the date at which these will occur, please refer to:

<https://www.mandg.com/brexitmergerdocumentation>.

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

Investor information

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

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 Luxembourg S.A.*,
c/o RBC I&TS, 14, Porte de France, L-4360 Esch-sur-Alzette,
Grand Duchy of Luxembourg

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

Telephone: +352 2605 9944

Email: csmmandg@rbc.com

* Effective 1 October 2018

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

M&G Optimal Income Fund

Authorised Corporate Director's Report

Investor information

Austrian paying and information agent:

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

Belgian financial agent:

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

Danish representative agent:

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

French centralising agent:

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

German information agent:

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

Greek paying agent and distributor:

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

Irish facilities agent:

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

Italian paying agents:

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

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

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

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

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

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

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

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

Luxembourg paying and information agent:

Société Générale Bank & Trust S.A.,
Centre operationnel, 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, 8021 Zurich, Switzerland

Authorised Corporate Director's Responsibilities

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

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

Directors' statement

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

G W MACDOWALL }
L J MUMFORD } Directors

14 November 2018

M&G Optimal Income Fund

Depositary's Responsibilities and Report

Statement of the Depositary's Responsibilities and Report of the Depositary to the Shareholders of M&G Optimal Income Fund ('the Company') for the year ended 30 September 2018

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

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

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

The Depositary must ensure that:

- the Company's cashflows are properly monitored 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
14 November 2018

NatWest Trustee and
Depositary Services Ltd

M&G Optimal Income Fund

Independent Auditor's Report

Independent Auditor's Report to the shareholders of M&G Optimal Income Fund ICVC

Opinion

We have audited the financial statements of M&G Optimal Income Fund ICVC ("the Company") for the year ended 30 September 2018 which comprise the Statement of Total Return and Statement of Change in Net Assets Attributable to Shareholders together with the Balance Sheet, the Summary of significant accounting policies of the Company, the related notes and the Distribution Tables. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS 102 'The Financial Reporting Standard applicable to the UK and Republic of Ireland'.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Company as at 30 September 2018 and of the net revenue and the net capital losses on the scheme property of the Company for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice FRS 102 'The Financial Reporting standard applicable in the UK and Republic of Ireland'.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

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

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

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

We have nothing to report in this regard.

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

In our opinion:

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

Matters on which we are required to report by exception

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

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

Responsibilities of the Authorised Corporate Director (ACD)

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

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

M&G Optimal Income Fund

Independent Auditor's Report

Independent Auditor's Report to the shareholders of M&G Optimal Income Fund ICVC

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Edinburgh
16 November 2018

Ernst & Young LLP
Statutory Auditor

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

M&G Optimal Income Fund

Independent Auditor's Report

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M&G Optimal Income Fund

Authorised Corporate Director's Report

Investment objective

The fund aims to provide a total return (the combination of income and growth of capital) to investors based on exposure to optimal income streams in investment markets.

Investment policy

The fund aims to provide a total return (the combination of income and growth of capital) to investors through strategic asset allocation and specific stock selection. The fund will be at least 50% invested in debt instruments, but may also invest in other assets including collective investment schemes, money market instruments, cash, near cash, deposits, equities and derivatives. Derivative instruments may be used for both investment purposes and efficient portfolio management.

Investment approach

The M&G Optimal Income Fund is a flexible bond fund, allowing investment across a broad range of fixed income assets according to where the fund manager identifies value. The investment approach begins with a top-down assessment of the macroeconomic environment, including the likely path of growth, inflation and interest rates. The results of this analysis help inform the fund's duration positioning and its allocation to the various bond asset classes. Individual credit selection is carried out in conjunction with M&G's in-house team of credit specialists, which provides bottom-up analysis of the corporate bond markets to complement the fund manager's views.

There are no restrictions on the amount of government bonds, investment grade bonds or high yield bonds that can be held within the portfolio. The fund may also invest in other assets, including cash, equities and derivatives. Derivative instruments may be used for both investment purposes and efficient portfolio management.

Risk profile

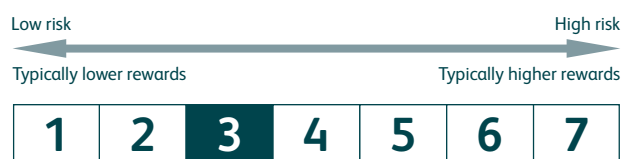
The fund is a flexible bond fund which invests in a range of fixed income securities. In addition, up to 20% of the portfolio may be invested in company shares when the fund manager believes they offer better value than bonds. The fund is therefore subject to the price volatility of global bond and stockmarkets as well as the performance of individual companies. The fund is also subject to fluctuations in currency exchange rates.

There are no restrictions on the amount of government bonds, investment grade bonds or high yield bonds that can be held within the portfolio. While government and investment grade bonds are generally highly liquid assets that are normally traded with relative ease, high yield corporate bonds are higher risk assets that could potentially experience a degree of illiquidity in times of market distress. The fund's exposure to company shares is typically through large companies, where the shares are normally traded with relative ease.

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

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

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



The above number:

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

Investment review

As at 1 October 2018, for the year ended 30 September 2018

Performance against objective

Between 2 October 2017 (the start of the review period) and 1 October 2018, the M&G Optimal Income Fund delivered either a positive or negative total return (the combination of income and growth of capital) depending on its share class*.

Most of the fund's holdings are split between high quality, or investment grade, corporate bonds and high yielding corporate bonds, with a smaller allocation to government bonds, as these typically provide liquidity and stability in uncertain markets.

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

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

M&G Optimal Income Fund

Authorised Corporate Director's Report

Investment review

Investment performance

In the latter stages of 2017, investors' attention had turned to the likelihood of central banks finally being able to move towards more 'normal' monetary policy and gradually withdraw the support they had been providing to financial markets since the global financial crisis. This took place against a backdrop of broadly positive economic data releases, indicating a healthy global economy.

The Federal Reserve increased US interest rates three times during the review period, in December 2017, March 2018 and June 2018, taking the total number of times it has increased rates since the end of the financial crisis to seven.

The European Central Bank (ECB) announced in October 2017 that it would gradually reduce the amount of money it spends each month on its bond-buying programme, but would continue to support markets until at least September 2018. In June this year, the ECB announced it would halve its bond purchases in September and end them altogether in December.

Meanwhile, the Bank of England announced a small interest rate rise of a quarter of a percentage point in November 2017, taking rates back to their level immediately before 2016's Brexit referendum vote. It then increased interest rates by the same amount again in August 2018, taking them to 0.75%. However, with Brexit uncertainty still looming large over the outlook for the UK economy, any further rises are expected to be limited and gradual.

But after a broadly positive end to 2017 and a strong January 2018 for financial markets, many areas in the global bond market experienced a downturn, as investors reacted to the prospect of higher inflation and interest rates. By March, weakness in global stockmarkets, caused mainly by the prospect of a trade war between the US and China and the US imposition of sanctions on Russia, had started to spill over into corporate bond markets. While April proved somewhat calmer, Italian political turmoil, combined with ongoing trade tensions between the US and China, caused further volatility in May. Volatility returned once more in August, as concerns over Turkey's economy and government – which had been building for months – reached boiling point. The collapse of the Turkish lira had dramatic implications for other emerging markets, exacerbated by a rising US dollar and protracted trade wars.

The more challenging conditions from the start of 2018 led to muted returns across the bond market over the 12-month review period as a whole. Sterling and euro-denominated corporate bonds were generally flat over the period, very slightly ahead of US dollar corporate bonds. Within core government bond markets, US Treasuries declined, while UK and European government bonds rose slightly.

In these circumstances, the fund delivered mixed returns, although its relative lack of sensitivity to changes in interest rates (known as duration) helped to protect it from some of the worst volatility.

Investment activities

We adjust the positioning of the M&G Optimal Income Fund to reflect changes in our outlook regarding interest rates, credit risk (companies' ability to repay their debts) and changes in relative value among the different fixed income asset classes.

Having reduced our exposure to high yield corporate bonds in mid-2017 in favour of investment grade corporate bonds, which we considered to offer better value following the former's sustained outperformance, we maintained our low weighting to the asset class. Within investment grade, we are finding most opportunities within high quality, highly rated, corporate issues.

US dollar-denominated corporate bonds have outperformed euro and sterling-denominated corporate bonds over a sustained period and, as a result, we undertook a number of relative value trading opportunities – selling, for example, US dollar bonds issued by Goldman Sachs, Verizon and HSBC in favour of bonds from the same issuers denominated in sterling.

We can invest a portion of the fund (up to 20%) in shares if we believe a company's shares (equity) present a more attractive investment opportunity relative to its bonds. We didn't make any significant changes to our equities exposure, which ended at around 4.5%.

One of the key drivers of the fund's performance is the ability to reduce or increase the portfolio's sensitivity to changes in bond yields, otherwise known as 'duration'. (Bond yields refer to the interest received from a fixed income security, which is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. Bond yields typically move in the opposite direction to bond prices.) The longer the duration, the more sensitive a bond/bond fund is to movements in interest rates. We maintained the fund's short duration during the entire period, as we believe that interest rates will likely rise further in the medium term. At the end of September 2018, the fund's duration stood at 2.2 years.

Outlook

From a macroeconomic perspective, we believe the global economic recovery remains on track. In the US, consumer confidence is at its highest level since the financial crisis, while a healthy labour market is expected to drive further wage growth over the coming months. Various key economic indicators look especially encouraging, with the recent surge in the number of people changing jobs strongly indicative of a future rise in wages.

Europe is also an improving economic story, in our view: its growth outlook has brightened and, while we saw significant market reaction to Italian political uncertainty in May, overall political risk has receded. As the ECB slowly continues to reduce the amount of support it provides to bond markets, this may have an impact on bond prices.

While the current period of economic growth may appear long compared to historic standards, we believe we are witnessing an unusually elongated economic cycle and so this slow and steady expansion is likely to persist. As a result, we want to retain a large exposure to corporate bonds, while maintaining the fund's relative lack of sensitivity to changes in interest rates.

M&G Optimal Income Fund

Authorised Corporate Director's Report

Investment review

Outlook (continued)

We continue to monitor closely the possible impact on markets should the US Federal Reserve be forced to raise interest rates higher or faster than investors currently expect due to the rapid onset of inflation. The form of the UK's future relationship with the EU after its departure from the union is the other main potential challenge, as the clock ticks down towards the end of March 2019. The outcome will have a major impact on whether we find ourselves in a more stable, or more challenging, political environment in the next few years. At the same time, political newsflow – from the US in particular – may cause further volatility, as we have seen during the escalating trade tensions between the US and China.

Regardless of how these situations develop, what we do as fund managers does not change. We look at where we are in the interest rate cycle and the economic cycle, and we look at where we can find the most attractive opportunities for the fund from different sectors and individual issuers at any given stage.

Richard Woolnough

Fund manager

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

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

Investments

Portfolio statement

as at 30 September Holding	2018 £'000	2018 %	2017 %
EQUITIES	1,051,692	4.55	2.70
Oil & gas producers	5,654	0.02	0.01
119,586 Chaparral Energy 'A'	1,627	0.01	
28,922 Chaparral Energy 'B'	386	0.00	
769,577 Denbury Resources	3,641	0.01	
Oil equipment, services & distribution	256	0.00	0.00
19,536 Patterson-UTI Energy	256	0.00	
Chemicals	0	0.00	0.11
Mining	0	0.00	0.00
16,891,144 New World Resources ^[a]	0	0.00	
Support services	10,869	0.05	0.04
1,500,000 Babcock International Group	10,869	0.05	
Automobiles & parts	186,573	0.80	0.96
1,000,000 Bayerische Motoren Werke	69,049	0.30	
1,400,000 Daimler	68,034	0.29	
7,000,000 Ford Motor	49,490	0.21	
Tobacco	84,781	0.37	0.00
1,150,000 British American Tobacco	41,613	0.18	
1,600,000 Imperial Brands	43,168	0.19	

Portfolio statement (continued)

as at 30 September Holding	2018 £'000	2018 %	2017 %
Pharmaceuticals & biotechnology	135,784	0.59	0.65
1,200,000 Novartis (Regd.)	79,754	0.35	
300,000 Roche Holding 'Genussscheine'	56,030	0.24	
Media	0	0.00	0.36
Travel & leisure	9,432	0.04	0.00
1,931,124 Codere	9,432	0.04	
Fixed line telecommunications	56,725	0.25	0.00
25,000,000 BT Group	56,725	0.25	
Electricity	45,940	0.20	0.25
4,000,000 SSE	45,940	0.20	
Banks	387,864	1.68	0.23
12,000,000 Banco Santander	46,134	0.20	
9,000,000 BBVA	43,680	0.19	
1,500,000 BNP Paribas	70,016	0.30	
16,000,000 Intesa Sanpaolo	31,758	0.14	
100,000,000 Lloyds Banking Group	59,420	0.26	
15,000,000 Royal Bank of Scotland	37,140	0.16	
2,100,000 Société Générale	68,333	0.29	
2,750,000 UniCredit	31,383	0.14	
Non-life insurance	123,041	0.53	0.00
3,750,000 AXA	76,248	0.33	
275,000 Münchener Rückversicherungs	46,793	0.20	
Technology hardware & equipment	0	0.00	0.06
Non-convertible preference shares	4,773	0.02	0.03
3,700,000 Standard Chartered 8.25% Preference shares	4,773	0.02	
FIXED INCOME	21,439,092	92.83	93.39
Debt securities	21,267,099	92.08	93.01
'AAA' credit rated bonds	2,931,617	12.69	20.80
£407,651 Alba FRN 2042	390	0.00	
£1,189,346 Alba FRN 2049	1,194	0.01	
£20,000,000 Barclays Bank FRN 2023	19,980	0.09	
£4,878,790 Broadgate Financing FRN 2032	4,878	0.02	
£11,828,000 Delamare Cards FRN 2022	11,783	0.05	
£5,096,303 Dukinfield FRN 2052	5,145	0.02	
£10,000,000 European Bank for Reconstruction and Development 5.625% 2028	13,459	0.06	
£40,000,000 European Investment Bank 0.875% 2023	38,827	0.17	
£50,000,000 European Investment Bank 1% 2026	47,452	0.21	
£45,000,000 European Investment Bank 1.375% 2025	44,429	0.19	
£30,000,000 European Investment Bank 2.5% 2022	31,400	0.14	
£20,000,000 European Investment Bank 4.5% 2029	25,047	0.11	
£60,000,000 European Investment Bank 5.5% 2025	74,446	0.32	
£2,131,977 First Flexible No. 5 FRN 2034	2,119	0.01	
€200,000,000 Germany (Federal Republic of) 0% 2020	179,183	0.78	
€200,000,000 Germany (Federal Republic of) 0.25% 2019	179,167	0.78	
€350,000,000 Germany (Federal Republic of) 0.5% 2019	312,635	1.35	
€225,000,000 Germany (Federal Republic of) 0.5% 2028	201,665	0.87	
€350,000,000 Germany (Federal Republic of) 1% 2019	312,834	1.35	
€10,135,000 Harvest CLO FRN 2031	8,933	0.04	
£27,158,470 Hawksmoor Mortgages FRN 2053	27,303	0.12	
£5,641,000 Holmes Master Issuer FRN 2054	5,594	0.02	
€60,000,000 Johnson & Johnson 0.25% 2022	53,526	0.23	
\$50,000,000 Johnson & Johnson 2.45% 2026	35,844	0.16	
€1,000,000 Jubilee CLO 2014-XI FRN 2030	888	0.00	
£50,000,000 KfW 0.875% 2022	49,346	0.21	

M&G Optimal Income Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 30 September	2018	2018	2017
Holding	£'000	%	%
'AAA' credit rated bonds (continued)			
£35,000,000 KfW 1% 2022	34,494	0.15	
£50,000,000 KfW 1.125% 2019	50,119	0.22	
\$50,000,000 KfW 2% 2022	36,799	0.16	
\$25,000,000 KfW 2.125% 2022	18,598	0.08	
\$25,000,000 KfW 2.125% 2023	18,436	0.08	
£50,000,000 KfW 5.5% 2025	62,490	0.27	
£30,000,000 KfW 6% 2028	41,777	0.18	
£3,837,680 Lanark Master Issuer FRN 2054	3,845	0.02	
£13,429,000 Lanark Master Issuer FRN 2069	13,380	0.06	
€5,000,000 Microsoft 2.125% 2021	4,705	0.02	
\$25,000,000 Microsoft 2.4% 2026	17,684	0.08	
\$30,000,000 Microsoft 2.875% 2024	22,483	0.10	
\$225,000,000 Microsoft 3.3% 2027	169,450	0.73	
\$100,000,000 Microsoft 3.45% 2036	72,931	0.32	
\$20,000,000 Microsoft 3.5% 2035	14,745	0.06	
\$128,518,000 Microsoft 3.95% 2056	96,588	0.42	
\$117,858,000 Microsoft 4% 2055	89,283	0.39	
\$51,668,000 Microsoft 4.1% 2037	40,911	0.18	
\$15,000,000 Microsoft 4.5% 2040	12,416	0.05	
\$100,000,000 Microsoft 4.5% 2057	83,245	0.36	
\$100,000,000 Microsoft 4.75% 2055	86,311	0.37	
£7,961,873 Moorgate Funding FRN 2050	7,954	0.03	
£8,925,000 NewDay Partnership Funding FRN 2025	8,957	0.04	
\$10,000,000 OFSI Fund FRN 2031	7,630	0.03	
£651,864 Paragon Mortgages No.11 FRN 2041 A2A	627	0.00	
£3,430,864 Paragon Mortgages No.11 FRN 2041 A2B	2,931	0.01	
£9,857,779 Paragon Mortgages No.12 FRN 2038	8,417	0.04	
\$12,189,858 Paragon Mortgages No.14 FRN 2039	8,966	0.04	
€5,315,008 Paragon Mortgages No.15 FRN 2039 A2B	4,568	0.02	
\$4,475,139 Paragon Mortgages No.15 FRN 2039 A2C	3,288	0.01	
£11,959,000 Penarth Master Issuer FRN 2022	11,968	0.05	
£12,766,000 Penarth Master Issuer FRN 2025	12,727	0.06	
£358,030 Precise Mortgage Funding FRN 2047 1A	358	0.00	
£1,355,052 Precise Mortgage Funding FRN 2047 2A	1,356	0.01	
£962,739 Precise Mortgage Funding FRN 2048	963	0.00	
£837,986 Residential Mortgage Securities No.26 FRN 2041	847	0.00	
£3,612,350 Residential Mortgage Securities No. 28 FRN 2046	3,630	0.02	
£3,178,459 Residential Mortgage Securities No.29 FRN 2046	3,187	0.01	
£8,915,842 Residential Mortgage Securities No.30 FRN 2050	8,893	0.04	
£25,900,471 Ripon Mortgages FRN 2056	25,842	0.11	
£10,000,000 Santander UK 5.125% 2021	10,925	0.05	
£40,000,000 Santander UK 5.25% 2029	51,064	0.22	
£14,831,000 Santander UK FRN 2022	14,812	0.06	
£13,607,146 Slate FRN 2052	13,650	0.06	
£5,019,987 THRONES 2014-1 FRN 2049	5,022	0.02	
£7,978,241 Towd Point Mortgage Funding FRN 2045	7,994	0.03	
£6,564,639 Trinity Square FRN 2051	6,611	0.03	

Portfolio statement (continued)

as at 30 September	2018	2018	2017
Holding	£'000	%	%
'AAA' credit rated bonds (continued)			
£4,819,819 Warwick Finance Residential Mortgage FRN 2049 1A	4,834	0.02	
£15,277,053 Warwick Finance Residential Mortgage FRN 2049 2A	15,439	0.07	
'AA' credit rated bonds			
	4,718,891	20.43	9.71
£2,079,927 Alba FRN 2037	1,951	0.01	
\$25,000,000 Alphabet 1.998% 2026	17,270	0.08	
\$25,000,000 Apple 2.45% 2026	17,667	0.08	
\$45,000,000 Apple 2.5% 2025	32,571	0.14	
\$60,000,000 Apple 2.9% 2027	43,301	0.19	
£15,000,000 Apple 3.05% 2029	16,088	0.07	
\$24,000,000 Apple 3.2% 2027	17,773	0.08	
\$25,000,000 Apple 3.25% 2026	18,734	0.08	
\$50,000,000 Apple 3.35% 2027	37,494	0.16	
€14,549,421 AyT Hipotecario Mixto FRN 2041	12,661	0.06	
€14,634,000 Colgate-Palmolive FRN 2019	13,017	0.06	
£22,500,000 Deutsche Bahn Finance 1.375% 2025	21,874	0.09	
€8,071,000 Deutsche Bahn Finance 1.625% 2033	7,197	0.03	
£20,000,000 Deutsche Bahn Finance 3.125% 2026	21,728	0.09	
€15,301,000 Deutsche Bahn Finance FRN 2023	13,774	0.06	
£1,104,112 Eurosail-UK FRN 2045	1,083	0.00	
\$50,000,000 Exxon Mobil 2.709% 2025	36,674	0.16	
€200,000,000 France (Govt. of) 0% 2020	178,888	0.77	
€150,000,000 France (Govt. of) 0% 2022	134,118	0.58	
€200,000,000 France (Govt. of) 0.01% 2021	179,190	0.78	
€150,000,000 France (Govt. of) 0.01% 2023	133,307	0.58	
€100,000,000 France (Govt. of) 0.75% 2028	88,954	0.39	
€200,000,000 France (Govt. of) 1% 2027	183,625	0.80	
€50,000,000 France (Govt. of) 1.5% 2031	47,057	0.20	
€100,000,000 France (Govt. of) 1.75% 2023	96,091	0.42	
€100,000,000 France (Govt. of) 2% 2048	96,131	0.42	
€100,000,000 France (Govt. of) 2.25% 2024	99,292	0.43	
£25,000,000 Land Securities Capital Markets 2.375% 2029	24,981	0.11	
£8,858,000 Land Securities Capital Markets 2.399% 2031	8,786	0.04	
£10,000,000 Land Securities Capital Markets Var. Rate 2026 (1.974%)	9,957	0.04	
£15,000,000 Land Securities Capital Markets Var. Rate 2039 (2.625%)	14,438	0.06	
€3,880,000 Paragon Mortgages No.10 FRN 2041 A2B	3,314	0.01	
£170,993 Paragon Mortgages No.10 FRN 2041 B1A	166	0.00	
£1,188,822 Paragon Mortgages No.11 FRN 2041 BA	1,143	0.00	
€976,445 Paragon Mortgages No.11 FRN 2041 BB	832	0.00	
€8,815,328 Paragon Mortgages No.13 FRN 2039 A2B	7,405	0.03	
\$6,855,201 Paragon Mortgages No.13 FRN 2041 A2C	4,946	0.02	
€1,000,000 Paragon Mortgages No.15 FRN 2039 B1B	819	0.00	
€20,000,000 Procter & Gamble 2% 2021	18,810	0.08	
£2,530,000 Province of Quebec 12.25% 2020	2,897	0.01	
£30,000,000 Réseau Ferré de France 5.25% 2028	38,631	0.17	
£40,000,000 Réseau Ferré de France 5.5% 2021	45,042	0.20	
£2,500,000 Slate No.1 FRN 2051	2,517	0.01	
£20,326,000 Slate No.1 FRN 2051 B	20,416	0.09	
£5,000,000 SLM Student Loan Trust 5.15% 2039	4,733	0.02	
£11,000,000 SNCF Mobilités (formerly SNCF) 5.375% 2027	13,770	0.06	
£14,441,000 Towd Point Mortgage Funding FRN 2046	14,493	0.06	
£250,000,000 Treasury 1.75% 2019	251,947	1.09	

M&G Optimal Income Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 30 September Holding	2018 £'000	2018 %	2017 %
'AA' credit rated bonds (continued)			
£250,000,000 Treasury 3.75% 2019	256,902	1.11	
£5,000,000 Trinity Square FRN 2051	5,021	0.02	
\$500,000,000 US Treasury 0.625% IL 2023	384,017	1.66	
\$300,000,000 US Treasury 2.125% 2021	225,317	0.98	
\$300,000,000 US Treasury 2.125% 2024	219,746	0.95	
\$300,000,000 US Treasury 2.125% 2025	218,146	0.94	
\$300,000,000 US Treasury 2.25% 2023	222,280	0.96	
\$300,000,000 US Treasury 2.25% 2024	220,752	0.96	
\$300,000,000 US Treasury 2.375% 2024	222,729	0.96	
\$300,000,000 US Treasury 2.5% 2024	224,598	0.97	
\$300,000,000 US Treasury 2.75% 2023	228,013	0.99	
\$300,000,000 US Treasury 2.75% 2024	227,815	0.99	
£6,000,000 Warwick Finance Residential Mortgage FRN 2049 1B	6,002	0.03	
	1,860,309	8.05	5.78
'A' credit rated bonds			
€10,000,000 ABN AMRO Bank Var. Rate Perp. (4.75%)	8,588	0.04	
£6,402,900 Alba FRN 2038	6,128	0.03	
£673,606 Alba FRN 2042	627	0.00	
€15,000,000 Allianz Var. Rate Perp. (3.375%)	14,069	0.06	
€10,000,000 Allianz Var. Rate Perp. (4.75%)	10,012	0.04	
\$20,000,000 Altria 4% 2024	15,527	0.07	
€10,000,000 América Móvil 0% 2020	8,740	0.04	
£10,000,000 América Móvil 5.75% 2030	12,565	0.05	
£28,000,000 Anheuser-Busch Inbev 2.85% 2037	26,348	0.11	
£60,000,000 Anheuser-Busch Inbev 6% 2029	56,687	0.25	
€3,500,000 Aon 2.875% 2026	3,344	0.01	
\$10,000,000 Banco Santander 3.8% 2028	6,982	0.03	
€18,000,000 Banco Santander Var. Rate Perp. (5.25%)	15,768	0.07	
€30,000,000 Banco Santander Var. Rate Perp. (6.25%)	26,798	0.12	
\$5,000,000 Banco Santander Var. Rate Perp. (6.375%)	3,795	0.02	
€15,000,000 Banco Santander Var. Rate Perp. (6.75%)	14,346	0.06	
£19,668,000 Bank of America 2.3% 2025	19,301	0.08	
£10,000,000 Bank of America 4.25% 2026	11,068	0.05	
£30,000,000 Bank of America 7% 2028	40,360	0.17	
€30,000,000 Bank of America FRN 2023	26,798	0.12	
\$30,000,000 Bank of America FRN 2026	22,600	0.10	
\$25,000,000 Bank of America Var. Rate 2026 (3.366%)	18,447	0.08	
\$42,858,000 Bank of America Var. Rate 2028 (3.705%)	31,573	0.14	
\$50,000,000 Bank of America Var. Rate 2028 (3.824%)	37,286	0.16	
\$20,000,000 Bank of America Var. Rate 2029 (3.97%)	14,943	0.06	
£16,200,000 Banque Federative du Credit Mutuel 1.375% 2021	15,997	0.07	
£7,900,000 Banque Federative du Credit Mutuel FRN 2019	7,898	0.03	
€15,000,000 BBVA (formerly Banco Bilbao Vizcaya Argentaria) Var. Rate Perp. (7%)	13,558	0.06	
€23,000,000 BBVA Var. Rate Perp. (6.75%)	21,242	0.09	
€7,800,000 Belfius Bank Var. Rate 2028 (1.625%)	6,760	0.03	
\$60,000,000 BNP Paribas 3.5% 2027	42,457	0.18	
\$20,000,000 BNP Paribas 3.8% 2024	15,010	0.06	
€15,000,000 BNP Paribas FRN 2024	13,311	0.06	

Portfolio statement (continued)

as at 30 September Holding	2018 £'000	2018 %	2017 %
'A' credit rated bonds (continued)			
€2,309 Brunel Residential Mortgages No.1 FRN 2039	2	0.00	
£20,000,000 Canadian Imperial Bank of Commerce FRN 2022	20,115	0.09	
€8,000,000 Chubb 1.55% 2028	7,081	0.03	
€12,157,000 CK Hutchison Europe Finance 18 1.25% 2025	10,646	0.05	
\$13,893,000 Cloverie Var. Rate 2046 (5.625%)	10,936	0.05	
\$10,000,000 CNOOC Finance (2015) USA 3.75% 2023	7,605	0.03	
\$10,000,000 CNOOC Finance (2015) USA 4.375% 2028	7,738	0.03	
£5,000,000 Comcast 5.5% 2029	6,190	0.03	
\$5,783,000 Comcast Cable Communication 8.5% 2027	5,682	0.02	
£30,000,000 Crédit Agricole Var. Rate Perp. (7.5%)	33,062	0.14	
€20,000,000 Deutsche Pfandbriefbank 1% 2020	19,824	0.09	
£40,000,000 EDF 6% 2114	51,256	0.22	
€9,995,000 ELM Var. Rate Perp. (2.6%)	9,057	0.04	
£6,300,000 ELM Var. Rate Perp. (6.3024%)	6,403	0.03	
€4,681,565 E-MAC Program FRN 2046	3,995	0.02	
€23,730,000 ENGIE 5.95% 2111	36,152	0.16	
\$40,000,000 Eni 4.75% 2028	30,464	0.13	
£122,867 General Electric Capital 6.44% 2022	133	0.00	
€3,120,798 Great Hall Mortgages No.1 FRN 2038	2,730	0.01	
\$7,078,186 Great Hall Mortgages No.1 FRN 2039	5,301	0.02	
\$9,881,000 Halfmoon Parent 4.125% 2025	7,553	0.03	
\$8,771,000 Halfmoon Parent 4.375% 2028	6,704	0.03	
\$11,260,000 Halfmoon Parent 4.8% 2038	8,653	0.04	
\$7,000,000 Halfmoon Parent 4.9% 2048	5,364	0.02	
£8,000,000 Heathrow Funding 2.75% 2051	7,027	0.03	
£10,000,000 Heathrow Funding 6.45% 2031	13,653	0.06	
£44,600,000 Heathrow Funding 6.75% 2028	57,927	0.25	
£6,000,000 Heathrow Funding Var. Rate 2030 (7.075%)	8,123	0.04	
£9,000,000 HSBC Bank 5.375% 2033	10,750	0.05	
£8,756,000 HSBC Bank Var. Rate 2030 (5.375%)	9,986	0.04	
£24,000,000 HSBC Holdings 2.625% 2028	23,005	0.10	
£40,000,000 HSBC Holdings Var. Rate 2026 (2.256%)	38,131	0.17	
\$39,800,000 HSBC Holdings Var. Rate 2028 (4.041%)	29,542	0.13	
\$25,000,000 HSBC Holdings Var. Rate 2029 (4.5830%)	19,174	0.08	
€20,000,000 HSBC Holdings Var. Rate Perp. (4.75%)	17,305	0.07	
€25,000,000 HSBC Holdings Var. Rate Perp. (5.25%)	23,417	0.10	
\$40,000,000 HSBC Holdings Var. Rate Perp. (6%)	29,216	0.13	
\$4,250,000 HSBC USA 9.125% 2021	3,653	0.02	
£5,500,000 INTU Finance 4.625% 2028	6,017	0.03	
£14,000,000 INTU Metrocentre Finance (formerly INTU Finance) 4.125% 2028	14,833	0.06	
\$30,000,000 Japan Finance Organization for Municipalities 2% 2022	21,876	0.09	
\$25,000,000 JPMorgan Chase Var. Rate 2025 (3.22%)	18,547	0.08	
\$20,000,000 JPMorgan Chase Var. Rate 2028 (3.54%)	14,613	0.06	
€30,000,000 JPMorgan Chase Var. Rate 2029 (1.812%)	26,802	0.12	
\$30,000,000 JPMorgan Chase Var. Rate 2029 (4.005%)	22,591	0.10	

M&G Optimal Income Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)				
as at 30 September	2018	2018	2017	
Holding	£'000	%	%	
'A' credit rated bonds (continued)				
£228,375 Landmark Mortgage Securities FRN 2038	223	0.00		
£1,382,729 Landmark Mortgage Securities FRN 2039	1,318	0.01		
£8,404,889 Landmark Mortgage Securities FRN 2044	8,037	0.03		
\$8,000,000 Legrande France 8.5% 2025	7,484	0.03		
\$20,000,000 Lincoln National 3.8% 2028	14,757	0.06		
£1,000,000 Lloyds Bank (formerly Cheltenham & Gloucester) 11.75% Perp.	2,140	0.01		
£10,000,000 Lloyds Bank 4.875% 2027	12,157	0.05		
£25,000,000 Lloyds Bank 5.125% 2025	29,869	0.13		
£15,000,000 Lloyds Bank 6% 2029	20,153	0.09		
£8,673,000 London & Quadrant Housing Trust 2.625% 2028	8,584	0.04		
£14,421,000 London & Quadrant Housing Trust 3.125% 2053	13,894	0.06		
£9,974,394 Ludgate Funding FRN 2061	9,458	0.04		
£4,371,347 Mansard Mortgages FRN 2049	4,310	0.02		
€838,052 Marble Arch Residential Securitisation No.4 FRN 2040 B1A	739	0.00		
£3,052,070 Mitchells & Butlers Finance 5.574% 2030	3,448	0.01		
\$10,935,119 Mitchells & Butlers Finance FRN 2030	7,743	0.03		
£1,862,391 Mitchells & Butlers Finance FRN 2030 A1N	1,732	0.01		
£4,000,000 National Grid Electricity Transmission 3.806% IL 2020	7,039	0.03		
£10,000,000 National Westminster Bank (formerly Royal Bank of Scotland) FRN 2020	10,014	0.04		
£255,103 Newgate Funding FRN 2050 A2	255	0.00		
£12,000,000 Newgate Funding FRN 2050 A3	11,319	0.05		
£4,625,179 Newgate Funding FRN 2050 A3A	4,448	0.02		
£1,283,707 Newgate Funding FRN 2050 A4	1,235	0.01		
£6,116,000 Notting Hill Housing Trust 3.25% 2048	5,865	0.03		
€8,000,000 Paragon Mortgages No.13 FRN 2039	6,653	0.03		
£2,677,000 Penarian Housing Finance 3.212% 2052	2,558	0.01		
€5,000,000 Rabobank Var. Rate Perp. (6.625%)	4,925	0.02		
£9,946,261 RMAC 2003-Ns4 FRN 2044	9,492	0.04		
£2,243,900 RMAC 2006-Ns1 FRN 2044 A2A R	2,160	0.01		
€1,815,048 RMAC 2006-Ns2 FRN 2044 A2C	1,542	0.01		
£23,932,222 RMAC 2006-Ns4 FRN 2044 A3A	22,802	0.10		
€1,296,467 RMAC 2006-Ns4 FRN 2044 A3A M1C	1,078	0.00		
\$5,000,000 Security Capital Group 7.7% 2028	4,565	0.02		
€10,000,000 Société Générale Var. Rate Perp. (6.75%)	9,562	0.04		
£5,776,000 Society of Lloyd's Var. Rate 2047 (4.875%)	5,882	0.03		
\$19,523,810 Start 4.089% 2043	14,912	0.06		
£9,153,000 T.H.F.C. No.3 Funding 5.2% 2045	11,907	0.05		
€50,000,000 Total Var. Rate Perp. (3.369%)	46,468	0.20		
€15,120,000 UBS Group Funding (Switzerland) (formerly UBS) FRN 2022	13,487	0.06		
\$25,000,000 UBS Group Funding (Switzerland) 4.125% 2025	19,045	0.08		
€16,196,000 UBS Group Funding (Switzerland) Var. Rate 2025 (1.25%)	14,333	0.06		

Portfolio statement (continued)

as at 30 September	2018	2018	2017
Holding	£'000	%	%
'A' credit rated bonds (continued)			
£6,000,000 UNITE (USAF) II 3.374% 2023	6,353	0.03	
£2,303,000 UNITE (USAF) II 3.921% 2030	2,526	0.01	
£16,266,000 United Utilities Water Finance 2% 2025	16,063	0.07	
€12,758,000 US Bancorp 0.85% 2024	11,258	0.05	
£16,000,000 Wells Fargo (formerly Wells Fargo & Company) 2% 2025	15,238	0.07	
£5,000,000 Wells Fargo (formerly Wells Fargo & Company) 2.125% 2023	4,946	0.02	
£10,000,000 Wells Fargo 3.5% 2029	10,447	0.05	
\$25,000,000 Wells Fargo 3.55% 2025	18,623	0.08	
£50,000,000 Wells Fargo Bank (formerly Wells Fargo & Company) 5.25% 2023	55,978	0.24	
\$25,000,000 Wells Fargo Var. Rate 2028 (3.584%)	18,359	0.08	
£14,000,000 Westfield America 2.125% 2025	13,702	0.06	
\$2,000,000 Willow No.2 (Ireland) Var. Rate 2045 (4.25%)	1,457	0.01	
	8,474,329	36.69	40.36
'BBB' credit rated bonds			
£20,000,000 3i Group 5.75% 2032	24,779	0.11	
£16,000,000 3i Group 6.875% 2023	18,954	0.08	
£20,000,000 AA Bond Company 4.875% 2043	20,028	0.09	
\$19,600,000 ABN AMRO Bank Var. Rate 2028 (4.4%)	14,750	0.06	
£4,965,000 Akelius Residential Property 2.375% 2025	4,746	0.02	
€20,000,000 Altea 2.25% 2024	17,799	0.08	
\$5,000,000 Andeavor Logistics 4.25% 2027	3,752	0.02	
£3,667,000 Anglian Water Services 2.625% 2027	3,458	0.01	
£10,000,000 Anglian Water Services 4.5% 2026	10,812	0.05	
\$39,143,000 Anglo American Capital 4.5% 2028	28,634	0.12	
£5,943,000 Annington Funding 2.646% 2025	5,865	0.03	
£7,778,000 Annington Funding 3.184% 2029	7,689	0.03	
£7,406,000 Annington Funding 3.685% 2034	7,474	0.03	
£5,624,000 Annington Funding 3.935% 2047	5,733	0.02	
£2,000,000 APT Pipelines 4.25% 2024	2,176	0.01	
\$2,000,000 Argentum Netherlands (formerly Demeter Investments) Var. Rate 2050 (5.75%)	1,550	0.01	
€8,340,000 Arion Bank 0.75% 2020	7,442	0.03	
£17,490,000 Arion Bank 1% 2023	15,188	0.07	
£11,000,000 Arountown Property 3% 2029	10,341	0.04	
€10,000,000 AT&T 3.15% 2036	8,921	0.04	
£46,650,000 AT&T 4.25% 2043	48,330	0.21	
\$50,000,000 AT&T 4.35% 2045	32,994	0.14	
£49,000,000 AT&T 4.375% 2029	53,028	0.23	
\$100,000,000 AT&T 4.5% 2048	67,496	0.29	
\$110,000,000 AT&T 4.55% 2049	74,493	0.32	
\$35,000,000 AT&T 4.8% 2044	24,786	0.11	
€60,000,000 AT&T 4.875% 2044	67,936	0.29	
\$35,000,000 AT&T 4.9% 2037	25,635	0.11	
\$25,000,000 AT&T 5.15% 2042	18,502	0.08	
\$10,000,000 AT&T 5.15% 2046	7,349	0.03	
£19,500,000 AT&T 5.2% 2033	22,885	0.10	
\$75,000,000 AT&T 5.25% 2037	57,438	0.25	
\$21,000,000 AT&T 5.3% 2058	15,095	0.07	
\$25,000,000 AT&T 5.35% 2040	19,003	0.08	
\$40,000,000 AT&T 5.45% 2047	30,791	0.13	
\$25,000,000 AT&T 5.65% 2047	19,799	0.09	
\$30,000,000 AT&T 5.7% 2057	23,391	0.10	
\$7,500,000 AT&T 6.35% 2040	6,370	0.03	
\$13,000,000 AT&T 6.375% 2041	11,002	0.05	
£8,500,000 AT&T 7% 2040	12,139	0.05	
£50,000,000 Aviva Var. Rate 2036 (6.125%)	54,641	0.24	
£12,096,000 Aviva Var. Rate 2044 (3.875%)	11,338	0.05	

M&G Optimal Income Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)

as at 30 September Holding	2018 £'000	2018 %	2017 %
'BBB' credit rated bonds (continued)			
£15,000,000 Aviva Var. Rate 2049 (4.375%)	14,135	0.06	
£30,685,000 Aviva Var. Rate 2050 (5.125%)	30,297	0.13	
£55,000,000 Aviva Var. Rate 2058 (6.875%)	64,497	0.28	
\$18,000,000 AXA Var. Rate 2047 (5.125%)	13,489	0.06	
£44,000,000 AXA Var. Rate 2054 (5.625%)	46,336	0.20	
€10,000,000 AXA Var. Rate Perp. (3.875%)	9,298	0.04	
£18,775,000 AXA Var. Rate Perp. (6.6862%)	21,378	0.09	
€12,200,000 Banco De Sabadell 0.875% 2023	10,592	0.05	
€19,600,000 Banco De Sabadell 1.625% 2024	17,322	0.07	
€28,000,000 Banco Sabadell Var. Rate Perp. (6.5%)	25,063	0.11	
€10,000,000 Banco Santander (formerly Santander Issuances) 3.125% 2027	9,154	0.04	
\$15,000,000 Bank of America 4% 2025	11,320	0.05	
\$110,000,000 Bank of America 4.183% 2027	82,414	0.36	
\$40,000,000 Bank of America 4.2% 2024	30,713	0.13	
\$93,334,000 Bank of America 4.25% 2026	70,586	0.31	
\$25,000,000 Bank of America 4.45% 2026	19,191	0.08	
£16,500,000 Bank of America 5.5% 2021	18,152	0.08	
£12,500,000 Bank of America 8.125% 2028	17,099	0.07	
\$482,000 Bank of America Var. Rate Perp. (6.3%)	396	0.00	
£15,000,000 Bank of Scotland 9.375% 2021	17,622	0.08	
£15,000,000 Barclays 3.125% 2024	14,920	0.06	
£48,314,000 Barclays 3.25% 2033	43,741	0.19	
£17,097,000 Barclays Var. Rate 2023 (2.375%)	16,740	0.07	
\$4,750,000 Basell Finance 8.1% 2027	4,449	0.02	
£20,000,000 BAT Capital 2.125% 2025	19,234	0.08	
\$30,000,000 BAT Capital 4.39% 2037	21,443	0.09	
£35,000,000 BAT International Finance 2.25% 2052	25,466	0.11	
£30,000,000 BAT International Finance 4% 2026	32,302	0.14	
£18,000,000 BAT International Finance 4% 2055	18,884	0.08	
€11,100,000 Bayer Capital 1.5% 2026	9,832	0.04	
€8,700,000 Bayer Capital 2.125% 2029	7,783	0.03	
€9,300,000 Bayer Capital FRN 2022	8,285	0.04	
\$20,000,000 Bayer US Finance 3.375% 2024	14,619	0.06	
\$20,000,000 Bayer US Finance 3.875% 2023	15,231	0.07	
\$30,000,000 Bayer US Finance 4.25% 2025	22,856	0.10	
\$30,000,000 Bayer US Finance 4.375% 2028	22,535	0.10	
\$30,000,000 Bayer US Finance 4.625% 2038	22,068	0.10	
\$28,000,000 Bayer US Finance 4.7% 2064	18,342	0.08	
\$45,000,000 Bayer US Finance 4.875% 2048	33,497	0.15	
\$20,571,000 BNP Paribas 4.375% 2025	15,468	0.07	
\$15,000,000 BNP Paribas 4.375% 2026	11,224	0.05	
\$90,000,000 BNP Paribas 4.625% 2027	68,161	0.30	
£3,500,000 Bouygues 5.5% 2026	4,173	0.02	
€9,900,000 BPCE 1.375% 2026	8,603	0.04	
\$14,500,000 BPCE 3.5% 2027	10,137	0.04	
£27,000,000 BPCE 5.25% 2029	30,663	0.13	
£10,345,000 British Telecommunications 3.125% 2031	10,045	0.04	
\$49,655,000 British Telecommunications Var. Rate 2030 (9.625%)	53,925	0.23	
£6,780,000 Bunzl Finance 2.25% 2025	6,607	0.03	
£26,911,000 Cadent Finance 2.125% 2028 (formerly National Grid 2.125% 2028)	25,104	0.11	
€8,600,000 CaixaBank 1.125% 2023	7,535	0.03	

Portfolio statement (continued)

as at 30 September Holding	2018 £'000	2018 %	2017 %
'BBB' credit rated bonds (continued)			
\$25,000,000 Capital One Financial 4.2% 2025	18,662	0.08	
\$10,500,000 CBS 4.85% 2042	7,838	0.03	
\$3,000,000 CBS 5.9% 2040	2,550	0.01	
£3,667,000 Channel Link Enterprises Finance 3.848% 2050	3,832	0.02	
€20,000,000 Channel Link Enterprises Finance Var. Rate 2050 (1.761%)	17,873	0.08	
€15,000,000 Channel Link Enterprises Finance Var. Rate 2050 (2.706%)	13,561	0.06	
£10,000,000 Channel Link Enterprises Finance Var. Rate 2050 (3.043%)	9,788	0.04	
\$20,000,000 Charter Communications Operating 3.75% 2028	14,142	0.06	
\$20,000,000 Citigroup 3.5% 2023	15,071	0.07	
\$10,000,000 Citigroup 4% 2024	7,602	0.03	
\$35,000,000 Citigroup 4.125% 2028	25,914	0.11	
\$35,000,000 Citigroup 4.3% 2026	26,437	0.11	
\$32,006,000 Citigroup 4.4% 2025	24,504	0.11	
\$120,000,000 Citigroup 4.45% 2027	90,858	0.39	
£15,000,000 Citigroup 4.5% 2031	16,327	0.07	
\$65,000,000 Citigroup 4.6% 2026	50,107	0.22	
£7,000,000 Citigroup 5.15% 2026	8,135	0.04	
\$14,955,000 Citigroup 5.5% 2025	12,174	0.05	
\$5,000,000 Citigroup 6.625% 2032	4,454	0.02	
\$15,000,000 Citigroup FRN 2024	11,530	0.05	
€20,000,000 Citigroup FRN 2026	17,676	0.08	
\$70,000,000 Colombia (Republic of) 5% 2045	53,763	0.23	
€10,000,000 Commerzbank 1.875% 2028	8,642	0.04	
€2,500,000 Commerzbank 4% 2026	2,395	0.01	
\$12,000,000 Commerzbank 8.125% 2023	10,474	0.05	
€13,091,000 Commonwealth Bank of Australia (formerly Australia (Commonwealth of)) Var. Rate 2029 (1.936%)	11,427	0.05	
\$45,000,000 Crédit Agricole 4.125% 2027	33,382	0.14	
\$15,000,000 Crédit Agricole 4.375% 2025	11,256	0.05	
\$18,000,000 Crédit Agricole Var. Rate 2033 (4%)	12,827	0.06	
€6,000,000 Crédit Agricole Var. Rate 2048 (4.75%)	5,837	0.03	
€6,000,000 Credit Suisse Group Funding 2.750% 2025 (formerly CS Group Funding)	5,911	0.03	
£30,000,000 Credit Suisse Group Var. Rate 2025 (2.125%)	28,579	0.12	
€6,758,000 CRH Finance (U.K.) 4.125% 2029	7,494	0.03	
\$19,753,000 CVS Health 4.3% 2028	15,019	0.07	
\$29,629,000 CVS Health 4.78% 2038	22,710	0.10	
\$40,000,000 Deutsche Telekom International Finance 3.6% 2027	29,074	0.13	
\$8,616,000 Deutsche Telekom International Finance 4.875% 2042	6,637	0.03	
\$85,000,000 Deutsche Telekom International Finance 8.75% 2030	86,615	0.37	
\$16,000,000 Deutsche Telekom International Finance 9.25% 2032	17,827	0.08	
£3,551,000 Digital Stout Holding 2.75% 2024	3,555	0.02	
£7,613,000 Digital Stout Holding 3.3% 2029	7,566	0.03	
£4,000,000 E.ON International Finance 5.875% 2037	5,336	0.02	
€10,000,000 Elenia Finance 2.875% 2020	9,376	0.04	
€3,091,000 ELM Var. Rate 2047 (3.375%)	2,786	0.01	
€8,800,000 ELM Var. Rate Perp. (4.5%)	8,360	0.04	
£2,000,000 Enel 5.75% 2037	2,455	0.01	
\$40,000,000 Enel Finance International 3.5% 2028	26,994	0.12	
\$152,238,000 Enel Finance International 3.625% 2027	105,524	0.46	

M&G Optimal Income Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 30 September Holding	2018 £'000	2018 %	2017 %
'BBB' credit rated bonds (continued)			
\$15,000,000 Enel Finance International 4.625% 2025	11,345	0.05	
\$4,750,000 Enel Var. Rate 2073 (8.75%)	3,988	0.02	
£9,000,000 Enel Var. Rate 2075 (7.75%)	9,787	0.04	
\$2,000,000 Energy Transfer Partners 4.9% 2035	1,445	0.01	
\$20,000,000 Energy Transfer Partners 5.15% 2045	14,587	0.06	
\$20,000,000 Energy Transfer Partners 5.3% 2047	14,923	0.06	
\$6,617,000 Energy Transfer Partners 5.8% 2038	5,283	0.02	
\$20,000,000 Energy Transfer Partners 6% 2048	16,348	0.07	
\$10,000,000 Energy Transfer Partners 6.125% 2045	8,133	0.04	
\$14,285,000 Energy Transfer Partners 6.5% 2042	12,031	0.05	
£12,000,000 ENGIE Var. Rate Perp. (4.625%)	12,076	0.05	
\$15,000,000 EQT Midstream Partners 4.75% 2023	11,656	0.05	
\$15,000,000 EQT Midstream Partners 5.5% 2028	11,802	0.05	
£12,456,000 Eversholt Funding 3.529% 2042	11,816	0.05	
€12,340,000 Fairfax Financial Holdings 2.75% 2028	11,021	0.05	
€11,483,000 Fastighets AB Balder 1.875% 2025	10,111	0.04	
€7,884,000 Fastighets AB Balder 1.875% 2026	6,846	0.03	
£500,872 First Flexible No.5 FRN 2034	504	0.00	
€5,000,000 FMC Finance 5.25% 2021	4,957	0.02	
\$3,700,000 Ford Motor 9.215% 2021	3,225	0.01	
\$20,000,000 Ford Motor Credit 4.389% 2026	14,591	0.06	
\$20,000,000 Fresenius Medical Care 5.75% 2021	16,003	0.07	
£30,000,000 Gatwick Funding 3.125% 2041	28,764	0.12	
£27,500,000 Gatwick Funding 3.25% 2048	26,568	0.12	
£3,000,000 Gatwick Funding 5.25% 2024	3,432	0.01	
£15,000,000 Gatwick Funding 6.125% 2028	18,428	0.08	
\$20,000,000 General Motors 4.2% 2017	14,451	0.06	
\$10,000,000 General Motors 5% 2035	7,141	0.03	
\$30,000,000 General Motors 5.15% 2038	21,441	0.09	
\$50,000,000 General Motors 5.2% 2045	34,951	0.15	
\$30,000,000 General Motors 5.4% 2048	21,458	0.09	
\$25,000,000 General Motors 6.6% 2036	20,469	0.09	
\$29,000,000 General Motors Financial 4% 2025	21,427	0.09	
\$10,000,000 General Motors Financial 4% 2026	7,203	0.03	
\$30,000,000 General Motors Financial 4.3% 2025	22,379	0.10	
\$30,000,000 General Motors Financial 4.35% 2027	22,017	0.10	
\$50,000,000 General Motors Financial 5.25% 2026	39,228	0.17	
£65,000,000 Goldman Sachs Group 3.125% 2029	63,682	0.28	
£17,500,000 Goldman Sachs Group 4.25% 2026	18,999	0.08	
£16,000,000 Goldman Sachs Group 6.875% 2038	22,005	0.10	
£14,000,000 Goldman Sachs Group 7.125% 2025	17,714	0.08	
£32,500,000 Goldman Sachs Group 7.25% 2028	43,403	0.19	
€10,000,000 Goldman Sachs Group FRN 2023	8,819	0.04	
£2,385,272 Greene King Finance 4.0643% 2035	2,508	0.01	
£7,670,400 Greene King Finance FRN 2033	7,577	0.03	
£11,000,000 H.J. Heinz Finance 6.25% 2030	13,515	0.06	
\$30,000,000 HCA 4.5% 2027	22,466	0.10	
\$14,273,000 HCA 4.75% 2023	11,106	0.05	
\$35,000,000 HCA 5% 2024	27,447	0.12	
\$23,077,000 HCA 5.25% 2025	18,199	0.08	
\$10,000,000 HCA 5.25% 2026	7,865	0.03	
\$75,000,000 HCA 5.5% 2047	57,770	0.25	
\$12,500,000 HCA 5.875% 2022	10,129	0.04	

Portfolio statement (continued)

as at 30 September Holding	2018 £'000	2018 %	2017 %
'BBB' credit rated bonds (continued)			
\$10,000,000 HCA 6.5% 2020	7,958	0.03	
\$15,000,000 HCP 3.4% 2025	10,889	0.05	
£10,000,000 Heathrow Funding 7.125% 2024	12,170	0.05	
\$10,000,000 HSBC Holdings 4.375% 2026	7,531	0.03	
£50,000,000 HSBC Holdings 6% 2040	62,156	0.27	
£40,000,000 HSBC Holdings 6.75% 2028	50,328	0.22	
£32,000,000 HSBC Holdings 7% 2038	43,979	0.19	
£10,000,000 Iberdrola Finanzas 6% 2022	11,456	0.05	
£35,000,000 Imperial Brands Finance 4.875% 2032	39,370	0.17	
€9,200,000 ING Groep Var. Rate 2029 (1.625%)	7,896	0.03	
€16,300,000 ING Groep Var. Rate 2030 (2%)	14,212	0.06	
£22,000,000 InterContinental Hotels 2.125% 2026	20,713	0.09	
\$10,000,000 Intesa Sanpaolo 5.25% 2024	7,588	0.03	
€7,000,000 Intesa Sanpaolo Var. Rate Perp. (4.75%)	6,227	0.03	
£15,462,000 Italy (Republic of) 5.25% 2034	17,208	0.07	
£85,000,000 Italy (Republic of) 6% 2028	99,025	0.43	
\$100,000,000 JPMorgan Chase 3.625% 2027	72,284	0.31	
\$110,000,000 JPMorgan Chase 3.875% 2024	83,318	0.36	
\$80,000,000 JPMorgan Chase 4.125% 2026	60,741	0.26	
\$100,000,000 JPMorgan Chase 4.25% 2027	76,095	0.33	
\$2,732,000 Keurig Dr Pepper 4.057% 2023	2,094	0.01	
\$3,268,000 Keurig Dr Pepper 4.417% 2025	2,516	0.01	
\$45,000,000 Kinder Morgan 5.05% 2046	34,344	0.15	
\$40,000,000 Kinder Morgan 5.55% 2045	32,499	0.14	
\$2,500,000 Kinder Morgan 7.75% 2032	2,387	0.01	
\$10,000,000 Kinder Morgan Energy Partners 4.7% 2042	7,164	0.03	
\$3,500,000 Kinder Morgan Energy Partners 5.8% 2035	2,892	0.01	
\$3,000,000 Kinder Morgan Energy Partners 6.95% 2038	2,772	0.01	
€9,500,000 KPN 5% 2026	10,840	0.05	
£20,000,000 KPN 5.75% 2029	24,334	0.11	
\$55,000,000 KPN 8.375% 2030	54,492	0.24	
€10,000,000 Kraft Heinz Foods 1.5% 2024	9,030	0.04	
€5,000,000 Kraft Heinz Foods 2% 2023	4,655	0.02	
€38,000,000 Kraft Heinz Foods 2.25% 2028	34,005	0.15	
£35,000,000 Kraft Heinz Foods 4.125% 2027	37,325	0.16	
£28,000,000 LafargeHolcim Sterling Finance (Netherlands) 3% 2032	25,855	0.11	
£55,000,000 Legal & General Group Var. Rate 2045 (5.375%)	58,293	0.25	
\$30,000,000 Legal & General Group Var. Rate 2047 (5.25%)	21,819	0.09	
£50,000,000 Legal & General Group Var. Rate 2064 (5.5%)	50,934	0.22	
£25,000,000 Lloyds Bank 7.625% 2025	31,564	0.14	
£27,000,000 Lloyds Bank 9.625% 2023	34,447	0.15	
€1,384,779 Ludgate Funding FRN 2061 BB	1,129	0.00	
€1,384,779 Ludgate Funding FRN 2061 CB	1,111	0.00	
€7,965,582 Lusitano Mortgages No.5 FRN 2059	6,646	0.03	
£750,000 Marston's Issuer Var. Rate 2027 (5.1576%)	737	0.00	
£2,000,000 Marston's Issuer Var. Rate 2032 (5.1774%)	2,156	0.01	
£9,000,000 McDonald's 5.875% 2032	11,725	0.05	
\$5,500,000 McDonald's 6.3% 2037	5,085	0.02	
\$12,000,000 McDonald's 6.3% 2038	11,116	0.05	
€75,000,000 Mexico (United Mexican States) 4% 2049	61,123	0.26	
\$10,000,000 Mexico (United Mexican States) 4.35% 2047	6,974	0.03	

M&G Optimal Income Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 30 September Holding	2018 £'000	2018 %	2017 %
'BBB' credit rated bonds (continued)			
\$10,000,000 Mexico (United Mexican States) 4.6% 2048	7,218	0.03	
£75,000,000 Mexico (United Mexican States) 5.625% 2114	77,063	0.33	
\$55,000,000 Mexico (United Mexican States) 5.75% 2110	42,767	0.19	
£1,454,000 Mitchells & Butlers Finance 5.965% 2025	1,579	0.01	
£2,559,808 Mitchells & Butlers Finance 6.013% 2030	2,914	0.01	
£10,000,000 Mitchells & Butlers Finance FRN 2033	8,506	0.04	
\$12,000,000 Mizuho Finance (Cayman) 4.6% 2024	9,244	0.04	
£10,000,000 Molson Coors Brewing 1.25% 2024	8,776	0.04	
\$25,000,000 Molson Coors Brewing 3% 2026	17,388	0.08	
\$40,000,000 Molson Coors Brewing 4.2% 2046	27,146	0.12	
£8,000,000 Mondelez International 3.875% 2045	8,133	0.04	
\$11,000,000 Mondelez International 4.125% 2028	8,355	0.04	
£1,750,000 Mondelez International 4.5% 2035	1,924	0.01	
€6,114,000 Mond Finance 1.625% 2026	5,400	0.02	
£65,833,000 Morgan Stanley 2.625% 2027	64,387	0.28	
\$5,209,000 Morgan Stanley 3.625% 2027	3,828	0.02	
\$25,000,000 Morgan Stanley 3.7% 2024	18,860	0.08	
\$100,000,000 Morgan Stanley 3.95% 2027	73,456	0.32	
\$10,000,000 Morgan Stanley 4.1% 2023	7,697	0.03	
\$100,000,000 Morgan Stanley 4.35% 2026	76,051	0.33	
\$50,000,000 Morgan Stanley 5% 2025	39,694	0.17	
€10,000,000 Morgan Stanley FRN 2021	8,861	0.04	
€25,000,000 Morgan Stanley Var. Rate 2021 (1.342%)	21,787	0.09	
\$15,000,000 Motorola Solutions 4% 2024	11,245	0.05	
\$10,000,000 MPLX LP 4.875% 2025	7,912	0.03	
€20,000,000 MPT Operating Partnership 3.325% 2025	18,239	0.08	
€10,000,000 Mylan 2.25% 2024	8,980	0.04	
€8,000,000 Mylan 3.125% 2028	7,254	0.03	
\$25,000,000 Nationwide Building Society 4% 2026	17,973	0.08	
\$7,200,000 Nationwide Building Society Var. Rate 2024 (4.363%)	5,502	0.02	
€24,033,000 Nationwide Building Society Var. Rate 2026 (1.5%)	20,943	0.09	
€20,000,000 Nationwide Building Society Var. Rate 2029 (2%)	17,346	0.08	
\$29,777,000 Nationwide Building Society Var. Rate 2029 (4.302%)	21,860	0.09	
\$10,000,000 Nationwide Building Society Var. Rate 2032 (4.125%)	6,995	0.03	
€1,123,974 Newgate Funding FRN 2050 BB	893	0.00	
£25,000,000 Next 3.625% 2028	24,890	0.11	
£20,000,000 Next 4.375% 2026	21,365	0.09	
£38,750,000 NGG Finance Var. Rate 2073 (5.625%)	42,378	0.18	
£5,000,000 Orange 0.375% 2021	4,807	0.02	
£25,000,000 Orange 5.625% 2034	32,340	0.14	
\$75,000,000 Orange 8.5% 2031	80,694	0.35	
€80,000,000 Orange Var. Rate Perp. (5%)	78,364	0.34	
€25,000,000 Orange Var. Rate Perp. (5.25%)	24,916	0.11	
£30,000,000 Orange Var. Rate Perp. (5.75%)	32,234	0.14	

Portfolio statement (continued)

as at 30 September Holding	2018 £'000	2018 %	2017 %
'BBB' credit rated bonds (continued)			
£12,000,000 Orange Var. Rate Perp. (5.875%)	12,895	0.06	
\$10,000,000 Penske Truck Leasing 4.2% 2027	7,519	0.03	
\$7,000,000 Pertamina Persero 6.45% 2044	5,848	0.03	
\$6,667,000 Perusahaan Listrik Negara 4.125% 2027	4,791	0.02	
€10,000,000 Petróleos Mexicanos 2.75% 2027	8,105	0.04	
€20,000,000 Petróleos Mexicanos 3.75% 2024	18,258	0.08	
€5,000,000 Petróleos Mexicanos 3.75% 2026	4,436	0.02	
€20,000,000 Petróleos Mexicanos 4.75% 2029	18,031	0.08	
€10,000,000 Petróleos Mexicanos 4.875% 2028	9,267	0.04	
\$10,000,000 Petróleos Mexicanos 5.5% 2044	6,517	0.03	
\$30,000,000 Portugal (Republic of) 5.125% 2024	24,062	0.10	
£12,666,000 Rabobank 4.625% 2029	13,858	0.06	
£15,334,000 Rabobank 5.25% 2027	17,538	0.08	
\$13,600,000 Rabobank Var. Rate 2029 (4%)	10,049	0.04	
\$12,000,000 RELX Capital (formerly Reed Elsevier Capital) 7.5% 2025	10,763	0.05	
\$6,000,000 Reynolds American 6.15% 2043	5,157	0.02	
\$9,750,000 Reynolds American 7.25% 2037	9,276	0.04	
€13,687,000 Royal Bank of Scotland 2.5% 2023	12,727	0.06	
€13,767,000 Royal Bank of Scotland FRN 2023	10,633	0.05	
€12,553,000 Royal Bank of Scotland Var. Rate 2023 (2%)	11,422	0.05	
€10,386,000 Santander UK Group Holdings FRN 2023	9,165	0.04	
€17,299,000 Santander UK Group Holdings FRN 2024	15,203	0.07	
£10,000,000 Severn Trent Utilities Finance 6.25% 2029	13,079	0.06	
\$25,000,000 Société Générale 4% 2027	18,229	0.08	
\$55,000,000 Société Générale 4.25% 2025	40,704	0.18	
\$20,000,000 Société Générale 4.75% 2025	15,195	0.07	
\$50,000,000 Société Générale 5% 2024	38,624	0.17	
€10,000,000 Sogecap Var. Rate Perp. (4.125%)	9,273	0.04	
£19,000,000 Spain (Kingdom of) 5.25% 2029	22,152	0.10	
£2,000,000 Student Finance 2.6663% 2024	1,970	0.01	
\$20,000,000 Sunoco Logistics Partners Operations 5.35% 2045	14,902	0.06	
\$40,000,000 Sunoco Logistics Partners Operations 5.4% 2047	30,191	0.13	
\$4,000,000 Syngenta Finance 4.892% 2025	3,009	0.01	
\$10,000,000 Syngenta Finance 5.182% 2028	7,311	0.03	
\$20,000,000 Telefónica (Europe) 8.25% 2030	19,596	0.08	
\$25,000,000 Telefónica Emisiones 4.895% 2048	17,922	0.08	
£5,600,000 Telefónica Emisiones 5.375% 2026	6,474	0.03	
\$40,000,000 Telefónica Emisiones 7.045% 2036	37,003	0.16	
£10,000,000 Thames Water Utilities Cayman 1.875% 2024	9,695	0.04	
£3,935,000 Thames Water Utilities Cayman 2.375% 2023	3,825	0.02	
£8,000,000 Thames Water Utilities Cayman 2.625% 2032	7,490	0.03	
£4,725,000 Thames Water Utilities Cayman 2.875% 2027	4,513	0.02	
£10,000,000 Thames Water Utilities Cayman 3.5% 2028	10,462	0.05	
£20,000,000 Thames Water Utilities Cayman 4.375% 2034	22,621	0.10	
£10,000,000 Thames Water Utilities Cayman 4.625% 2046	12,051	0.05	
£29,000,000 Thames Water Utilities Cayman Var. Rate 2030 (5.75%)	32,028	0.14	
£1,250,000 Thames Water Utilities Finance 3.375% IL 2021	2,226	0.01	

M&G Optimal Income Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 30 September	2018	2018	2017
Holding	£'000	%	%
'BBB' credit rated bonds (continued)			
£10,000,000 Thames Water Utilities Finance 5.125% 2037	12,355	0.05	
£7,500,000 Thames Water Utilities Finance 6.75% 2028	9,959	0.04	
€4,000,000 Thermo Fisher Scientific 1.45% 2027	3,520	0.02	
€10,000,000 Thermo Fisher Scientific 2.875% 2037	9,061	0.04	
£35,100,000 Time Warner Cable 5.25% 2042	38,436	0.17	
£35,000,000 Time Warner Cable 5.75% 2031	39,611	0.17	
\$8,136,000 Transportadora de Gas del Perú 4.25% 2028	6,104	0.03	
€20,000,000 UniCredit Var. Rate Perp. (5.375%)	15,938	0.07	
€20,000,000 UniCredit Var. Rate Perp. (6.625%)	17,509	0.08	
€10,000,000 UniCredit Var. Rate Perp. (6.75%)	8,856	0.04	
\$8,000,000 United Business Media 5.75% 2020	6,220	0.03	
\$4,000,000 UPM-Kymmene 7.45% 2027	3,669	0.02	
\$10,000,000 Uruguay (Republic of) 5.1% 2050	7,808	0.03	
€52,000,000 Verizon Communications 2.875% 2038	46,356	0.20	
€20,000,000 Verizon Communications 3.125% 2035	19,063	0.08	
£87,500,000 Verizon Communications 3.375% 2036	85,775	0.37	
\$25,000,000 Verizon Communications 3.85% 2042	16,632	0.07	
\$150,000,000 Verizon Communications 4.272% 2036	109,716	0.47	
\$15,000,000 Verizon Communications 4.4% 2034	11,178	0.05	
\$25,000,000 Verizon Communications 4.5% 2033	18,999	0.08	
\$30,000,000 Verizon Communications 4.522% 2048	21,894	0.09	
\$255,000,000 Verizon Communications 4.672% 2022	183,955	0.80	
\$50,000,000 Verizon Communications 5.012% 2049	39,142	0.17	
\$270,000,000 Verizon Communications 5.012% 2054	204,281	0.88	
\$180,000,000 Verizon Communications 5.25% 2037	147,235	0.64	
€11,000,000 Vodafone Group 2.875% 2037	9,784	0.04	
£90,000,000 Vodafone Group 3% 2056	75,821	0.33	
£60,000,000 Vodafone Group 3.375% 2049	55,056	0.24	
\$10,714,000 Vodafone Group 4.125% 2025	8,153	0.03	
\$20,000,000 Vodafone Group 4.375% 2028	15,132	0.06	
\$20,000,000 Vodafone Group 5% 2038	15,211	0.07	
\$30,000,000 Vodafone Group 5.25% 2048	23,323	0.10	
€25,805,000 Vodafone Group Var. Rate 2078 (4.2%)	22,854	0.10	
\$10,000,000 W.P. Carey 4% 2025	7,487	0.03	
£3,990,000 Wales & West Utilities Finance Var. Rate 2036 (6.75%)	4,028	0.02	
€15,000,000 Walgreens Boots Alliance 2.125% 2026	13,565	0.06	
\$10,000,000 Walgreens Boots Alliance 3.45% 2026	7,285	0.03	
£18,636,000 Walgreens Boots Alliance 3.6% 2025	19,286	0.08	
\$85,000,000 Wells Fargo (formerly Wells Fargo & Company) 4.1% 2026	64,341	0.28	
\$20,000,000 Wells Fargo (formerly Wells Fargo & Company) 4.125% 2023	15,498	0.07	
\$125,000,000 Wells Fargo (formerly Wells Fargo & Company) 4.3% 2027	95,438	0.41	
£10,000,000 Wells Fargo (formerly Wells Fargo & Company) 4.875% 2035	11,439	0.05	
\$15,000,000 Wells Fargo 5.375% 2043	12,259	0.05	
£12,500,000 Welltower 4.5% 2034	13,722	0.06	
£3,022,000 Welltower 4.8% 2028	3,388	0.01	
\$4,750,000 Weyerhaeuser 7.375% 2032	4,607	0.02	
€9,492,000 WPC Eurobond 2.125% 2027	8,341	0.03	
£18,000,000 WPP Finance 2.875% 2046	14,250	0.06	

Portfolio statement (continued)

as at 30 September	2018	2018	2017
Holding	£'000	%	%
'BB' credit rated bonds			
	2,091,974	9.06	8.72
€5,000,000 Adient Global Holdings 3.5% 2024	4,126	0.02	
€2,500,000 Aramark International Finance 3.125% 2025	2,310	0.01	
€20,000,000 Ardagh Packaging Finance 2.75% 2024	18,011	0.08	
€10,000,000 Arkema Var. Rate Perp. (4.75%)	9,504	0.04	
€13,000,000 Arrow Global Finance FRN 2025	10,779	0.05	
€10,000,000 Assicurazioni Generali Var. Rate 2049 (2.375%)	8,775	0.04	
€10,000,000 Assicurazioni Generali Var. Rate Perp. (6.269%)	10,144	0.04	
\$11,000,000 Avis Budget Finance 5.25% 2025	7,907	0.03	
€5,000,000 Axalta Coating System 3.75% 2025	4,574	0.02	
€4,042,000 Axalta Coating System 4.25% 2024	3,759	0.02	
£3,000,000 Bank of Scotland Var. Rate Perp. (7.281%)	3,466	0.02	
€5,000,000 Barclays Var. Rate 2028 (2%)	4,249	0.02	
€20,000,000 Bayer Var. Rate 2075 (3%)	18,135	0.08	
€14,946,000 Belden 3.375% 2027	13,062	0.06	
€5,000,000 Belden 3.875% 2028	4,407	0.02	
\$20,000,000 Brazil (Federal Republic of) 4.625% 2028	14,079	0.06	
\$60,000,000 Brazil (Federal Republic of) 5% 2045	38,174	0.17	
\$20,000,000 Brazil (Federal Republic of) 5.625% 2047	13,652	0.06	
€15,000,000 CaixaBank Var. Rate Perp. (5.25%)	12,354	0.05	
€20,000,000 CaixaBank Var. Rate Perp. (6.75%)	19,158	0.08	
\$20,000,000 CCO Holdings Capital 5.125% 2027	14,483	0.06	
€11,078,000 CEMEX 2.75% 2024	9,793	0.04	
€15,000,000 CEMEX 4.375% 2023	13,799	0.06	
\$4,545,000 CEMEX 5.7% 2025	3,526	0.02	
\$16,000,000 CEMEX 5.7% 2025 144A	12,424	0.05	
\$12,000,000 CEMEX 6.125% 2025	9,489	0.04	
€20,000,000 CEMEX Finance 4.625% 2024	18,841	0.08	
\$11,000,000 Centene 4.75% 2025	8,367	0.04	
\$5,000,000 Centene 6.125% 2024	4,017	0.02	
€6,916,000 Ceva Logistics Finance 5.25% 2025	6,014	0.03	
€10,000,000 Chemours 4% 2026	8,903	0.04	
\$3,000,000 Cheniere Energy Partners 5.25% 2025	2,301	0.01	
€3,871,000 Colfax 3.25% 2025	3,482	0.02	
€3,000,000 Crédit Agricole Var. Rate Perp. (6.5%)	2,907	0.01	
\$30,000,000 Crédit Agricole Var. Rate Perp. (7.875%)	24,220	0.10	
\$3,000,000 Credit Suisse Group Var. Rate Perp. (7.125%)	2,355	0.01	
€9,400,000 Crown European Holdings 3.375% 2025	8,632	0.04	
\$5,000,000 CSC Holdings 5.375% 2028	3,638	0.02	
\$10,000,000 CSC Holdings 5.5% 2047	7,416	0.03	
\$5,750,000 CSC Holdings 6.625% 2025 (formerly Neptune Finco 6.625% 2025)	4,645	0.02	
£10,000,000 Daily Mail & General Trust 6.375% 2027	11,396	0.05	
€23,188,824 Delamare Finance 5.5457% 2029	25,728	0.11	
\$7,499,000 Drax Finco 6.625% 2025	5,845	0.03	
€4,708,000 Dufry Finance 4.5% 2023	4,329	0.02	
£11,884,000 EI Group 6% 2023 (formerly Enterprise Inns)	12,835	0.06	
£17,500,000 EI Group 6.375% 2031 (formerly Enterprise Inns)	19,296	0.08	
£6,680,000 EI Group 6.875% 2021 (formerly Enterprise Inns)	7,215	0.03	

M&G Optimal Income Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)				
as at 30 September		2018	2018	2017
Holding		£'000	%	%
'BB' credit rated bonds (continued)				
£4,500,000	El Group 6.875% 2025 (formerly Enterprise Inns)	4,918	0.02	
€8,602,000	Equinix 2.875% 2024	7,723	0.03	
€14,600,000	Gas Natural Fenosa Var. Rate Perp. (4.125%)	13,606	0.06	
\$17,500,000	Goodyear Tire & Rubber 5.0% 2026	12,609	0.05	
€4,516,000	Grupo Antolin 3.25% 2024	3,965	0.02	
€10,000,000	Grupo Antolin 3.375% 2026	8,360	0.04	
\$13,298,000	Grupo Kuo SAB de 5.75% 2027	9,725	0.04	
\$1,086,000	Grupo Unicomer 7.875% 2024	878	0.00	
\$4,350,000	Guatemala (Republic of) 4.375% 2027	3,128	0.01	
\$2,500,000	Hanesbrands 4.875% 2026	1,842	0.01	
€10,000,000	Hanesbrands Finance (Luxemburg) 3.5% 2024	9,269	0.04	
\$25,000,000	HCA 5.375% 2026	19,276	0.08	
\$4,000,000	HCA 7.75% 2022	3,357	0.01	
\$5,000,000	Hilton Domestic Operating 4.25% 2024	3,685	0.02	
\$6,667,000	Hilton Worldwide Finance 4.625% 2025	4,997	0.02	
€11,963,000	IHO Verwaltungs 2.75% 2021 (formerly Schaeffler Verwaltung Zwei 2.75% Pik 2021)	10,754	0.05	
\$5,000,000	ING Groep Var. Rate Perp. (6%)	3,816	0.02	
\$11,386,000	Inretail Pharma 5.375% 2023	8,806	0.04	
\$8,000,000	International Game Technology 6.25% 2022	6,360	0.03	
€7,211,000	Interxion Holding 4.75% 2025	6,700	0.03	
\$5,000,000	Intesa Sanpaolo 5.017% 2024	3,493	0.02	
\$10,000,000	Intesa Sanpaolo 5.71% 2026	7,066	0.03	
€35,000,000	Intesa Sanpaolo Var. Rate Perp. (6.25%)	30,893	0.13	
€10,000,000	Intesa Sanpaolo Var. Rate Perp. (7%)	9,101	0.04	
€20,000,000	Intesa Sanpaolo Var. Rate Perp. (7.75%)	19,039	0.08	
€5,857,000	Intrum (formerly Intrum Justitia) 3.125% 2024	4,924	0.02	
€30,000,000	IQVIA 3.25% 2025	27,094	0.12	
€50,000,000	KBC Groep Var. Rate Perp. (4.25%)	40,923	0.18	
€9,000,000	KBC Groep Var. Rate Perp. (5.625%)	8,091	0.04	
€7,500,000	KPN Var. Rate 2073 (6.875%)	7,941	0.03	
\$10,000,000	KPN Var. Rate 2073 (7%)	8,153	0.04	
€5,000,000	Levi Strauss & Co. 3.375% 2027	4,578	0.02	
€25,000,000	Lloyds Banking Group (formerly Lloyds Bank) Var. Rate Perp. (6.375%)	23,479	0.10	
€20,000,000	Lloyds Banking Group (formerly Lloyds Bank) Var. Rate Perp. (7%)	20,306	0.09	
€36,000,000	Lloyds Banking Group (formerly Lloyds Bank) Var. Rate Perp. (7.625%)	38,908	0.17	
€37,676,000	Lloyds Banking Group (formerly Lloyds Bank) Var. Rate Perp. (7.875%)	42,888	0.19	
€955,752	Magellan Mortgages No.4 FRN 2059	764	0.00	
€30,000,000	Nationwide Building Society Var. Rate Perp. (6.875%)	30,538	0.13	
€6,200,000	Nexans FRN 2023	5,700	0.02	
€6,000,000	Nomad Foods 3.25% 2024	5,385	0.02	

Portfolio statement (continued)

as at 30 September		2018	2018	2017
Holding		£'000	%	%
'BB' credit rated bonds (continued)				
€9,487,000	OI European Group 3.125% 2024	8,688	0.04	
\$5,000,000	Olin 5.125% 2027	3,704	0.02	
\$6,667,000	Paraguay (Republic of) 5.6% 2048	5,095	0.02	
\$6,364,000	Paraguay (Republic of) 6.1% 2044	5,121	0.02	
€25,000,000	Petrobras Global Finance 5.375% 2029	22,737	0.10	
\$10,000,000	Petrobras Global Finance 5.625% 2043	6,254	0.03	
\$20,000,000	Petrobras Global Finance 5.75% 2029	13,776	0.06	
\$16,000,000	Petrobras Global Finance 5.999% 2028	11,347	0.05	
€3,872,000	Petrobras Global Finance 6.25% 2026	3,900	0.02	
€30,000,000	Petrobras Global Finance 6.625% 2034	29,174	0.13	
\$20,000,000	Petrobras Global Finance 6.85% 2099	13,300	0.06	
\$10,000,000	Petrobras Global Finance 7.375% 2027	7,799	0.03	
\$8,000,000	Pilgrims Pride 5.75% 2025	5,907	0.03	
€10,000,000	Progroup FRN 2024	8,879	0.04	
\$19,900,000	Royal Bank of Scotland 5.125% 2024	15,326	0.07	
\$35,294,000	Royal Bank of Scotland 6.1% 2023	28,209	0.12	
\$21,000,000	Royal Bank of Scotland 6.125% 2022	16,852	0.07	
€3,365,000	SASU Newco SAB 20 SAS 4.25% 2024 (formerly Louvre Bidco SAS 4.25% 2024)	2,850	0.01	
\$3,000,000	Service Corporation International 5.375% 2024	2,341	0.01	
\$1,091,000	Shea Homes Funding 6.125% 2025	819	0.00	
€12,872,000	Silgan Holdings 3.25% 2025	11,803	0.05	
\$11,868,000	Sirius XM Holdings 5% 2027	8,743	0.04	
\$15,000,000	Sirius XM Holdings 6% 2024	11,890	0.05	
\$1,789,000	Société Générale Var. Rate Perp. (7.875%) (Listing Germany)	1,418	0.01	
\$10,000,000	Société Générale Var. Rate Perp. (7.875%) (Listing Luxembourg)	7,926	0.03	
€2,500,000	Solvay Finance Var. Rate Perp. (4.199%)	2,262	0.01	
€10,000,000	Solvay Finance Var. Rate Perp. (5.118%)	9,767	0.04	
€12,000,000	Solvay Finance Var. Rate Perp. (5.425%)	12,057	0.05	
€30,000,000	Solvay Finance Var. Rate Perp. (5.869%)	30,485	0.13	
€4,186,000	Spirit Issuer FRN 2031	4,144	0.02	
\$5,000,000	Standard Chartered Var. Rate Perp. (6.5%)	3,818	0.02	
€4,763,000	Stora Enso 2.5% 2027	4,392	0.02	
€6,645,000	Stora Enso 2.5% 2028	6,059	0.03	
\$15,000,000	Stora Enso 7.25% 2036	13,637	0.06	
€4,795,000	TA Manufacturing 3.625% 2023	4,344	0.02	
€40,000,000	Telecom Italia 1.125% 2022	34,062	0.15	
€11,603,000	Telecom Italia 2.375% 2027	9,707	0.04	
€24,752,000	Telecom Italia 2.875% 2026	21,915	0.09	
€60,000,000	Telecom Italia 5.25% 2055	53,644	0.23	
\$10,000,000	Telecom Italia 5.303% 2024	7,563	0.03	
€25,000,000	Telefónica (Europe) Var. Rate Perp. (3%)	21,258	0.09	
€10,000,000	Telefónica (Europe) Var. Rate Perp. (3.875%)	8,341	0.03	
€10,300,000	Telefonica (Europe) Var. Rate Perp. (4.2%)	9,435	0.04	

M&G Optimal Income Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 30 September Holding	2018 £'000	2018 %	2017 %
'BB' credit rated bonds (continued)			
€20,000,000 Telefonica (Europe) Var. Rate Perp. (5.875%)	19,581	0.08	
\$5,000,000 Tenet Healthcare 4.375% 2021	3,808	0.01	
\$2,500,000 Tenet Healthcare 4.5% 2021	1,911	0.01	
\$5,000,000 Tenet Healthcare 6% 2020	3,948	0.02	
€2,000,000 Tesco 5.125% 2047	2,257	0.01	
£12,989,711 Tesco Property Finance No.2 6.0517% 2039	15,165	0.06	
£29,160,133 Tesco Property Finance No.3 5.744% 2040	33,321	0.14	
£46,989,479 Tesco Property Finance No.4 5.8006% 2040	54,265	0.23	
£29,530,359 Tesco Property Finance No.5 5.6611% 2041	33,467	0.14	
£24,223,231 Tesco Property Finance No.6 5.4111% 2044	26,829	0.12	
\$40,000,000 Teva Pharmaceutical Finance 4.1% 2046	22,265	0.09	
€10,000,000 Teva Pharmaceutical Finance 4.5% 2025	9,488	0.04	
\$3,333,000 T-Mobile USA 5.125% 2025	2,574	0.01	
\$5,000,000 T-Mobile USA 6% 2024	3,972	0.02	
\$6,000,000 T-Mobile USA 6.375% 2025	4,779	0.02	
€25,000,000 UBS Group Funding (Switzerland) (formerly UBS) Var. Rate Perp. (5.75%)	24,577	0.10	
\$30,000,000 UBS Group Funding (Switzerland) (formerly UBS) Var. Rate Perp. (7.125%)	23,522	0.10	
\$5,000,000 UBS Group Funding (Switzerland) (formerly UBS) Var. Rate Perp. (7%)	4,061	0.02	
\$40,000,000 UBS Group Funding (Switzerland) Var. Rate Perp. (5%)	27,089	0.12	
\$5,000,000 United Rentals North America 5.5% 2025	3,919	0.02	
€36,292,000 Unitymedia 3.5% 2027	33,982	0.15	
€50,833,000 Unitymedia 4% 2025	47,467	0.21	
€900,000 Unitymedia 4.625% 2026	867	0.00	
\$11,251,000 Unitymedia 5% 2025	8,746	0.04	
€36,000,000 Unitymedia 6.25% 2029	36,092	0.16	
\$13,333,000 VideoTron 5.375% 2024	10,504	0.05	
£10,000,000 Virgin Media Secured Finance 4.875% 2027	9,824	0.04	
£3,000,000 Virgin Media Secured Finance 5% 2027	2,984	0.01	
£18,000,000 Virgin Media Secured Finance 5.125% 2025	18,410	0.08	
£31,140,000 Virgin Media Secured Finance 5.5% 2025	31,909	0.14	
\$20,000,000 Virgin Media Secured Finance 5.5% 2025 144A	15,297	0.07	
£30,248,000 Virgin Media Secured Finance 6.25% 2029	31,628	0.14	
€10,000,000 Wind Tre 3.125% 2025	8,041	0.03	
\$3,734,000 Wind Tre 5% 2026	2,471	0.01	
€40,000,000 Wind Tre FRN 2024	33,005	0.14	
\$8,500,000 WPX Energy 5.25% 2024	6,555	0.03	
€3,477,000 Ziggo (formerly Ziggo Secured Finance) 3.75% 2025	3,087	0.01	

Portfolio statement (continued)

as at 30 September Holding	2018 £'000	2018 %	2017 %
'B' credit rated bonds			
	327,582	1.42	2.47
\$9,000,000 1011778 BC ULC / New Red Finance 5% 2025	6,590	0.03	
€7,177,000 Adler Pelzer Holding 4.125% 2024 (formerly HP Pelzer 4.125% 2024)	6,381	0.03	
€7,628,000 Altice (formerly SFR Group) 5.625% 2024	7,075	0.03	
£4,784,000 Ardagh Packaging Finance 4.75% 2027	4,671	0.02	
€25,000,000 Argentina (Republic of) 5% 2027	17,986	0.08	
\$10,363,000 Argentina (Republic of) 5.875% 2028	6,417	0.03	
€30,000,000 Argentina (Republic of) Var. Rate 2038 (2.26%)	15,963	0.07	
£13,114,000 Barclays Var. Rate Perp. (5.875%)	12,442	0.05	
€8,000,000 Bausch Health (formerly VRX Escrow) 4.5% 2023	7,009	0.03	
€5,000,000 Buenos Aires (Province of) 5.375% 2023	3,760	0.02	
\$11,310,000 Buenos Aires (Province of) 7.875% 2027	7,240	0.03	
€8,389,000 Burger King France 6% 2024	7,890	0.03	
£10,267,000 Cabot Financial Luxembourg 7.5% 2023	10,023	0.04	
€3,000,000 Cabot Financial Luxembourg 8.375% 2020	3,028	0.01	
€5,000,000 Cabot Financial Luxembourg FRN 2021	4,474	0.02	
\$20,000,000 Caesars Resort Collection (formerly CRC Escrow) 5.25% 2025	14,586	0.06	
€4,746,000 Catalent Pharma Solutions 4.75% 2024	4,428	0.02	
£2,178,000 Cognita Financing 7.75% 2021	2,222	0.01	
\$6,500,000 Community Health Systems 5.125% 2021	4,858	0.02	
£7,317,000 CPUK Finance 4.25% 2047	7,316	0.03	
\$3,500,000 Crown Americas 4.25% 2026	2,472	0.01	
\$5,000,000 DaVita 5.125% 2024	3,702	0.02	
€4,367,000 Diamond (BC) 5.625% 2025	3,622	0.01	
€7,500,000 DKT Finance 7% 2023	7,107	0.03	
€2,857,000 eircom Finance 4.25% 2022	2,591	0.01	
€7,169,000 Financial & Risk US Holdings 6.875% 2026	6,367	0.03	
\$2,273,000 Kenya (Republic of) 6.875% 2024	1,744	0.01	
€5,783,000 LHMC Finco 6.25% 2023	5,310	0.02	
€9,137,000 LSF10 Wolverine Investments 5% 2024	8,122	0.03	
€13,200,000 Matterhorn Telecom 3.875% 2022	11,899	0.05	
€5,000,000 Netflix 3.625% 2027	4,371	0.02	
€20,000,000 Nexi Capital FRN 2023	17,741	0.08	
€10,000,000 Rekeep (formerly CMF) 9% 2022	8,172	0.04	
\$4,845,539 Reynolds Group 5.75% 2020	3,697	0.02	
€7,000,000 Royal Bank of Scotland 5.5% Perp.	6,275	0.03	
\$5,357,000 Royal Bank of Scotland Var. Rate Perp. (7.5%)	4,192	0.02	
\$5,600,000 Royal Bank of Scotland Var. Rate Perp. (8%)	4,545	0.02	
\$8,000,000 Royal Bank of Scotland Var. Rate Perp. (8.625%)	6,554	0.03	
€5,541,000 Schmolz+Bickenbach 5.625% 2022	5,116	0.02	
€5,938,000 Starfruit 6.5% 2026	5,325	0.02	
£5,161,000 Stonegate Pub Company 4.875% 2022	5,089	0.02	
\$5,000,000 Tenet Healthcare 5.125% 2025	3,773	0.02	
€2,451,000 Vallourec 6.375% 2023	2,236	0.01	
€5,683,000 Vallourec 6.625% 2022	5,330	0.02	

M&G Optimal Income Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at 30 September Holding	2018 £'000	2018 %	2017 %
'B' credit rated bonds (continued)			
€1,000,000 Veritas 7.5% 2023	892	0.00	
£11,000,000 Virgin Media Finance 5.125% 2022	10,945	0.05	
\$14,026,000 VTR Finance 6.875% 2024	10,899	0.05	
\$8,000,000 Yum! Brands 6.875% 2037	6,192	0.03	
€7,500,000 Ziggo Bond 7.125% 2024	7,112	0.03	
\$2,571,000 Ziggo Bond Finance 5.875% 2025	1,831	0.01	
'CCC' credit rated bonds			
\$10,000,000 Ortho-Clinical Diagnostics 6.625% 2022 (formerly Crimson Merger 6.625% 2022)	7,411	0.03	0.11
\$5,000,000 Tenet Healthcare 6.75% 2023	3,798	0.02	
\$5,000,000 Tenet Healthcare 7% 2025	3,735	0.02	
€2,903,000 Unilabs Subholding 5.75% 2025	2,515	0.01	
\$7,795,000 Windstream 9% 2025	4,601	0.02	
Bonds with no credit rating			
\$2,244,975 AASET Trust 2017-1 3.967% 2042	1,709	0.01	5.06
€7,500,000 ALME Loan Funding II FRN 2030	6,670	0.03	
€6,208,000 Arbour CLO FRN 2030	5,524	0.02	
€28,378,170 Ardmore Securities No.1 FRN 2057	25,244	0.11	
€30,000,000 Assicurazioni Generali Var. Rate 2047 (5.5%)	28,220	0.12	
€6,500,000 Assura Financing 3% 2028	6,497	0.03	
€4,762,000 ATON 3.875% 2018	4,221	0.02	
€7,175,000 Avoca CIO XIII DAC FRN 2030	6,362	0.03	
€10,000,000 Barings CLO 2017-1 FRN 2030	8,881	0.04	
£14,359,237 Brass FRN 2060	14,303	0.06	
£550,000 British Land 5.264% 2035	686	0.00	
£10,000,000 BUPA Finance 5% 2026	10,753	0.05	
€18,000,000 Bureau Veritas 1.875% 2025	16,040	0.07	
£15,292,835 Charter Mortgage Funding 2018-1 FRN 2055	15,231	0.07	
\$10,000,000 CIFC Funding 2018-III FRN 2031	7,668	0.03	
€8,625,000 Cote d'Ivoire 5.125% 2025	7,717	0.03	
£15,000,000 Coventry Building Society 1.875% 2023	14,649	0.06	
£930,000 Delamare Finance 6.067% 2029	1,052	0.00	
£26,524,000 DP World 4.25% 2030	26,387	0.11	
£3,380,957 Duncan Funding FRN 2063	3,389	0.01	
€6,937,000 Eurofins Scientific 2.125% 2024	6,179	0.03	
€4,000,000 Eurofins Scientific Var. Rate Perp. (4.875%)	3,766	0.02	
£3,387,230 Feldspar 2016-1 FRN 2045	3,388	0.01	
£4,835,837 Finsbury Square FRN 2059	4,835	0.02	
£8,205,919 Finsbury Square FRN 2065	8,192	0.04	
£7,266,598 Finsbury Square FRN 2065 2A	7,248	0.03	
€7,498,950 FROSN-2018 FRN 2028	6,652	0.03	
£26,487 Gemgarto 2015-1 FRN 2047	26	0.00	
€50,000,000 Germany (Federal Republic of) 3.25% 2020	46,608	0.20	
€100,000,000 Germany (Federal Republic of) 3.5% 2019	91,551	0.40	
£15,000,000 Gosforth Funding FRN 2056	15,002	0.06	
£14,846,000 Gosforth Funding FRN 2059	14,773	0.06	
€18,900,000 Groupe Bruxelles Lambert 1.375% 2024	16,842	0.07	
€25,000,000 Hammerson 2% 2022	23,095	0.10	
€30,000,000 Hammerson 3.5% 2025	30,542	0.13	
£7,500,000 Hammerson 6% 2026	8,805	0.04	
£2,000,000 Hammerson 7.25% 2028	2,602	0.01	

Portfolio statement (continued)

as at 30 September Holding	2018 £'000	2018 %	2017 %
Bonds with no credit rating (continued)			
£3,680,000 Hastings Group Finance 3% 2025	3,612	0.02	
£10,000,000 Heathrow Finance 3.875% 2027	9,492	0.04	
£9,000,000 Heathrow Finance 5.75% 2025	9,674	0.04	
\$3,459,642 Home Partners of America Trust FRN 2033	2,653	0.01	
€18,800,000 Iliad 1.875% 2025	15,651	0.07	
€7,631,000 James Hardie 3.625% 2026	6,806	0.03	
€20,000,000 John Lewis 4.25% 2034	18,487	0.08	
€15,000,000 John Lewis 6.125% 2025	16,920	0.07	
€10,000,000 Jubilee CLO 2014-XII Var. Rate 2030	8,868	0.04	
\$914,992 K2016470219 South Africa 3% 2022	11	0.00	
€7,900,000 Lagardère 1.625% 2024	6,835	0.03	
€4,699,036 LaSer ABS FRN 2030	4,708	0.02	
€15,000,000 Leeds Building Society 0.5% 2024	13,218	0.06	
£7,000,000 Leeds Building Society Var. Rate 2029 (3.75%)	6,597	0.03	
\$10,000,000 Liquid Telecom Finance 8.5% 2022	7,835	0.03	
€6,870,950 London Wall Mortgage Capital FRN 2049	6,875	0.03	
£15,944,794 London Wall Mortgage Capital FRN 2050	15,899	0.07	
€3,794,000 MAHLE 2.375% 2022	3,530	0.02	
£3,478,000 Midland Heart Capital 5.087% 2044	4,540	0.02	
£15,000,000 NewDay Partnership Funding FRN 2027	14,995	0.07	
€6,567,000 Oak Hill FRN 2030	5,832	0.03	
£18,346,095 Oat Hill No.1 FRN 2046	18,271	0.08	
€672,242 Orbita Funding FRN 2023	673	0.00	
£4,587,000 PCL Funding II FRN 2022	4,593	0.02	
£11,435,000 PCL Funding III FRN 2023	11,403	0.05	
£10,000,000 Places for People Homes 3.625% 2028	10,026	0.04	
£2,375,568 Precise Mortgage Funding FRN 2054	2,365	0.01	
£14,949,745 Precise Mortgage Funding FRN 2055	14,875	0.07	
£5,000,000 Principality Building Society 2.375% 2023	4,895	0.02	
\$6,573,000 Puma International Financing 5% 2026	4,249	0.02	
\$7,900,000 Puma International Financing 5.125% 2024	5,289	0.02	
£6,799,000 Quilter Var. Rate 2028 (4.478%)	6,784	0.03	
£4,620,000 Sainsbury's Bank Var. Rate 2027 (6%)	4,728	0.02	
\$2,000,000 Seventy Seven Energy 6.5% 2022	0	0.00	
\$1,327,575 SoFi Consumer Loan 3.050% 2025	1,014	0.01	
\$1,214,747 SoFi Consumer Loan 3.09% 2025	929	0.00	
€3,400,000 Suez Var. Rate Perp. (2.875%)	3,021	0.01	
€259,832 TDA-14 Mixto FRN 2030	231	0.00	
€465,952 TDA-18 Mixto FRN 2045	410	0.00	
€3,700,000 Telefonica Deutschland Finanzierungs 1.75% 2025	3,305	0.01	
€6,362,818 Together Asset Backed Securitisation FRN 2049	6,370	0.03	
€6,400,000 Vilmorin & Cie 2.375% 2021	5,904	0.03	
£10,000,000 Virgin Money Holdings (UK) Var. Rate 2026 (4.75%)	9,838	0.04	
£8,000,000 Westfield Stratford FRN 2024	7,992	0.04	
£1,566,000 Wm Morrison Supermarkets 3.5% 2026	1,644	0.01	
£3,787,000 Wm Morrison Supermarkets 4.625% 2023	4,216	0.02	
£17,893,000 Wm Morrison Supermarkets 4.75% 2029	20,399	0.09	
£2,500,000 Yorkshire Building Society 3.5% 2026	2,566	0.01	

M&G Optimal Income Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)				
as at 30 September Holding	2018 £'000	2018 %	2017 %	
Debt derivatives	171,993	0.75	0.38	
Credit default swaps	10,212	0.05	0.05	
€(10,000,000) BNP Paribas Dec 2021	45	0.00		
€(5,000,000) Heathrow Funding Dec 2022	73	0.00		
€5,000,000 Louis Dreyfus Dec 2021	(487)	0.00		
\$(400,000,000) Markit CDX North American Investment Grade Series 29 10 Year Dec 2027	393	0.00		
€(100,000,000) Markit iTraxx Europe Series 27 5 Year Jun 2022	823	0.01		
€(1,500,000,000) Markit iTraxx Europe Series 27 10 Year Jun 2027	12,345	0.05		
€(350,000,000) Markit iTraxx Europe Series 28 10 Year Dec 2027	689	0.00		
€(250,000,000) Markit iTraxx Europe Series 29 10 Year Jun 2028	(855)	0.00		
€(300,000,000) Markit iTraxx Europe Sub Fin Series 27 5 Year Jun 2022	(932)	(0.01)		
€(100,000,000) Markit iTraxx Europe Sub Fin Series 28 5 Year Dec 2022	(1,338)	0.00		
€10,000,000 Marks and Spencer Dec 2021	(58)	0.00		
€30,000,000 RWE Jun 2020	(486)	0.00		
Interest rate swaps	44,300	0.19	0.10	
£70,000,000 Pay 1.117% Receive VAR Apr 2067	12,372	0.05		
£50,000,000 Pay 1.237% Receive VAR Apr 2067	7,662	0.03		
£50,000,000 Pay 1.242% Receive VAR Apr 2067	7,558	0.03		
£50,000,000 Pay 1.515% Receive VAR Apr 2068	2,773	0.01		
£50,000,000 Pay 1.5272% Receive VAR Jan 2048	2,577	0.01		
€200,000,000 Pay 1.532% Receive VAR Aug 2048	512	0.00		
£50,000,000 Pay 1.5425% Receive VAR Mar 2047	2,448	0.01		
£50,000,000 Pay 1.5425% Receive VAR Jan 2048	2,409	0.01		
£50,000,000 Pay 1.606% Receive VAR Dec 2046	1,592	0.01		
£50,000,000 Pay 1.638% Receive VAR Sep 2047	1,339	0.01		
£75,000,000 Pay 1.6422% Receive VAR Jan 2048	1,855	0.01		
£50,000,000 Pay 1.645% Receive VAR Jan 2048	1,203	0.01		
Interest rate futures	117,481	0.51	0.23	
22,217 5 Year US Treasury Note Dec 2018	(18,430)	(0.08)		
9,777 10 Year US Treasury Note Dec 2018	(12,837)	(0.06)		
(4,818) Euro Bobl Dec 2018	3,739	0.02		
(12,152) Euro Bund Dec 2018	18,606	0.08		
(7,513) Euro Buxl Dec 2018	18,131	0.08		
(2,256) Euro Schatz Dec 2018	429	0.00		
(15,873) UK Long Gilt Bond Dec 2018	21,767	0.10		
(4,007) US Long Treasury Bond Dec 2018	11,652	0.05		
(18,627) US Ultra Long Treasury Bond Dec 2018	74,424	0.32		

Portfolio statement (continued)

as at 30 September Holding	2018 £'000	2018 %	2017 %
CURRENCY	55,807	0.24	1.45
Forward currency contracts	55,807	0.24	1.45
€50,505,701 Bought for £44,940,731 (expires 17.10.18)	(65)	0.00	
€(6,932,217,882) Sold for £6,182,426,043 (expires 17.10.18)	22,907	0.10	
¥(25,828,835) Sold for £176,005 (expires 17.10.18)	1	0.00	
CHF(169,614,597) Sold for £134,346,155 (expires 17.10.18)	1,069	0.00	
\$183,244,838 Bought for £138,842,130 (expires 17.10.18)	1,580	0.01	
\$38,326,572 Bought for £29,925,263 (expires 14.11.18)	(592)	0.00	
\$(4,396,351,750) Sold for £3,353,781,224 (expires 17.10.18)	(15,164)	(0.07)	
\$(4,377,975,506) Sold for £3,419,040,845 (expires 14.11.18)	68,337	0.30	
\$(4,060,474,387) Sold for £3,081,050,558 (expires 12.12.18)	(22,266)	(0.10)	
Portfolio of investments	22,546,591	97.62	97.54
CASH EQUIVALENTS	278,830	1.21	1.19
'AAA' rated money market funds ^[b]	278,830	1.21	1.19
278,829,588 Northern Trust Global Fund - Sterling	278,830	1.21	
SHARE CLASS HEDGING	(102,019)	(0.45)	(1.84)
Forward currency contracts for share class hedging	(102,019)	(0.45)	(1.84)
€3,141,156,708 Bought for £2,831,896,317 (expires 04.10.18)	(42,098)	(0.18)	
€3,154,519,378 Bought for £2,811,342,369 (expires 11.10.18)	(9,012)	(0.04)	
€9,804,237,903 Bought for £8,743,576,570 (expires 17.10.18)	(32,167)	(0.14)	
€3,187,657,863 Bought for £2,856,125,507 (expires 25.10.18)	(23,011)	(0.10)	
€(11,886,808) Sold for £10,590,219 (expires 11.10.18)	31	0.00	
€(327,273,343) Sold for £291,988,086 (expires 17.10.18)	1,194	0.01	
€(44,828,085) Sold for £40,128,981 (expires 25.10.18)	287	0.00	
CHF274,660,837 Bought for £217,251,728 (expires 17.10.18)	(1,433)	(0.01)	
CHF(5,634,159) Sold for £4,440,543 (expires 17.10.18)	13	0.00	
SGD79,599,082 Bought for £44,444,240 (expires 17.10.18)	147	0.00	
SGD(2,296,708) Sold for £1,280,289 (expires 17.10.18)	(6)	0.00	
\$2,791,856,940 Bought for £2,135,752,518 (expires 17.10.18)	3,661	0.01	
\$(131,460,263) Sold for £101,113,530 (expires 17.10.18)	375	0.00	
Total portfolio (notes 2c & 2d on pages 32 and 33)	22,723,402	98.38	96.89
Net other assets / (liabilities)	374,165	1.62	3.11
Net assets attributable to shareholders	23,097,567	100.00	100.00

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

[a] Suspended

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

M&G Optimal Income Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

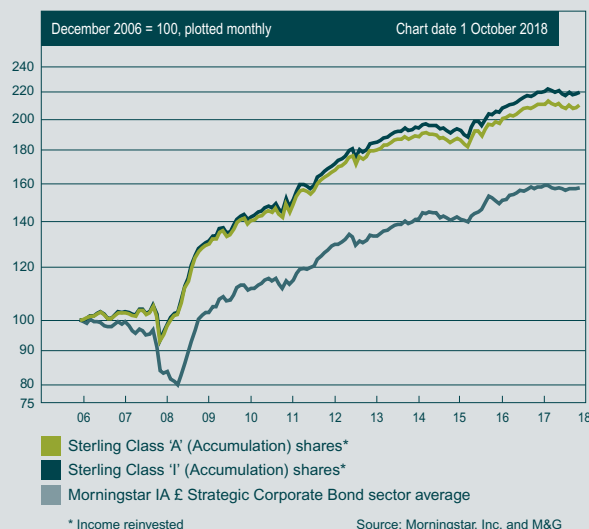
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Optimal Income Fund, which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer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

Fund level performance

Fund net asset value			
as at 30 September	2018 £'000	2017 £'000	2016 £'000
Fund net asset value (NAV)	23,097,567	20,637,023	15,426,945

Performance since launch

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



M&G Optimal Income Fund

Financial highlights

Fund performance

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 ^[a]				
	One year 02.10.17 % ^[b]	Three years 01.10.15 % p.a.	Five years 01.10.13 % p.a.	Since launch % p.a.
Euro ^[c]				
Class 'A-H'	-1.5	+3.2	+2.9	+6.2 ^[d]
Class 'B-H'	-2.0	+2.7	n/a	+2.2 ^[e]
Class 'C-H'	-1.0	+3.7	+3.4	+6.7 ^[d]
Class 'J-H'	n/a	n/a	n/a	-1.6 ^[f]
Singapore dollar ^[c]				
Class 'A-H'	+0.4	+4.9	n/a	+3.4 ^[g]
Class 'A-H M'	+0.4	+4.9	n/a	+3.4 ^[g]
Class 'C-H'	+0.9	+5.4	n/a	+3.9 ^[g]
Sterling ^[h]				
Class 'A'	-0.4	+4.1	+3.5	+6.4 ^[i]
Class 'I'	+0.1	+4.6	+3.9	+6.9 ^[i]
Class 'R'	-0.1	+4.3	+3.7	+4.6 ^[i]
Class 'X'	-0.4	+4.0	+3.4	+6.2 ^[i]
Swiss franc ^[c]				
Class 'A-H'	-1.9	+2.7	+2.4	+3.3 ^[k]
Class 'C-H'	-1.4	+3.2	+2.9	+3.8 ^[k]
Class 'J-H'	n/a	n/a	n/a	-1.7 ^[l]
US dollar ^[c]				
Class 'A-H'	+1.2	+5.0	+4.1	+5.6 ^[i]
Class 'A-H M'	+1.2	+5.1	n/a	+3.4 ^[g]
Class 'C-H'	+1.7	+5.5	+4.6	+6.1 ^[i]
Class 'J-H'	n/a	n/a	n/a	-0.3 ^[l]

^[a] On 2 December 2008 the M&G Optimal Income Fund de-merged from M&G Investment Funds (6) to become the M&G Optimal Income Fund.

^[b] Absolute basis.

^[c] Price to price with gross income reinvested.

^[d] 20 April 2007, the launch date of the share class.

^[e] 11 September 2015, the launch date of the share class.

^[f] 27 April 2018, the launch date of the share class. Not annualised.

^[g] 16 January 2015, the launch date of the share class.

^[h] Price to price with income reinvested.

^[i] 8 December 2006, the launch date of the predecessor OEIC sub-fund.

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

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

^[l] 1 October 2010, 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, comprising operating charges and portfolio transaction costs.

Operating charges

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

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

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

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

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

M&G Optimal Income Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs				
for the year to 30 September	2018	2017	2016	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.01	0.01	0.01	0.01
Taxes	0.01	0.00	0.00	0.00
Costs before dilution adjustments	0.02	0.01	0.01	0.01
Dilution adjustments ^[c]	0.00	0.00	(0.01)	0.00
Total direct portfolio transaction costs	0.02	0.01	0.00	0.01
as at 30 September	2018	2017	2016	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.48	0.56	0.72	0.59

^[a] Average of first three columns.

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

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

Specific share class performance

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

Euro Class 'A-H' Income share performance

The share class was launched on 12 July 2013.

for the year to 30 September	2018	2017	2016
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	1,788.31	1,759.17	1,707.94
Return before operating charges and after direct portfolio transaction costs	8.78	113.95	121.87
Operating charges	(25.29)	(25.53)	(24.75)
Return after operating charges	(16.51)	88.42	97.12
Distributions	(50.82)	(59.28)	(45.89)
Closing NAV	1,720.98	1,788.31	1,759.17
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.27	0.11	0.18
Dilution adjustments ^[a]	(0.02)	(0.02)	(0.12)
Total direct portfolio transaction costs	0.25	0.09	0.06
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	1.43	1.42	1.42
Return after operating charges	-0.92	+5.03	+5.69
Distribution yield ^[c]	3.22	2.65	3.46
Effect on yield of charges offset against capital	1.42	1.42	1.40
Other information			
Closing NAV (£'000)	1,230,090	943,978	632,664
Closing NAV percentage of total fund NAV (%)	5.33	4.57	4.10
Number of shares	80,483,953	59,803,306	41,757,012
Highest share price (Euro ¢)	1,824.82	1,824.50	1,804.07
Lowest share price (Euro ¢)	1,737.10	1,748.54	1,659.55

M&G Optimal Income Fund

Financial highlights

Specific share class performance

Euro Class 'A-H' Accumulation share performance

The share class was launched on 20 April 2007.

for the year to 30 September Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	2,006.73	1,911.10	1,806.43
Return before operating charges and after direct portfolio transaction costs	10.29	123.60	130.95
Operating charges	(28.60)	(27.97)	(26.28)
Return after operating charges	(18.31)	95.63	104.67
Distributions	(29.08)	(37.08)	(44.64)
Retained distributions	29.08	37.08	44.64
Closing NAV	1,988.42	2,006.73	1,911.10

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.30	0.12	0.19
Dilution adjustments ^[a]	(0.03)	(0.02)	(0.13)
Total direct portfolio transaction costs	0.27	0.10	0.06

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	1.43	1.42	1.43
Return after operating charges	-0.91	+5.00	+5.79
Distribution yield	1.80	1.24	2.06
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (£'000)	10,835,752	10,412,614	7,574,320
Closing NAV percentage of total fund NAV (%)	46.91	50.46	49.10
Number of shares	613,617,080	587,864,064	460,177,565
Highest share price (Euro ¢)	2,047.48	2,016.79	1,930.16
Lowest share price (Euro ¢)	1,974.01	1,898.80	1,754.78

Euro Class 'B-H' Income share performance

The share class was launched on 11 September 2015.

for the year to 30 September Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,019.30	1,007.55	978.76
Return before operating charges and after direct portfolio transaction costs	4.70	65.36	71.18
Operating charges	(19.36)	(19.76)	(19.81)
Return after operating charges	(14.66)	45.60	51.37
Distributions	(28.88)	(33.85)	(22.58)
Closing NAV	975.76	1,019.30	1,007.55

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.15	0.06	0.11
Dilution adjustments ^[a]	(0.01)	(0.01)	(0.07)
Total direct portfolio transaction costs	0.14	0.05	0.04

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	1.93	1.92	1.92
Return after operating charges	-1.44	+4.53	+5.25
Distribution yield ^[c]	3.23	2.66	3.46
Effect on yield of charges offset against capital	1.92	1.92	1.90

Other information

Closing NAV (£'000)	86,967	42,741	7,814
Closing NAV percentage of total fund NAV (%)	0.38	0.21	0.05
Number of shares	10,035,934	4,750,594	900,419
Highest share price (Euro ¢)	1,038.20	1,040.52	1,031.89
Lowest share price (Euro ¢)	986.11	1,000.81	949.77

Euro Class 'B-H' Accumulation share performance

The share class was launched on 11 September 2015.

for the year to 30 September Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,085.82	1,039.47	987.73
Return before operating charges and after direct portfolio transaction costs	5.16	67.00	72.13
Operating charges	(20.77)	(20.65)	(20.39)
Return after operating charges	(15.61)	46.35	51.74
Distributions	(10.30)	(14.87)	(19.71)
Retained distributions	10.30	14.87	19.71
Closing NAV	1,070.21	1,085.82	1,039.47

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.16	0.06	0.11
Dilution adjustments ^[a]	(0.01)	(0.01)	(0.07)
Total direct portfolio transaction costs	0.15	0.05	0.04

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	1.93	1.92	1.92
Return after operating charges	-1.44	+4.46	+5.24
Distribution yield	1.30	0.74	1.59
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (£'000)	278,185	128,396	19,007
Closing NAV percentage of total fund NAV (%)	1.20	0.62	0.12
Number of shares	29,269,104	13,396,798	2,123,070
Highest share price (Euro ¢)	1,105.95	1,091.83	1,050.39
Lowest share price (Euro ¢)	1,063.84	1,031.55	958.51

Euro Class 'C-H' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 September Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,913.30	1,873.49	1,818.35
Return before operating charges and after direct portfolio transaction costs	9.34	120.81	128.75
Operating charges	(17.59)	(17.70)	(17.13)
Return after operating charges	(8.25)	103.11	111.62
Distributions	(54.56)	(63.30)	(56.48)
Closing NAV	1,850.49	1,913.30	1,873.49

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.29	0.12	0.19
Dilution adjustments ^[a]	(0.03)	(0.02)	(0.13)
Total direct portfolio transaction costs	0.26	0.10	0.06

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	0.93	0.92	0.92
Return after operating charges	-0.43	+5.50	+6.14
Distribution yield ^[c]	3.22	2.65	3.47
Effect on yield of charges offset against capital	0.92	0.92	0.90

Other information

Closing NAV (£'000)	135,281	76,665	46,043
Closing NAV percentage of total fund NAV (%)	0.59	0.37	0.30
Number of shares	8,231,863	4,539,657	2,853,464
Highest share price (Euro ¢)	1,955.57	1,951.99	1,923.83
Lowest share price (Euro ¢)	1,865.66	1,863.02	1,770.37

M&G Optimal Income Fund

Financial highlights

Specific share class performance

Euro Class 'C-H' Accumulation share performance

The share class was launched on 20 April 2007.

for the year to 30 September Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	2,119.80	2,009.92	1,893.03
Return before operating charges and after direct portfolio transaction costs	9.85	129.04	134.79
Operating charges	(19.66)	(19.16)	(17.90)
Return after operating charges	(9.81)	109.88	116.89
Distributions	(41.37)	(49.48)	(56.11)
Retained distributions	41.37	49.48	56.11
Closing NAV	2,109.99	2,119.80	2,009.92
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.32	0.12	0.20
Dilution adjustments ^[a]	(0.03)	(0.02)	(0.13)
Total direct portfolio transaction costs	0.29	0.10	0.07
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	0.93	0.92	0.93
Return after operating charges	-0.46	+5.47	+6.17
Distribution yield	2.30	1.74	2.56
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	4,233,997	2,966,470	1,785,131
Closing NAV percentage of total fund NAV (%)	18.33	14.37	11.57
Number of shares	225,951,828	158,544,651	103,122,734
Highest share price (Euro ¢)	2,166.38	2,130.49	2,029.79
Lowest share price (Euro ¢)	2,092.40	1,997.26	1,842.59

Euro Class 'J-H' Accumulation share performance

The share class was launched on 27 April 2018.

for the year to 30 September Change in NAV per share	2018 Euro ¢	2017 Euro ¢	2016 Euro ¢
Opening NAV	1,000.00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	(12.27)	n/a	n/a
Operating charges	(3.23)	n/a	n/a
Return after operating charges	(15.50)	n/a	n/a
Distributions	(10.37)	n/a	n/a
Retained distributions	10.37	n/a	n/a
Closing NAV	984.50	n/a	n/a
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.06	n/a	n/a
Dilution adjustments ^[a]	(0.01)	n/a	n/a
Total direct portfolio transaction costs	0.05	n/a	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	n/a	n/a
Operating charges	0.78	n/a	n/a
Return after operating charges	-1.55	n/a	n/a
Distribution yield	2.45	n/a	n/a
Effect on yield of charges offset against capital	0.00	n/a	n/a
Other information			
Closing NAV (£'000)	48	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0.00	n/a	n/a
Number of shares	5,443	n/a	n/a
Highest share price (Euro ¢)	1,000.00	n/a	n/a
Lowest share price (Euro ¢)	976.00	n/a	n/a

Singapore dollar Class 'A-H' Accumulation share performance

The share class was launched on 16 January 2015.

for the year to 30 September Change in NAV per share	2018 Singapore ¢	2017 Singapore ¢	2016 Singapore ¢
Opening NAV	1,122.87	1,053.49	981.11
Return before operating charges and after direct portfolio transaction costs	27.11	84.90	86.66
Operating charges	(16.14)	(15.52)	(14.28)
Return after operating charges	10.97	69.38	72.38
Distributions	(16.57)	(20.69)	(24.18)
Retained distributions	16.57	20.69	24.18
Closing NAV	1,133.84	1,122.87	1,053.49
Direct portfolio transaction costs	Singapore ¢	Singapore ¢	Singapore ¢
Costs before dilution adjustments	0.17	0.07	0.10
Dilution adjustments ^[a]	(0.02)	(0.01)	(0.07)
Total direct portfolio transaction costs	0.15	0.06	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	1.43	1.42	1.42
Return after operating charges	+0.98	+6.59	+7.38
Distribution yield	1.78	1.24	2.05
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	12,328	7,287	4,220
Closing NAV percentage of total fund NAV (%)	0.05	0.04	0.03
Number of shares	1,940,251	1,178,959	708,563
Highest share price (Singapore ¢)	1,152.45	1,128.50	1,063.33
Lowest share price (Singapore ¢)	1,120.11	1,048.47	959.86

Singapore dollar Class 'A-H M' Income share performance

The share class was launched on 16 January 2015.

for the year to 30 September Change in NAV per share	2018 Singapore ¢	2017 Singapore ¢	2016 Singapore ¢
Opening NAV	1,043.57	1,012.82	967.62
Return before operating charges and after direct portfolio transaction costs	25.32	79.35	85.35
Operating charges	(14.86)	(14.59)	(14.08)
Return after operating charges	10.46	64.76	71.27
Distributions	(29.87)	(34.01)	(26.07)
Closing NAV	1,024.16	1,043.57	1,012.82
Direct portfolio transaction costs	Singapore ¢	Singapore ¢	Singapore ¢
Costs before dilution adjustments	0.16	0.06	0.10
Dilution adjustments ^[a]	(0.01)	(0.01)	(0.07)
Total direct portfolio transaction costs	0.15	0.05	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	1.43	1.42	1.42
Return after operating charges	+1.00	+6.39	+7.37
Distribution yield ^[c]	3.19	2.64	3.44
Effect on yield of charges offset against capital	1.42	1.42	1.40
Other information			
Closing NAV (£'000)	27,989	31,400	8,506
Closing NAV percentage of total fund NAV (%)	0.12	0.15	0.05
Number of shares	4,876,862	5,466,243	1,485,519
Highest share price (Singapore ¢)	1,064.42	1,051.73	1,025.91
Lowest share price (Singapore ¢)	1,019.77	1,003.37	939.62

M&G Optimal Income Fund

Financial highlights

Specific share class performance

Singapore dollar Class 'C-H' Accumulation share performance

The share class was launched on 16 January 2015.

for the year to 30 September Change in NAV per share	2018 Singapore ¢	2017 Singapore ¢	2016 Singapore ¢
Opening NAV	1,137.78	1,062.74	984.33
Return before operating charges and after direct portfolio transaction costs	27.09	85.22	87.45
Operating charges	(10.62)	(10.18)	(9.04)
Return after operating charges	16.47	75.04	78.41
Distributions	(22.60)	(26.43)	(29.41)
Retained distributions	22.60	26.43	29.41
Closing NAV	1,154.25	1,137.78	1,062.74

Direct portfolio transaction costs	Singapore ¢	Singapore ¢	Singapore ¢
Costs before dilution adjustments	0.17	0.07	0.10
Dilution adjustments ^[a]	(0.02)	(0.01)	(0.07)
Total direct portfolio transaction costs	0.15	0.06	0.03

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	0.93	0.92	0.93
Return after operating charges	+1.45	+7.06	+7.97
Distribution yield	2.27	1.74	2.54
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information			
Closing NAV (£'000)	2,781	287	40
Closing NAV percentage of total fund NAV (%)	0.01	0.00	0.00
Number of shares	429,973	45,859	6,597
Highest share price (Singapore ¢)	1,169.88	1,143.53	1,072.38
Lowest share price (Singapore ¢)	1,139.05	1,058.06	964.72

Sterling Class 'A' Income share performance

The share class was launched on 8 December 2006.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	149.42	145.75	140.09
Return before operating charges and after direct portfolio transaction costs	2.40	10.70	11.56
Operating charges	(2.10)	(2.09)	(2.01)
Return after operating charges	0.30	8.61	9.55
Distributions	(4.29)	(4.94)	(3.89)
Closing NAV	145.43	149.42	145.75

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.01	0.01
Dilution adjustments ^[a]	0.00	0.00	(0.01)
Total direct portfolio transaction costs	0.02	0.01	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	1.41	1.40	1.41
Return after operating charges	+0.20	+5.91	+6.82
Distribution yield ^[c]	3.21	2.66	3.51
Effect on yield of charges offset against capital	1.40	1.40	1.40

Other information			
Closing NAV (£'000)	194,487	232,904	226,156
Closing NAV percentage of total fund NAV (%)	0.84	1.13	1.47
Number of shares	133,728,970	155,877,179	155,166,606
Highest share price (UK p)	152.96	152.46	149.02
Lowest share price (UK p)	146.34	145.05	136.13

Sterling Class 'A' Accumulation share performance

The share class was launched on 8 December 2006.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	208.53	196.82	185.07
Return before operating charges and after direct portfolio transaction costs	3.35	14.56	15.36
Operating charges	(2.95)	(2.85)	(2.67)
Return after operating charges	0.40	11.71	12.69
Distributions	(3.09)	(3.89)	(4.70)
Retained distributions	3.09	3.89	3.76
Closing NAV	208.93	208.53	196.82

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.03	0.01	0.02
Dilution adjustments ^[a]	0.00	0.00	(0.01)
Total direct portfolio transaction costs	0.03	0.01	0.01

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	1.41	1.40	1.41
Return after operating charges	+0.19	+5.95	+6.86
Distribution yield	1.81	1.26	2.10
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information			
Closing NAV (£'000)	518,684	567,587	650,497
Closing NAV percentage of total fund NAV (%)	2.25	2.75	4.22
Number of shares	248,252,722	272,182,254	330,507,238
Highest share price (UK p)	213.47	209.59	198.72
Lowest share price (UK p)	206.80	195.86	179.84

Sterling Class 'I' Income share performance

The share class was launched on 8 December 2006.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	150.29	145.86	140.07
Return before operating charges and after direct portfolio transaction costs	2.41	10.73	11.57
Operating charges	(1.36)	(1.35)	(1.30)
Return after operating charges	1.05	9.38	10.27
Distributions	(4.32)	(4.95)	(4.48)
Closing NAV	147.02	150.29	145.86

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.01	0.01
Dilution adjustments ^[a]	0.00	0.00	(0.01)
Total direct portfolio transaction costs	0.02	0.01	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	0.91	0.90	0.91
Return after operating charges	+0.70	+6.43	+7.33
Distribution yield ^[c]	3.21	2.66	3.50
Effect on yield of charges offset against capital	0.90	0.90	0.90

Other information			
Closing NAV (£'000)	1,644,599	1,443,654	1,366,215
Closing NAV percentage of total fund NAV (%)	7.12	7.00	8.86
Number of shares	1,118,627,773	960,593,216	936,630,031
Highest share price (UK p)	154.11	153.35	149.29
Lowest share price (UK p)	147.76	145.27	136.31

M&G Optimal Income Fund

Financial highlights

Specific share class performance

Sterling Class 'T' Accumulation share performance

The share class was launched on 8 December 2006.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	217.46	204.22	191.26
Return before operating charges and after direct portfolio transaction costs	3.49	15.15	15.92
Operating charges	(1.99)	(1.91)	(1.79)
Return after operating charges	1.50	13.24	14.13
Distributions	(4.33)	(5.09)	(5.84)
Retained distributions	4.33	5.09	4.67
Closing NAV	218.96	217.46	204.22

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.03	0.01	0.02
Dilution adjustments ^[a]	0.00	0.00	(0.01)
Total direct portfolio transaction costs	0.03	0.01	0.01

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	0.91	0.91	0.91
Return after operating charges	+0.69	+6.48	+7.39
Distribution yield	2.31	1.76	2.60
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (£'000)	1,527,682	1,448,476	1,400,480
Closing NAV percentage of total fund NAV (%)	6.61	7.02	9.08
Number of shares	697,689,230	666,103,023	685,772,367
Highest share price (UK p)	222.98	218.55	206.15
Lowest share price (UK p)	216.46	203.38	186.13

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	116.47	113.32	108.87
Return before operating charges and after direct portfolio transaction costs	1.88	8.33	8.99
Operating charges	(1.35)	(1.34)	(1.29)
Return after operating charges	0.53	6.99	7.70
Distributions	(3.35)	(3.84)	(3.25)
Closing NAV	113.65	116.47	113.32

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.01	0.01
Dilution adjustments ^[a]	0.00	0.00	(0.01)
Total direct portfolio transaction costs	0.02	0.01	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	1.16	1.15	1.16
Return after operating charges	+0.46	+6.17	+7.07
Distribution yield ^[c]	3.21	2.66	3.50
Effect on yield of charges offset against capital	1.15	1.15	1.15

Other information

Closing NAV (£'000)	4,527	3,357	3,697
Closing NAV percentage of total fund NAV (%)	0.02	0.02	0.02
Number of shares	3,983,387	2,882,478	3,262,632
Highest share price (UK p)	119.33	118.84	115.92
Lowest share price (UK p)	114.29	112.82	105.88

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	131.53	123.83	116.20
Return before operating charges and after direct portfolio transaction costs	2.11	9.18	9.66
Operating charges	(1.53)	(1.48)	(1.38)
Return after operating charges	0.58	7.70	8.28
Distributions	(2.28)	(2.77)	(3.25)
Retained distributions	2.28	2.77	2.60
Closing NAV	132.11	131.53	123.83

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.01	0.01
Dilution adjustments ^[a]	0.00	0.00	(0.01)
Total direct portfolio transaction costs	0.02	0.01	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	1.16	1.15	1.16
Return after operating charges	+0.44	+6.22	+7.13
Distribution yield	2.06	1.51	2.35
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (£'000)	13,805	8,003	6,994
Closing NAV percentage of total fund NAV (%)	0.06	0.04	0.04
Number of shares	10,449,269	6,084,256	5,647,628
Highest share price (UK p)	134.76	132.19	125.02
Lowest share price (UK p)	130.68	123.28	113.00

Sterling Class 'X' Income share performance

The share class was launched on 8 December 2006.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	149.18	145.60	140.00
Return before operating charges and after direct portfolio transaction costs	2.40	10.68	11.56
Operating charges	(2.10)	(2.17)	(2.37)
Return after operating charges	0.30	8.51	9.19
Distributions	(4.28)	(4.93)	(3.59)
Closing NAV	145.20	149.18	145.60

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.01	0.01
Dilution adjustments ^[a]	0.00	0.00	(0.01)
Total direct portfolio transaction costs	0.02	0.01	0.00

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	1.41	1.46*	1.66
Return after operating charges	+0.20	+5.84	+6.56
Distribution yield ^[c]	3.21	2.66	3.50
Effect on yield of charges offset against capital	1.40	1.40	1.65

Other information

Closing NAV (£'000)	55,974	68,128	78,484
Closing NAV percentage of total fund NAV (%)	0.24	0.33	0.51
Number of shares	38,548,555	45,668,067	53,905,220
Highest share price (UK p)	152.72	152.22	148.78
Lowest share price (UK p)	146.11	144.85	135.95

* As the annual management charge has been discounted during the period, 1.41% is a more reliable estimate of the operating charges for the period to 30.09.17.

M&G Optimal Income Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Accumulation share performance

The share class was launched on 8 December 2006.

for the year to 30 September Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	204.25	192.88	181.72
Return before operating charges and after direct portfolio transaction costs	3.29	14.27	15.08
Operating charges	(2.89)	(2.90)	(3.09)
Return after operating charges	0.40	11.37	11.99
Distributions	(3.03)	(3.71)	(4.14)
Retained distributions	3.03	3.71	3.31
Closing NAV	204.65	204.25	192.88

Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.03	0.01	0.02
Dilution adjustments ^[a]	0.00	0.00	(0.01)
Total direct portfolio transaction costs	0.03	0.01	0.01

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	1.41	1.46*	1.66
Return after operating charges	+0.20	+5.89	+6.60
Distribution yield	1.81	1.17	1.86
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (£'000)	56,226	63,513	75,557
Closing NAV percentage of total fund NAV (%)	0.24	0.31	0.49
Number of shares	27,474,902	31,095,408	39,173,748
Highest share price (UK p)	209.09	205.28	194.77
Lowest share price (UK p)	202.55	191.88	176.46

* As the annual management charge has been discounted during the period, 1.41% is a more reliable estimate of the operating charges for the period to 30.09.17.

Swiss Franc Class 'A-H' Income share performance

The share class was launched on 16 January 2015.

for the year to 30 September Change in NAV per share	2018 Swiss ¢	2017 Swiss ¢	2016 Swiss ¢
Opening NAV	1,135.33	1,121.90	1,096.99
Return before operating charges and after direct portfolio transaction costs	0.88	67.26	69.69
Operating charges	(15.99)	(16.15)	(15.58)
Return after operating charges	(15.11)	51.11	54.11
Distributions	(32.28)	(37.68)	(29.20)
Closing NAV	1,087.94	1,135.33	1,121.90

Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.17	0.07	0.11
Dilution adjustments ^[a]	(0.02)	(0.01)	(0.08)
Total direct portfolio transaction costs	0.15	0.06	0.03

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	1.43	1.42	1.43
Return after operating charges	-1.33	+4.56	+4.93
Distribution yield ^[c]	3.23	2.65	3.44
Effect on yield of charges offset against capital	1.42	1.42	1.40

Other information

Closing NAV (£'000)	6,395	4,002	893
Closing NAV percentage of total fund NAV (%)	0.03	0.02	0.01
Number of shares	748,662	457,076	100,508
Highest share price (Swiss ¢)	1,156.45	1,159.08	1,150.71
Lowest share price (Swiss ¢)	1,099.12	1,114.32	1,062.38

Swiss franc Class 'A-H' Accumulation share performance

The share class was launched on 28 September 2012.

for the year to 30 September Change in NAV per share	2018 Swiss ¢	2017 Swiss ¢	2016 Swiss ¢
Opening NAV	1,228.94	1,175.12	1,119.62
Return before operating charges and after direct portfolio transaction costs	1.21	70.94	71.54
Operating charges	(17.48)	(17.12)	(16.04)
Return after operating charges	(16.27)	53.82	55.50
Distributions	(17.83)	(22.81)	(27.09)
Retained distributions	17.83	22.81	27.09
Closing NAV	1,212.67	1,228.94	1,175.12

Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.18	0.07	0.11
Dilution adjustments ^[a]	(0.02)	(0.01)	(0.08)
Total direct portfolio transaction costs	0.16	0.06	0.03

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	1.43	1.42	1.43
Return after operating charges	-1.32	+4.58	+4.96
Distribution yield	1.81	1.24	2.05
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (£'000)	55,422	52,405	45,526
Closing NAV percentage of total fund NAV (%)	0.24	0.25	0.30
Number of shares	5,820,302	5,529,819	4,893,433
Highest share price (Swiss ¢)	1,252.26	1,235.85	1,187.49
Lowest share price (Swiss ¢)	1,204.93	1,166.57	1,084.10

Swiss franc Class 'C-H' Income share performance

The share class was launched on 16 January 2015.

for the year to 30 September Change in NAV per share	2018 Swiss ¢	2017 Swiss ¢	2016 Swiss ¢
Opening NAV	1,153.01	1,133.50	1,106.76
Return before operating charges and after direct portfolio transaction costs	1.14	68.33	71.46
Operating charges	(10.59)	(10.65)	(10.51)
Return after operating charges	(9.45)	57.68	60.95
Distributions	(32.85)	(38.17)	(34.21)
Closing NAV	1,110.71	1,153.01	1,133.50

Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.17	0.07	0.12
Dilution adjustments ^[a]	(0.02)	(0.01)	(0.08)
Total direct portfolio transaction costs	0.15	0.06	0.04

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	0.93	0.92	0.92
Return after operating charges	-0.82	+5.09	+5.51
Distribution yield ^[c]	3.23	2.64	3.45
Effect on yield of charges offset against capital	0.92	0.92	0.90

Other information

Closing NAV (£'000)	22,201	14,127	6,010
Closing NAV percentage of total fund NAV (%)	0.10	0.07	0.04
Number of shares	2,545,553	1,588,893	669,753
Highest share price (Swiss ¢)	1,176.77	1,176.45	1,164.20
Lowest share price (Swiss ¢)	1,120.63	1,126.72	1,073.85

M&G Optimal Income Fund

Financial highlights

Specific share class performance

Swiss franc Class 'C-H' Accumulation share performance

The share class was launched on 28 September 2012.

for the year to 30 September Change in NAV per share	2018 Swiss ¢	2017 Swiss ¢	2016 Swiss ¢
Opening NAV	1,259.03	1,198.39	1,135.82
Return before operating charges and after direct portfolio transaction costs	1.11	72.02	73.47
Operating charges	(11.65)	(11.38)	(10.90)
Return after operating charges	(10.54)	60.64	62.57
Distributions	(24.60)	(29.44)	(33.54)
Retained distributions	24.60	29.44	33.54
Closing NAV	1,248.49	1,259.03	1,198.39

Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.19	0.07	0.12
Dilution adjustments ^[a]	(0.02)	(0.01)	(0.08)
Total direct portfolio transaction costs	0.17	0.06	0.04

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	0.93	0.92	0.92
Return after operating charges	-0.84	+5.06	+5.51
Distribution yield	2.31	1.73	2.55
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (£'000)	125,851	105,038	72,848
Closing NAV percentage of total fund NAV (%)	0.54	0.51	0.47
Number of shares	12,837,343	10,818,636	7,678,121
Highest share price (Swiss ¢)	1,284.73	1,265.42	1,210.70
Lowest share price (Swiss ¢)	1,239.11	1,190.42	1,102.21

Swiss franc Class 'J-H' Accumulation share performance

The share class was launched on 27 April 2018.

for the year to 30 September Change in NAV per share	2018 Swiss ¢	2017 Swiss ¢	2016 Swiss ¢
Opening NAV	1,000.00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	(13.37)	n/a	n/a
Operating charges	(3.24)	n/a	n/a
Return after operating charges	(16.61)	n/a	n/a
Distributions	(10.34)	n/a	n/a
Retained distributions	10.34	n/a	n/a
Closing NAV	983.39	n/a	n/a

Direct portfolio transaction costs	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0.06	n/a	n/a
Dilution adjustments ^[a]	(0.01)	n/a	n/a
Total direct portfolio transaction costs	0.05	n/a	n/a

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	n/a	n/a
Operating charges	0.77	n/a	n/a
Return after operating charges	-1.66	n/a	n/a
Distribution yield	2.46	n/a	n/a
Effect on yield of charges offset against capital	0.00	n/a	n/a

Other information

Closing NAV (£'000)	42	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0.00	n/a	n/a
Number of shares	5,442	n/a	n/a
Highest share price (Swiss ¢)	1,000.00	n/a	n/a
Lowest share price (Swiss ¢)	975.54	n/a	n/a

US dollar Class 'A-H' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 September Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,391.99	1,343.54	1,293.09
Return before operating charges and after direct portfolio transaction costs	44.19	113.42	103.41
Operating charges	(19.97)	(19.64)	(18.67)
Return after operating charges	24.22	93.78	84.74
Distributions	(40.21)	(45.33)	(34.29)
Closing NAV	1,376.00	1,391.99	1,343.54

Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.21	0.08	0.13
Dilution adjustments ^[a]	(0.02)	(0.01)	(0.09)
Total direct portfolio transaction costs	0.19	0.07	0.04

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	1.43	1.42	1.43
Return after operating charges	+1.74	+6.98	+6.55
Distribution yield ^[c]	3.19	2.63	3.44
Effect on yield of charges offset against capital	1.42	1.42	1.40

Other information

Closing NAV (£'000)	70,272	57,650	60,931
Closing NAV percentage of total fund NAV (%)	0.30	0.28	0.39
Number of shares	6,660,054	5,543,011	5,879,099
Highest share price (US ¢)	1,432.01	1,420.52	1,375.33
Lowest share price (US ¢)	1,379.61	1,339.09	1,259.05

US dollar Class 'A-H' Accumulation share performance

The share class was launched on 1 October 2010.

for the year to 30 September Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,517.72	1,418.75	1,331.90
Return before operating charges and after direct portfolio transaction costs	48.29	119.86	106.24
Operating charges	(21.92)	(20.89)	(19.39)
Return after operating charges	26.37	98.97	86.85
Distributions	(22.21)	(27.42)	(32.13)
Retained distributions	22.21	27.42	32.13
Closing NAV	1,544.09	1,517.72	1,418.75

Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.23	0.09	0.14
Dilution adjustments ^[a]	(0.02)	(0.02)	(0.09)
Total direct portfolio transaction costs	0.21	0.07	0.05

Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	1.43	1.42	1.42
Return after operating charges	+1.74	+6.98	+6.52
Distribution yield	1.78	1.23	2.05
Effect on yield of charges offset against capital	0.00	0.00	0.00

Other information

Closing NAV (£'000)	1,403,614	1,515,369	1,067,522
Closing NAV percentage of total fund NAV (%)	6.08	7.34	6.92
Number of shares	118,545,066	133,633,312	97,542,216
Highest share price (US ¢)	1,561.36	1,525.67	1,431.21
Lowest share price (US ¢)	1,523.26	1,413.13	1,296.56

M&G Optimal Income Fund

Financial highlights

Specific share class performance

US dollar Class 'A-H M' Income share performance

The share class was launched on 16 January 2015.

for the year to 30 September Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,037.39	1,001.57	964.15
Return before operating charges and after direct portfolio transaction costs	32.95	83.59	76.70
Operating charges	(14.77)	(14.41)	(13.85)
Return after operating charges	18.18	69.18	62.85
Distributions	(29.57)	(33.36)	(25.43)
Closing NAV	1,026.00	1,037.39	1,001.57
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.16	0.06	0.10
Dilution adjustments ^[a]	(0.01)	(0.01)	(0.07)
Total direct portfolio transaction costs	0.15	0.05	0.03
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	1.43	1.42	1.43
Return after operating charges	+1.75	+6.91	+6.52
Distribution yield ^[c]	3.19	2.62	3.44
Effect on yield of charges offset against capital	1.42	1.42	1.40
Other information			
Closing NAV (£'000)	107,533	77,397	17,620
Closing NAV percentage of total fund NAV (%)	0.47	0.37	0.11
Number of shares	13,668,037	9,985,406	2,280,655
Highest share price (US ¢)	1,059.91	1,044.51	1,013.99
Lowest share price (US ¢)	1,020.04	994.21	932.10

US dollar Class 'C-H' Income share performance

The share class was launched on 8 August 2014.

for the year to 30 September Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,425.90	1,369.72	1,316.85
Return before operating charges and after direct portfolio transaction costs	45.39	115.56	105.94
Operating charges	(13.32)	(13.01)	(12.46)
Return after operating charges	32.07	102.55	93.48
Distributions	(41.29)	(46.37)	(40.61)
Closing NAV	1,416.68	1,425.90	1,369.72
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.22	0.08	0.14
Dilution adjustments ^[a]	(0.02)	(0.01)	(0.09)
Total direct portfolio transaction costs	0.20	0.07	0.05
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	0.93	0.92	0.92
Return after operating charges	+2.25	+7.49	+7.10
Distribution yield ^[c]	3.19	2.62	3.45
Effect on yield of charges offset against capital	0.92	0.92	0.90
Other information			
Closing NAV (£'000)	95,937	65,331	31,837
Closing NAV percentage of total fund NAV (%)	0.42	0.32	0.21
Number of shares	8,831,269	6,132,234	3,013,204
Highest share price (US ¢)	1,469.34	1,455.08	1,404.04
Lowest share price (US ¢)	1,418.59	1,365.89	1,284.61

US dollar Class 'C-H' Accumulation share performance

The share class was launched on 1 October 2010.

for the year to 30 September Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,571.98	1,463.05	1,366.78
Return before operating charges and after direct portfolio transaction costs	49.89	122.94	109.24
Operating charges	(14.79)	(14.01)	(12.97)
Return after operating charges	35.10	108.93	96.27
Distributions	(31.10)	(35.92)	(40.03)
Retained distributions	31.10	35.92	40.03
Closing NAV	1,607.08	1,571.98	1,463.05
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.24	0.09	0.14
Dilution adjustments ^[a]	(0.02)	(0.02)	(0.10)
Total direct portfolio transaction costs	0.22	0.07	0.04
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.01	0.00
Operating charges	0.93	0.92	0.92
Return after operating charges	+2.23	+7.45	+7.04
Distribution yield	2.28	1.72	2.54
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	350,816	300,244	237,933
Closing NAV percentage of total fund NAV (%)	1.52	1.45	1.54
Number of shares	28,467,564	25,563,132	21,082,338
Highest share price (US ¢)	1,619.49	1,579.91	1,475.46
Lowest share price (US ¢)	1,579.94	1,458.01	1,332.73

US dollar Class 'J-H' Income share performance

The share class was launched on 27 April 2018.

for the year to 30 September Change in NAV per share	2018 US ¢	2017 US ¢	2016 US ¢
Opening NAV	1,000.00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	0.15	n/a	n/a
Operating charges	(3.30)	n/a	n/a
Return after operating charges	(3.15)	n/a	n/a
Distributions	(16.23)	n/a	n/a
Closing NAV	980.62	n/a	n/a
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.07	n/a	n/a
Dilution adjustments ^[a]	(0.01)	n/a	n/a
Total direct portfolio transaction costs	0.06	n/a	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	n/a	n/a
Operating charges	0.77	n/a	n/a
Return after operating charges	-0.32	n/a	n/a
Distribution yield	3.19	n/a	n/a
Effect on yield of charges offset against capital	0.77	n/a	n/a
Other information			
Closing NAV (£'000)	41	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0.00	n/a	n/a
Number of shares	5,403	n/a	n/a
Highest share price (US ¢)	1,002.00	n/a	n/a
Lowest share price (US ¢)	981.49	n/a	n/a

M&G Optimal Income Fund

Financial highlights

Specific share class performance

US dollar Class 'J-H' Accumulation share performance

The share class was launched on 27 April 2018.

for the year to 30 September	2018	2017	2016
Change in NAV per share	US ¢	US ¢	US ¢
Opening NAV	1,000.00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	0.14	n/a	n/a
Operating charges	(3.30)	n/a	n/a
Return after operating charges	(3.16)	n/a	n/a
Distributions	(10.43)	n/a	n/a
Retained distributions	10.43	n/a	n/a
Closing NAV	996.84	n/a	n/a
Direct portfolio transaction costs	US ¢	US ¢	US ¢
Costs before dilution adjustments	0.07	n/a	n/a
Dilution adjustments ^[a]	(0.01)	n/a	n/a
Total direct portfolio transaction costs	0.06	n/a	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	n/a	n/a
Operating charges	0.77	n/a	n/a
Return after operating charges	-0.32	n/a	n/a
Distribution yield	2.42	n/a	n/a
Effect on yield of charges offset against capital	0.00	n/a	n/a
Other information			
Closing NAV (£'000)	41	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0.00	n/a	n/a
Number of shares	5,408	n/a	n/a
Highest share price (US ¢)	1,002.00	n/a	n/a
Lowest share price (US ¢)	981.49	n/a	n/a

^[a] In respect of direct portfolio transaction costs.

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

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

M&G Optimal Income Fund

Financial statements and notes

Financial statements

Statement of total return

for the year to 30 September	Note	2018		2017	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	5		(341,178)		792,993
Revenue	7	666,771		583,127	
Expenses	8	(289,815)		(224,806)	
Net revenue / (expense) before taxation		376,956		358,321	
Taxation	9	(3,423)		(3,918)	
Net revenue / (expense) after taxation			373,533		354,403
Total return before distributions			32,355		1,147,396
Distributions	10		(414,250)		(385,386)
Change in net assets attributable to shareholders from investment activities			(381,895)		762,010

Statement of change in net assets attributable to shareholders

for the year to 30 September		2018		2017	
		£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders					
			20,637,023		15,426,945
Amounts received on issue of shares	5,796,698			5,312,755	
Amounts paid on cancellation of shares	(3,283,305)			(1,196,939)	
			2,513,393		4,115,816
Dilution adjustments			13,131		13,302
Change in net assets attributable to shareholders from investment activities (see above)			(381,895)		762,010
Retained distributions on Accumulation shares			315,906		318,945
Unclaimed distributions			9		5
Closing net assets attributable to shareholders			23,097,567		20,637,023

Balance sheet

as at 30 September	Note	2018	2017
		£'000	£'000
Assets			
Fixed assets			
Investments		22,625,809	20,195,349
Current assets			
Debtors	11	436,013	895,692
Cash and bank balances	12	325,238	553,992
Cash equivalents		278,830	245,355
Total assets		23,665,890	21,890,388
Liabilities			
Investment liabilities		(181,237)	(444,594)
Creditors			
Bank overdrafts		(41,435)	0
Overdrawn positions at futures clearing houses and collateral manager		(43,685)	(3,747)
Distribution payable		(59,654)	(45,360)
Other creditors	13	(242,312)	(759,664)
Total liabilities		(568,323)	(1,253,365)
Net assets attributable to shareholders		23,097,567	20,637,023

Notes to the financial statements

1 Statement of compliance

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

2 Summary of significant accounting policies

a) Basis of preparation

The financial statements 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 Optimal Income Fund is UK sterling.

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 28 September 2018 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 28 September 2018, 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.

M&G Optimal Income Fund

Financial statements and notes

Notes to the financial statements

2 Summary of significant accounting policies (continued)

d) Investments - recognition and valuation (continued)

- Collective investment schemes operated by another manager are included at either their bid price for dual priced funds or their single price for single priced funds.
- Other equities and debt securities which are unquoted or not actively traded on a quoted market are included at a value estimated by the ACD using an appropriate valuation technique, excluding any accrued interest in respect of bonds.
- Exchange traded futures and options are included at the cost of closing out the contract at the balance sheet date.
- Over the counter equity options, credit default swaps, interest rate swaps, asset swaps and inflation swaps are included at a value provided by Markit Valuations Limited, an independent credit derivative price provider. Their fair value excludes any accrued interest in respect of derivatives where the income is revenue in nature.
- Forward currency contracts, for share class hedging and investment, are included at a value determined by reference to current forward exchange rates for contracts with similar maturity profiles.

e) Recognition of income and expenses

- Dividends, including ordinary stock dividends, from equity investments are recognised when the security is quoted ex-dividend.
- Distributions from collective investment schemes are recognised when the scheme is priced ex-distribution.
- Interest income, including coupons from debt securities and bank interest is recognised on an accruals basis.
- Underwriting commission is recognised when the issue takes place.
- Revenue from derivatives is recognised on an accruals basis.
- Fee rebates from investing in other collective investment schemes are recognised on an accruals basis.
- Expenses are recognised on an accruals basis.

f) Treatment of income and expenses

- Any increases or decreases in the fair value of investments and gains and losses realised on sales of investments are treated as capital and recognised in net capital gains / (losses).
- The value of any enhancement to a stock dividend is treated as capital.
- Ordinary equity dividends, including ordinary stock dividends are treated as revenue.
- Special equity dividends, share buy backs or additional share issues may be treated as revenue or capital depending on the facts of each particular case.

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

g) Tax

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

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

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

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

M&G Optimal Income Fund

Financial statements and notes

Notes to the financial statements

2 Summary of significant accounting policies (continued)

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 distribution policy in note 4, 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 notes 20 to 24 in this report.

Market risk

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

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

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

Commitment approach

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

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

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

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

Value at Risk approach

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

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

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

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

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

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

Fund	Global exposure approach
M&G Optimal Income 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.

M&G Optimal Income Fund

Financial statements and notes

Notes to the financial statements

3 Risk management policies (continued)

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

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

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

Credit risk

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

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

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

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

4 Distribution policy

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

5 Net capital gains / (losses)

	2018 £'000	2017 £'000
for the year to 30 September		
Non-derivative securities	(147,448)	84,219
Derivative contracts	(433,424)	729,109
Currency gains / (losses)	239,736	(20,297)
Transaction charges	(42)	(38)
Net capital gains / (losses)	(341,178)	792,993

6 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 22 and 23.

for the year to 30 September	2018 £'000	% of transaction	2017 £'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	870,610		274,965	
Commissions	380	0.04	72	0.03
Taxes	2,130	0.24	395	0.14
Equities after transaction costs	873,120		275,432	
Debt securities ^[a]	15,441,062		12,974,660	
Total purchases after transaction costs	16,314,182		13,250,092	
b) Sales				
Equities				
Equities before transaction costs	249,473		607,546	
Commissions	(98)	0.04	(264)	0.04
Taxes	(2)	0.00	(6)	0.00
Equities after transaction costs	249,373		607,276	
Debt securities ^[a]	12,723,067		7,485,382	
Other transaction types				
Corporate actions	269,180		233,661	
Total sales after transaction costs	13,241,620		8,326,319	
c) Direct portfolio transaction costs				
	2018 £'000	% of average NAV	2017 £'000	% of average NAV
Commissions paid				
Equities	478	0.00	336	0.01
Derivatives	729	0.01	329	0.00
Total commissions paid	1,207	0.01	665	0.01
Taxes paid	2,132	0.01	401	0.00
Total direct portfolio transaction costs ^[b]	3,339	0.02	1,066	0.01
d) Indirect portfolio transaction costs				
Portfolio dealing spread ^[c]		0.48		0.56

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

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

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

M&G Optimal Income Fund

Financial statements and notes

Notes to the financial statements

7 Revenue

for the year to 30 September	2018 £'000	2017 £'000
Bank interest	2,340	1,111
Derivative revenue	(7,178)	29,198
Dividends from equity investments: non-taxable	42,472	20,512
Interest distributions	1,503	715
Interest on debt securities	623,988	527,664
Stock dividends	3,646	3,927
Total revenue	666,771	583,127

8 Expenses

for the year to 30 September	2018 £'000	2017 £'000
Payable to the ACD or associate		
Annual management charge	249,518	193,882
Administration charge	34,469	26,468
Share class hedging charge	3,464	2,633
	287,451	222,983
Payable to the Depositary or associate		
Depositary's charge (including VAT)	713	554
Other expenses		
Audit fee (including VAT)	13	13
Interest payable	698	516
Safe custody charge	940	740
	1,651	1,269
Total expenses	289,815	224,806

9 Taxation

for the year to 30 September	2018 £'000	2017 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	3,423	3,918
Deferred tax (note 9c)	0	0
Total taxation	3,423	3,918

b) Factors affecting taxation charge for the year

Net revenue / (expense) before taxation	376,956	358,321
Corporation tax at 20%	75,391	71,664
Effects of:		
Dividends from equity investments: non-taxable	(8,494)	(4,103)
Stock dividends not taxable	(729)	(785)
Interest distributions	(66,152)	(66,751)
Withholding tax	3,423	3,918
Withholding tax expensed	(16)	(25)
Total tax charge (note 9a)	3,423	3,918

c) Provision for deferred taxation

Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 9a)	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 (2017: same).

10 Distributions

for the year to 30 September	2018		2017	
	Inc ^[a] £'000	Acc ^[b] £'000	Inc ^[a] £'000	Acc ^[b] £'000
Interest distributions				
First interim	290	n/a	86	n/a
Second interim	282	n/a	67	n/a
Third interim	286	n/a	76	n/a
Fourth interim	317	n/a	114	n/a
Fifth interim	284	n/a	117	n/a
Sixth interim	42,394	125,084	47,718	170,112
Seventh interim	361	n/a	146	n/a
Eighth interim	415	n/a	235	n/a
Ninth interim	335	n/a	207	n/a
Tenth interim	369	n/a	237	n/a
Eleventh interim	374	n/a	253	n/a
Final	59,280	190,822	45,107	148,833
Total net distributions		420,893		413,308
Interest distributions		420,893		413,308
Income deducted on cancellation of shares		15,956		6,987
Income received on issue of shares		(22,599)		(34,909)
Distributions		414,250		385,386
Net revenue / (expense) per statement of total return		373,533		354,403
Expenses offset against capital		40,716		30,979
Undistributed income brought forward		2		6
Undistributed income carried forward		(1)		(2)
Distributions		414,250		385,386

^[a] Distributions payable on Income shares.

^[b] Retained distributions on Accumulation shares.

11 Debtors

as at 30 September	2018 £'000	2017 £'000
Amounts receivable on issues of shares	29,432	139,788
Currency deals outstanding	83,420	152,029
Debt security interest receivable	219,838	198,083
Derivative revenue receivable	584	655
Distributions receivable	179	36
Dividends receivable	453	180
Sales awaiting settlement	97,933	401,492
Tax recoverable	0	169
Withholding tax recoverable	4,174	3,260
Total debtors	436,013	895,692

12 Cash and bank balances

as at 30 September	2018 £'000	2017 £'000
Amounts held at futures clearing houses and collateral manager	61,190	175,720
Cash held as bank balances	264,048	378,272
Total cash and bank balances	325,238	553,992

13 Other creditors

as at 30 September	2018 £'000	2017 £'000
ACD's annual management charge payable	12,475	11,133
Administration charge payable	1,731	1,519
Amounts payable on cancellation of shares	68,723	65,924
Currency deals outstanding	83,929	152,252
Derivative expense payable	2,804	2,352
Expenses payable	291	252
Purchases awaiting settlement	72,187	526,076
Share class hedging charge payable	172	156
Total other creditors	242,312	759,664

M&G Optimal Income Fund

Financial statements and notes

Notes to the financial statements

14 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2017: same).

15 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 16.

Share class	Opening 01.10.17	Movements		Closing 30.09.18
		Issued	Cancelled	
Euro				
Class 'A-H' Income	59,803,306	21,663,473	(982,826)	80,483,953
Class 'A-H' Accumulation	587,864,064	115,135,850	(89,382,834)	613,617,080
Class 'B-H' Income	4,750,594	5,647,506	(362,166)	10,035,934
Class 'B-H' Accumulation	13,396,798	16,507,765	(635,459)	29,269,104
Class 'C-H' Income	4,539,657	5,387,856	(1,695,650)	8,231,863
Class 'C-H' Accumulation	158,544,651	97,800,441	(30,393,264)	225,951,828
Class 'J-H' Accumulation	0	5,443	0	5,443
Singapore dollar				
Class 'A-H' Accumulation	1,178,959	1,029,237	(267,945)	1,940,251
Class 'A-H M' Income	5,466,243	2,622,364	(3,211,745)	4,876,862
Class 'C-H' Accumulation	45,859	431,760	(47,646)	429,973
Sterling				
Class 'A' Income	155,877,179	12,026,710	(34,174,919)	133,728,970
Class 'A' Accumulation	272,182,254	5,803,929	(29,733,461)	248,252,722
Class 'I' Income	960,593,216	194,359,735	(36,325,178)	1,118,627,773
Class 'I' Accumulation	666,103,023	50,917,401	(19,331,194)	697,689,230
Class 'R' Income	2,882,478	1,801,009	(700,100)	3,983,387
Class 'R' Accumulation	6,084,256	4,946,131	(581,118)	10,449,269
Class 'X' Income	45,668,067	453,140	(7,572,652)	38,548,555
Class 'X' Accumulation	31,095,408	190,961	(3,811,467)	27,474,902
Swiss franc				
Class 'A-H' Income	457,076	470,160	(178,574)	748,662
Class 'A-H' Accumulation	5,529,819	1,395,161	(1,104,678)	5,820,302
Class 'C-H' Income	1,588,893	1,404,599	(447,939)	2,545,553
Class 'C-H' Accumulation	10,818,636	3,519,931	(1,501,224)	12,837,343
Class 'J-H' Accumulation	0	5,442	0	5,442
US dollar				
Class 'A-H' Income	5,543,011	2,732,273	(1,615,230)	6,660,054
Class 'A-H' Accumulation	133,633,312	41,957,446	(57,045,692)	118,545,066
Class 'A-H M' Income	9,985,406	8,741,945	(5,059,314)	13,668,037
Class 'C-H' Income	6,132,234	4,881,109	(2,182,074)	8,831,269
Class 'C-H' Accumulation	25,563,132	9,064,319	(6,159,887)	28,467,564
Class 'J-H' Income	0	5,403	0	5,403
Class 'J-H' Accumulation	0	5,408	0	5,408

16 Charging structure

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

Share class	Entry charge %	Exit charge %	Annual management charge %	Share class hedging charge %
Euro				
Class 'A-H'	4.00	n/a	1.25	[a]
Class 'B-H'	nil	n/a	1.75	[a]
Class 'C-H'	1.25	n/a	0.75	[a]
Class 'J-H'	1.25	n/a	0.75	[a]
Singapore dollar				
Class 'A-H'	4.00	n/a	1.25	[a]
Class 'A-H M'	4.00	n/a	1.25	[a]
Class 'C-H'	1.25	n/a	0.75	[a]
Sterling				
Class 'A'	nil	n/a	1.25	n/a
Class 'I'	nil	n/a	0.75	n/a
Class 'R'	nil	n/a	1.00	n/a
Class 'X'	nil	n/a	1.25	n/a
Swiss franc				
Class 'A-H'	4.00	n/a	1.25	[a]
Class 'C-H'	1.25	n/a	0.75	[a]
Class 'J-H'	1.25	n/a	0.75	[a]
US dollar				
Class 'A-H'	4.00	n/a	1.25	[a]
Class 'A-H M'	4.00	n/a	1.25	[a]
Class 'C-H'	1.25	n/a	0.75	[a]
Class 'J-H'	1.25	n/a	0.75	[a]

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

17 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 10. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 11 and 13 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 8. 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 13.

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 0.12% (2017: 4.69%) of the fund's shares.

M&G Optimal Income Fund

Financial statements and notes

Notes to the financial statements

18 Events after the balance sheet date

As a result of the Extraordinary General Meetings of Shareholders held on 4 October 2018, the non-sterling share classes of the M&G Optimal Income Fund will be merged into corresponding share classes of the M&G (Lux) Optimal Income Fund, a sub-fund of M&G (Lux) Investment Funds 1.

19 Fair value analysis

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

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

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

Level 2: Valuation technique using observable market data

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

Level 3: Valuation technique using unobservable inputs

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

as at 30 September	Assets 2018	Liabilities 2018	Assets 2017	Liabilities 2017
Basis of valuation	£'000	£'000	£'000	£'000
Level 1	1,190,622	(31,267)	6,175,500	(160)
Level 2	21,361,279	(149,970)	14,019,849	(444,434)
Level 3	73,908	0	0	0
	22,625,809	(181,237)	20,195,349	(444,594)

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 15 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

20 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 34 and 35.

21 Market risk sensitivity and exposure

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

The VaR limit set during the financial year to 30 September 2018 was 20% (2017: 20%).

The lowest, highest and average VaR, as well as utilisation of VaR with reference to the limit above, are calculated during the financial years ended 30 September 2018 and 30 September 2017.

for the year to 30 September	2018	Utilisation of VaR [a]	2017	Utilisation of VaR [a]
	% of VaR	20%	% of VaR	20%
Lowest	1.29	6.44	1.46	7.28
Highest	1.94	9.70	3.38	16.89
Average	1.61	8.07	2.09	2.09

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

22 Credit risk

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

as at 30 September	2018 £'000	2017 £'000
Investment grade securities	17,985,146	15,818,489
Below investment grade securities	2,446,389	2,331,461
Unrated securities	1,887,256	1,044,556
Other investments	125,781	556,249
Total	22,444,572	19,750,755

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

as at 30 September 2018	Swaps £'000	Forward currency contracts £'000	Futures £'000
Bank of America Merrill Lynch	610	11,081	117,481
Barclays Bank	45,576	(5,200)	0
BNP Paribas	(854)	(22,724)	0
Citigroup	1,442	7	0
Credit Suisse	(486)	0	0
Deutsche Bank	73	0	0
Goldman Sachs	(515)	0	0
HSBC	0	7,248	0
J.P.Morgan	8,666	17,547	0
National Australia Bank	0	(8,469)	0
Standard Charter Bank	0	(48,007)	0
State Street Bank	0	1,395	0
UBS	0	910	0
Total	54,512	(46,212)	117,481

as at 30 September 2017	Swaps £'000	Forward currency contracts £'000	Futures £'000
Bank of America Merrill Lynch	225	0	48,646
Barclays Bank	25,104	10,589	0
BNP Paribas	(1,772)	14,597	0
Citigroup	3,918	5,026	0
Credit Suisse	(709)	0	0
Deutsche Bank	84	0	0
Goldman Sachs	(945)	0	0
HSBC	1,093	(4,894)	0
J.P.Morgan	6,347	7,074	0
National Australia Bank	0	(60,118)	0
Standard Charter Bank	0	(53,634)	0
State Street Bank	0	4,798	0
UBS	(1,882)	(4,036)	0
Total	31,463	(80,598)	48,646

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.

M&G Optimal Income Fund

Financial statements and notes

Notes to the financial statements

23 Leverage risk

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

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

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 30 September 2018 and 30 September 2017 are disclosed in the table below.

for the year to 30 September	2018 £'000	2018 [a] % [b]	2017 £'000	2017 [a] % [b]
Lowest	23,525,913	111	17,881,904	107
Highest	54,868,807	235	43,340,511	215
Average	32,418,550	142	21,793,381	124

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

[b] Expressed as a percentage over fund valuation.

24 Exchange rate risk for hedged share classes

This fund contains hedged share classes. These share classes operate currency hedges designed to reduce the impact of exchange rates in certain circumstances. As a result, profit and loss on the currency hedges may impact the liquidity of the overall fund. On a day to day basis this is monitored using reporting from the outsourced provider of the hedged share class service. On an ongoing basis the size of the hedged share classes is monitored to ensure that unforeseen exchange rate volatility can be adequately managed without significantly impacting all shareholders. The exposure to forward currency contracts for share class hedging at the year-end accounting date is disclosed in the portfolio statement on page 20.

25 Interest distribution tables

This fund pays both monthly and semi-annual interest distributions depending on the share class. The following tables set out the distribution periods applicable.

Monthly distribution periods				
	Start	End	Xd	Payment
First interim	01.10.17	31.10.17	01.11.17	29.12.17
Second interim	01.11.17	30.11.17	01.12.17	31.01.18
Third interim	01.12.17	31.12.17	02.01.18	28.02.18
Fourth interim	01.01.18	31.01.18	01.02.18	29.03.18
Fifth interim	01.02.18	28.02.18	01.03.18	30.04.18
Sixth interim	01.03.18	31.03.18	03.04.18	31.05.18
Seventh interim	01.04.18	30.04.18	01.05.18	29.06.18
Eighth interim	01.05.18	31.05.18	01.06.18	31.07.18
Ninth interim	01.06.18	30.06.18	02.07.18	31.08.18
Tenth interim	01.07.18	31.07.18	01.08.18	28.09.18
Eleventh interim	01.08.18	31.08.18	03.09.18	31.10.18
Final	01.09.18	30.09.18	01.10.18	30.11.18

Semi-annual distribution periods

	Start	End	Xd	Payment
Interim	01.10.17	31.03.18	02.04.18	31.05.18
Final	01.04.18	30.09.18	01.10.18	30.11.18

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

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

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

Euro Class 'A-H' Income shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
	€	€	€	€
Interim	9.8956	12.2999	22.1955	32.2477
Final	16.3666	12.2605	28.6271	27.0308

Euro Class 'A-H' Accumulation shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
	€	€	€	€
Interim	4.9445	6.1111	11.0556	21.5347
Final	10.9327	7.0913	18.0240	15.5460

Euro Class 'B-H' Income shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
	€	€	€	€
Interim	6.0543	6.5706	12.6249	18.4216
Final	10.0187	6.2341	16.2528	15.4275

Euro Class 'B-H' Accumulation shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
	€	€	€	€
Interim	1.4603	1.8909	3.3512	9.1653
Final	4.2748	2.6707	6.9455	5.7037

Euro Class 'C-H' Income shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
	€	€	€	€
Interim	11.5645	12.2580	23.8225	34.4167
Final	19.2717	11.4686	30.7403	28.8822

M&G Optimal Income Fund

Financial statements and notes

Notes to the financial statements

25 Interest distribution tables (continued)

Euro Class 'C-H' Accumulation shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
Interim	7.7326	9.1339	16.8665	27.7544
Final	14.4985	10.0044	24.5029	21.7301

Euro Class 'J-H' Accumulation shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
Interim	n/a	n/a	n/a	n/a
Final	3.2044	7.1690	10.3734	n/a

Singapore dollar Class 'A-H' Accumulation shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
Interim	3.9267	2.3701	6.2968	11.8841
Final	6.3434	3.9272	10.2706	8.8081

Singapore dollar Class 'A-H M' Income shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
First interim	1.1587	1.2474	2.4061	3.3835
Second interim	1.3007	0.9470	2.2477	2.9238
Third interim	1.4245	0.7709	2.1954	3.1429
Fourth interim	1.1834	1.0782	2.2616	3.2796
Fifth interim	1.0959	0.9689	2.0648	2.7671
Sixth interim	0.3252	1.7592	2.0844	3.1162
Seventh interim	1.5962	1.0593	2.6555	2.3235
Eighth interim	1.7957	1.3979	3.1936	3.2767
Ninth interim	2.5811	0.0000	2.5811	2.5784
Tenth interim	2.9053	0.0000	2.9053	2.7200
Eleventh interim	0.7112	2.1484	2.8596	2.5360
Final	0.3866	2.0282	2.4148	1.9577

Singapore dollar Class 'C-H' Accumulation shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
Interim	5.3730	3.8085	9.1815	14.6663
Final	8.4284	4.9896	13.4180	11.7650

Sterling Class 'A' Income shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
Interim	0.9695	0.8934	1.8629	2.6561
Final	1.4667	0.9572	2.4239	2.2817

Sterling Class 'A' Accumulation shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
Interim	0.5044	0.6684	1.1728	2.2258
Final	1.0479	0.8690	1.9169	1.6594

Sterling Class 'I' Income shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
Interim	0.8083	1.0677	1.8760	2.6614
Final	1.3615	1.0856	2.4471	2.2917

Sterling Class 'I' Accumulation shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
Interim	0.7569	0.9994	1.7563	2.8169
Final	1.3395	1.2298	2.5693	2.2765

Sterling Class 'R' Income shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
Interim	0.5717	0.8812	1.4529	2.0662
Final	1.0944	0.7985	1.8929	1.7773

Sterling Class 'R' Accumulation shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
Interim	0.4782	0.4226	0.9008	1.5544
Final	0.7419	0.6394	1.3813	1.2120

Sterling Class 'X' Income shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
Interim	0.8964	0.9636	1.8600	2.6521
Final	1.4259	0.9941	2.4200	2.2781

Sterling Class 'X' Accumulation shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2 Distribution	
	Income 2018	Equalisation 2018	2018	2017
Interim	0.4633	0.6854	1.1487	2.0838
Final	1.2197	0.6578	1.8775	1.6230

M&G Optimal Income Fund

Financial statements and notes

Notes to the financial statements

25 Interest distribution tables (continued)

Swiss Franc Class 'A-H' Income shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	Distribution 2018	Distribution 2017
	€	€	€	€
Interim	6.9550	7.2121	14.1671	20.4134
Final	11.2285	6.8853	18.1138	17.2645

Swiss franc Class 'A-H' Accumulation shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	Distribution 2018	Distribution 2017
	€	€	€	€
Interim	3.7088	3.1390	6.8478	13.1757
Final	7.6220	3.3559	10.9779	9.6379

Swiss franc Class 'C-H' Income shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	Distribution 2018	Distribution 2017
	€	€	€	€
Interim	6.7299	7.6582	14.3881	20.6426
Final	12.3349	6.1284	18.4633	17.5246

Swiss franc Class 'C-H' Accumulation shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	Distribution 2018	Distribution 2017
	€	€	€	€
Interim	5.1767	4.9184	10.0951	16.4181
Final	8.5152	5.9874	14.5026	13.0204

Swiss franc Class 'J-H' Accumulation shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	Distribution 2018	Distribution 2017
	€	€	€	€
Interim	n/a	n/a	n/a	n/a
Final	3.1979	7.1428	10.3407	n/a

US dollar Class 'A-H' Income shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	Distribution 2018	Distribution 2017
	€	€	€	€
Interim	8.7921	8.9881	17.7802	23.9144
Final	14.5341	7.8920	22.4261	21.4139

US dollar Class 'A-H' Accumulation shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	Distribution 2018	Distribution 2017
	€	€	€	€
Interim	3.7370	5.0351	8.7721	15.2875
Final	5.7212	7.7192	13.4404	12.1327

US dollar Class 'A-H M' Income shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	Distribution 2018	Distribution 2017
	€	€	€	€
First interim	0.9199	1.5167	2.4366	3.2305
Second interim	1.1661	1.0817	2.2478	2.5940
Third interim	0.6490	1.5685	2.2175	3.0075
Fourth interim	0.8301	1.4873	2.3174	3.2064
Fifth interim	0.7281	1.3191	2.0472	2.7363
Sixth interim	0.9206	1.1213	2.0419	3.1170
Seventh interim	0.9921	1.6298	2.6219	2.3280
Eighth interim	1.3982	1.7619	3.1601	3.3411
Ninth interim	1.2173	1.2379	2.4552	2.5638
Tenth interim	1.8981	0.9017	2.7998	2.7006
Eleventh interim	0.9159	1.9211	2.8370	2.5393
Final	0.4293	1.9613	2.3906	1.9929

US dollar Class 'C-H' Income shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	Distribution 2018	Distribution 2017
	€	€	€	€
Interim	10.0477	8.1927	18.2404	24.4993
Final	9.6805	13.3662	23.0467	21.8752

US dollar Class 'C-H' Accumulation shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	Distribution 2018	Distribution 2017
	€	€	€	€
Interim	4.1176	8.8534	12.9710	19.4127
Final	10.6424	7.4830	18.1254	16.5111

US dollar Class 'J-H' Income shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	Distribution 2018	Distribution 2017
	€	€	€	€
Interim	n/a	n/a	n/a	n/a
Final	4.3675	11.8586	16.2261	n/a

US dollar Class 'J-H' Accumulation shares

Interest distributions for the year to 30 September	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	Distribution 2018	Distribution 2017
	€	€	€	€
Interim	n/a	n/a	n/a	n/a
Final	3.2706	7.1635	10.4341	n/a

M&G Optimal Income Fund

Other regulatory disclosures

Remuneration

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

The remuneration policies are designed to ensure that any relevant conflicts of interest can be managed appropriately at all times and that the remuneration of its staff is in line with the risk policies and objectives of the alternative investment funds it manages. Further details of the remuneration policy applicable at an M&G Limited level can be found here <http://docs.mandg.com/docs/Corporate/MandG-Limited-Remuneration-Policy.pdf>.

M&G Securities Limited in its capacity as the Alternative Investment Fund Manager (the “AIFM”) of M&G Optimal Income Fund has delegated portfolio management services to M&G Investment Management Limited (the “Delegate”).

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

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

M&G Securities Limited does not directly employ any staff members. However, for the financial year ended 31 December 2017, aggregate remuneration of £4,452,723 (£595,444 in respect of fixed remuneration and £3,857,279 in respect of variable remuneration) was paid to individuals whose actions may have a material impact on the risk profile of M&G Securities Limited, of which £182,816 related to senior management.

Swiss investor information

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

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

Glossary

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

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

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

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

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

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

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

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

Bunds: Fixed income securities issued by the German government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Equities: Shares of ownership in a company.

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

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

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

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

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

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

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

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

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

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

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

Gilts: Fixed income securities issued by the UK government.

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

Hedging: A method of reducing unnecessary or unintended risk.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

Treasuries: Fixed income securities issued by the US government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Notes

