



**M&G Strategic Corporate Bond Fund**

Annual Long Report and audited Financial Statements  
for the year ended 31 August 2018

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# M&G Strategic Corporate Bond Fund

## Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Strategic Corporate Bond Fund presents its Annual Long Report and audited Financial Statements for the year ended 31 August 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 12 June 2009 and the fund was launched on 1 September 2009.

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

National Westminster Bank Plc, Trustee & Depositary Services,  
Drummond House, 1 Redheughs Avenue, Edinburgh EH12 9RH, UK  
(Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority)

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

### Independent auditor

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

### Important information

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

# M&G Strategic Corporate Bond Fund

## Authorised Corporate Director's Report

### Investor information

The Prospectus, Instrument of Incorporation, Key Investor Information Documents, the latest Annual or Interim Investment Report and Financial Statements as well as a list of purchases and sales are available free of charge on request from the following addresses. The Instrument of Incorporation can also be inspected at our offices or at the office of the 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 Securities Limited,  
c/o RBC I&TS, 14, Porte de France, L-4360 Esch-sur-Alzette,  
Grand Duchy of Luxembourg

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

Telephone: +352 2605 9944

Email: csmandg@rbc.com

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

#### 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

15 October 2018

# M&G Strategic Corporate Bond Fund

## Depository's Responsibilities and Report

### Statement of the Depository's Responsibilities and Report of the Depository to the Shareholders of M&G Strategic Corporate Bond Fund ('the Company') for the period ended 31 August 2018

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

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

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

The Depository must ensure that:

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

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

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

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

Edinburgh  
15 October 2018

National Westminster Bank Plc  
Trustee and Depository Services

# M&G Strategic Corporate Bond Fund

## Independent Auditor's Report

### Independent Auditor's Report to the shareholders of M&G Strategic Corporate Bond Fund ICVC

#### Opinion

We have audited the financial statements of M&G Strategic Corporate Bond Fund ICVC ("the Company") for the year ended 31 August 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 31 August 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 Collective Investment Schemes sourcebook of the Financial Conduct Authority rules requires us to report to you if, in our opinion:

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

#### 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 Strategic Corporate Bond Fund

## Independent Auditor's Report

### Independent Auditor's Report to the shareholders of M&G Strategic Corporate Bond 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  
15 October 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 Strategic Corporate Bond Fund

## Independent Auditor's Report

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# M&G Strategic Corporate Bond Fund

## Authorised Corporate Director's Report

### Investment objective

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

### Investment policy

The fund invests mainly in investment grade bonds. The fund may invest in derivatives in pursuit of the fund objective and for the purposes of efficient portfolio management. The fund may also invest in other assets including collective investment schemes, other transferable securities and other debt instruments (including corporate, high yield and government debt, convertible and preference stocks), cash, and near cash, deposits, warrants and money market instruments.

### Investment approach

The fund's investment approach is largely 'top-down': the fund manager's economic outlook will determine key investment decisions such as the portfolio's duration, and how the fund's assets are invested proportionally by asset class and corporate sector.

The fund manager uses proprietary research, rather than external research. M&G's in-house team of credit analysts provides bottom-up analysis of the corporate bond markets, which complements the fund manager's top-down views.

### Risk profile

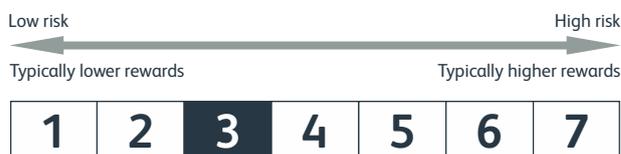
The fund invests in fixed income securities, or bonds, issued by UK companies. It is primarily subject to the price volatility of the UK bond market as well as the performance of individual issuers. It is also influenced by developments in the broader global bond market. In addition, the fund is subject to fluctuations in currency exchange rates.

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

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

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

The following table shows the risk number associated with the fund and is based on Sterling Class 'A' 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 3 September 2018, for the year ended 31 August 2018**

#### Performance against objective

Between 1 September 2017 (the start of the review period) and 3 September 2018, the M&G Strategic Corporate Bond Fund delivered a small negative total return (the combination of income and growth of capital) across all its share classes\*.

The M&G Strategic Corporate Bond Fund invests predominantly in high-quality, sterling-denominated corporate bonds, with the aim of providing income and capital growth.

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. The initial amount borrowed by the entity is usually repaid at the end of the loan's life. 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 debt 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.

#### 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 times it has increased rates since the end of the financial crisis to seven.

# M&G Strategic Corporate Bond Fund

## Authorised Corporate Director's Report

### Investment review

#### Investment performance (continued)

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-denominated corporate bonds generally delivered modestly negative returns over the period, as did US dollar corporate bonds, while the performance of European corporate bonds was roughly flat.

The fund's performance was driven by its sizeable exposure to investment grade corporate bonds denominated in sterling and US dollars, and to asset-backed securities (bonds whose income payments are derived from a specified group of underlying pooled assets).

#### Investment activities

During the review period, we undertook a number of relative value trades – for example, taking advantage of the difference in pricing between bonds from the same company issued in different currencies or different maturities – in names including AT&T, Microsoft and British American Tobacco (BAT).

We have been finding significant opportunities in the asset-backed securities market, especially those backed by residential and commercial mortgages. Such securities tend to be floating rate in nature, meaning they adjust periodically depending on the change in a reference interest rate, and should therefore perform well even when interest rates rise. We bought bonds from Land Securities and took part in a securitisation from Gatwick Airport during the review period.

We continue to think that UK government bonds (also known as gilts) look expensive and so we have little exposure to these assets. We do hold small positions in bonds from peripheral eurozone governments,

such as Spain and Italy, as these have looked attractively priced compared to European corporate bonds with similar credit ratings. Our Spanish and Italian government bond holdings are denominated in sterling, and so held up relatively better than comparable euro-denominated bonds issued by these governments during the Italian political volatility in May.

An important factor in a bond fund's performance is its ability to adjust the portfolio's sensitivity to changes in interest rates, known as 'duration'. Being shorter duration means that a fund is relatively less sensitive to changes in interest rates than longer duration funds. During the course of the reporting period, we moved the fund's duration slightly between 5.2 years and 5.6 years, keeping it roughly the same amount short (between 2.6 and 2.9 years short) of a comparable index, the iBoxx £ Corporate Index.

#### 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.

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. This 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.

# M&G Strategic Corporate Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement				
as at 31 August	2018	2018	2017	
Holding	£'000	%	%	
<b>FIXED INCOME</b>	<b>2,797,783</b>	<b>93.46</b>	<b>93.40</b>	
<b>Debt securities</b>	<b>2,796,356</b>	<b>93.42</b>	<b>93.53</b>	
<b>'AAA' credit rated bonds</b>	<b>165,447</b>	<b>5.53</b>	<b>7.58</b>	
£989,423 Alba FRN 2049	993	0.03		
£231,306 Broadgate Financing 4.949% 2031	268	0.01		
£6,969,700 Broadgate Financing FRN 2032	6,798	0.23		
£5,942,000 Delamare Cards FRN 2022	5,918	0.20		
£2,621,950 Dukinfield II FRN 2052	2,646	0.09		
£781,385 First Flexible No.5 FRN 2034	777	0.03		
£2,000,000 Lanark Master Issuer FRN 1A 2069	1,994	0.07		
£13,429,000 Lanark Master Issuer FRN 2A 2069	13,377	0.45		
\$20,000,000 Microsoft 3.45% 2036	14,776	0.49		
\$5,000,000 Microsoft 3.5% 2042	3,620	0.12		
\$20,000,000 Microsoft 3.75% 2043	15,017	0.50		
\$12,000,000 Microsoft 3.95% 2056	9,102	0.30		
\$23,571,000 Microsoft 4% 2055	18,052	0.60		
\$6,666,000 Microsoft 4.1% 2037	5,333	0.18		
\$18,500,000 Microsoft 4.5% 2040	15,498	0.52		
\$25,000,000 Microsoft 4.75% 2055	21,876	0.73		
\$8,000,000 Microsoft 5.2% 2039	7,259	0.24		
\$6,500,000 Microsoft 5.3% 2041	5,974	0.20		
£343,086 Paragon Mortgages No.11 FRN 2041 A2A	330	0.01		
\$2,729,237 Paragon Mortgages No.15 FRN 2039 A2C	2,011	0.07		
£369,014 Precise Mortgage Funding FRN 2048	369	0.01		
£2,038,706 Residential Mortgage Securities No.28 FRN 2046	2,048	0.07		
£1,675,636 Residential Mortgage Securities No.29 FRN 2046	1,680	0.06		
£3,282,320 Trinity Square FRN 2051 'A'	3,306	0.11		
£6,359,183 Warwick Finance Residential Mortgage FRN 2049 02-A	6,425	0.21		
<b>'AA' credit rated bonds</b>	<b>139,181</b>	<b>4.65</b>	<b>5.80</b>	
\$6,000,000 Apple 2.9% 2027	4,383	0.15		
£20,000,000 Apple 3.05% 2029	21,708	0.72		
£576,713 Eurosail-UK FRN 2045	568	0.02		
£5,601,000 Federal National Mortgage Association 5.375% 2028	7,263	0.24		
£17,550,000 Land Securities Capital Markets 2.375% 2029	17,683	0.59		
£8,858,000 Land Securities Capital Markets 2.399% 2031	8,871	0.30		
£20,000,000 Land Securities Capital Markets Var. Rate 2031 (2.399%)	20,019	0.67		
£5,000,000 Land Securities Capital Markets Var. Rate 2039 (2.625%)	4,879	0.16		
£1,188,008 Paragon Mortgages No.11 FRN 2041 B1A	1,137	0.04		
£440,766 Paragon Mortgages No.13 FRN 2039 A2B	375	0.01		
£2,535,000 Province of Quebec 12.25% 2020	2,924	0.10		
£4,500,000 Réseau Ferré de France 5% 2052	7,161	0.24		
£10,000,000 Réseau Ferré de France 5.25% 2028	12,993	0.43		
£1,000,000 Réseau Ferré de France 5.25% 2035	1,399	0.05		
£3,240,000 Slate No. 1 FRN 2051	3,255	0.11		
£1,250,000 SLM Student Loan Trust 5.15% 2039	1,200	0.04		
£5,000,000 SNCF 5.375% 2027	6,309	0.21		
£14,441,000 Towd Point Mortgage Funding FRN 2046	14,498	0.48		
£600,000 Trafford Centre Finance FRN 2038	555	0.02		
£2,000,000 Warwick Finance Residential Mortgage FRN 2049 01-B	2,001	0.07		

### Portfolio statement (continued)

as at 31 August	2018	2018	2017
Holding	£'000	%	%
<b>'A' credit rated bonds</b>	<b>459,740</b>	<b>15.35</b>	<b>16.62</b>
£25,000,000 Anheuser-Busch InBev 2.25% 2029	24,039	0.80	
£5,444,000 Anheuser-Busch InBev 2.85% 2037	5,230	0.17	
£20,390,000 Bank of America 2.3% 2025	20,175	0.67	
£2,000,000 Bank of America 4.25% 2026	2,236	0.07	
£9,000,000 Bank of America 7% 2028	12,195	0.42	
\$10,000,000 Bank of America Var. Rate 2028 (3.824%)	7,523	0.25	
\$8,571,000 Bank of America Var. Rate. 2028 (3.705%)	6,379	0.21	
£662,346 BL Superstores Finance 5.27% 2030	724	0.02	
£1,500,000 BL Superstores Finance 5.578% 2030	1,724	0.06	
\$5,000,000 BNP Paribas 3.8% 2024	3,782	0.13	
€770 Brunel Residential Mortgages Securities No.1 FRN 2039	1	0.00	
\$6,946,000 Cloverie Var. Rate 2046 (5.625%)	5,535	0.18	
£4,000,000 Comcast 5.5% 2029	5,042	0.17	
£5,000,000 Crédit Agricole Var. Rate Perp. (7.5%)	5,566	0.19	
£5,000,000 EDF 6% 2114	6,507	0.22	
£4,500,000 ELM Var. Rate Perp. (6.3024%)	4,597	0.15	
£14,630,000 ENGIE 5.95% 2111	22,091	0.74	
£1,587,932 Eurosail FRN 2044	1,572	0.05	
£682,157 General Electric Capital 6.44% 2022	740	0.02	
\$2,952,863 Great Hall Mortgages No.1 FRN 2039	2,219	0.07	
£2,000,000 Heathrow Funding 2.75% 2051	1,787	0.06	
£2,000,000 Heathrow Funding 6.45% 2031	2,764	0.09	
£20,000,000 Heathrow Funding Var. Rate 2028 (6.75%)	26,185	0.87	
£6,000,000 Heathrow Funding Var. Rate 2030 (7.075%)	8,193	0.28	
£2,100,000 Housing Finance 5% 2027	2,403	0.08	
£4,000,000 Housing Finance 8.625% 2023	5,167	0.17	
£3,000,000 HSBC Bank 5.375% 2033	3,635	0.12	
£17,320,000 HSBC Bank Var. Rate 2030 (5.375%)	19,965	0.67	
£2,000,000 HSBC Holdings 2.625% 2028	1,952	0.07	
\$10,000,000 HSBC Holdings Var. Rate 2028 (4.041%)	7,561	0.26	
£4,808,000 INTU Finance 4.25% 2035	5,195	0.17	
£5,500,000 INTU Finance 4.625% 2033	6,097	0.20	
£7,000,000 Intu Metrocentre Finance (formerly INTU Finance) 4.125% 2028	7,472	0.26	
£21,000,000 JPMorgan Chase 3.5% 2026	22,717	0.76	
\$2,000,000 Legrand France 8.5% 2025	1,892	0.06	
£350,000 Cheltenham & Gloucester 11.75% Perp.	762	0.03	
£10,000,000 Lloyds Bank 5.125% 2025	12,037	0.41	
£4,336,000 London & Quadrant Housing Trust 2.625% 2028	4,328	0.14	
£7,210,000 London & Quadrant Housing Trust 3.125% 2053	7,118	0.24	
£3,555,840 Mitchells & Butlers Finance 5.574% 2030	4,035	0.13	
£15,000,000 Munich Re Finance Var. Rate 2042 (6.625%)	17,097	0.57	
£3,165,000 National Grid Electricity Transmission 3.806% IL 2020	5,568	0.19	
£1,316,205 Newgate Funding FRN 2050 A4	1,265	0.04	
£6,116,000 Notting Hill Housing Trust 3.25% 2048	6,002	0.20	
£1,339,000 Penarian Housing Finance 3.212% 2052	1,309	0.04	
£3,666,000 Places for People 5.875% 2031	4,524	0.15	
£2,060,613 RMAC Securities (formerly RMAC) 2006-Ns1 FRN 2044 A2A	1,981	0.07	
£909,351 RMAC Securities (formerly RMAC) 2006-Ns1 FRN 2044 A3A	865	0.03	

# M&G Strategic Corporate Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at 31 August Holding	2018 £'000	2018 %	2017 %
<b>'A' credit rated bonds (continued)</b>			
\$2,000,000 Security Capital Group 7.7% 2028	1,872	0.06	
\$2,000,000 Société Générale Var. Rate Perp. (6%)	1,505	0.05	
£2,888,000 Society of Lloyds Var. Rate 2047 (4.875%)	3,011	0.10	
£18,000,000 Spain (Kingdom of) 5.25% 2029	21,192	0.71	
£3,500,000 SSE 8.375% 2028	5,248	0.18	
£3,051,000 T.H.F.C Funding No.3 5.2% 2045	4,030	0.13	
£2,000,000 UNITE (USAF) II 3.374% 2028	2,129	0.07	
£1,152,000 UNITE (USAF) II 3.921% 2030	1,272	0.04	
£4,066,000 United Utilities Water Finance 2% 2025	4,035	0.13	
£4,000,000 Wales & West Utilities Finance (formerly Wales & West Utilities) 5% 2028	4,827	0.16	
£3,500,000 Wales & West Utilities Finance (formerly Wales & West Utilities) 5.75% 2030	4,553	0.15	
£11,000,000 Wells Fargo 2% 2025	10,546	0.36	
£4,246,000 Wells Fargo 2.125% 2023	4,229	0.14	
£45,000,000 Wells Fargo Bank 5.25% 2023	50,666	1.69	
£7,000,000 Westfield America Management (formerly Westfield America) 2.125% 2025	6,892	0.23	
\$2,000,000 Willow No.2 (Ireland) Var. Rate 2045 (4.25%)	1,469	0.05	
£4,000,000 Zurich Finance (UK) Var. Rate Perp. (6.625%)	4,511	0.15	
<b>'BBB' credit rated bonds</b>	<b>1,698,150</b>	<b>56.73</b>	<b>52.13</b>
£5,000,000 3i Group 5.75% 2032	6,275	0.21	
£8,000,000 AA Bond 4.875% 2043	8,068	0.27	
£4,965,000 Akelius Residential Property 2.375% 2025	4,816	0.16	
£3,667,000 Anglian Water Services 2.625% 2027	3,492	0.12	
£5,000,000 Anglian Water Services 4.5% 2026	5,451	0.18	
£2,972,000 Annington Funding 2.646% 2025	2,954	0.10	
£3,889,000 Annington Funding 3.184% 2029	3,883	0.13	
£3,703,000 Annington Funding 3.685% 2034	3,783	0.13	
£2,812,000 Annington Funding 3.935% 2047	2,923	0.10	
£4,000,000 APT Pipelines 4.25% 2024	4,380	0.15	
£2,207,000 Aroundtown 3% 2029	2,115	0.07	
£3,650,000 AT&T 4.25% 2043	3,823	0.13	
£10,000,000 AT&T 4.375% 2029	10,967	0.37	
\$5,000,000 AT&T 4.5% 2048	3,344	0.11	
\$20,000,000 AT&T 4.55% 2049	13,398	0.45	
£19,150,000 AT&T 4.875% 2044	21,819	0.73	
£3,750,000 AT&T 5.2% 2033	4,463	0.15	
\$3,000,000 AT&T 5.25% 2037	2,301	0.08	
\$2,063,000 AT&T 5.35% 2040	1,554	0.05	
\$10,000,000 AT&T 5.65% 2047	7,904	0.26	
\$2,500,000 AT&T 6.35% 2040	2,122	0.07	
\$2,750,000 AT&T 6.375% 2041	2,300	0.08	
£4,500,000 AT&T 7% 2040	6,508	0.22	
£17,100,000 Aviva Var. Rate 2036 (6.125%)	19,122	0.64	
£7,000,000 Aviva Var. Rate 2049 (4.375%)	6,801	0.23	
£6,000,000 Aviva Var. Rate 2050 (5.125%)	6,123	0.20	
£12,500,000 Aviva Var. Rate 2058 (6.875%)	15,130	0.51	
£7,000,000 Aviva Var. Rate Perp. (6.125%)	7,660	0.26	
£21,000,000 AXA Var. Rate 2054 (5.625%)	22,713	0.76	
£8,500,000 AXA Var. Rate Perp. (5.453%)	9,127	0.30	

### Portfolio statement (continued)

as at 31 August Holding	2018 £'000	2018 %	2017 %
<b>'BBB' credit rated bonds (continued)</b>			
£17,000,000 AXA Var. Rate Perp. (6.6862%)	19,575	0.65	
\$10,000,000 Bank of America 4.183% 2027	7,539	0.25	
\$5,833,000 Bank of America 4.25% 2026	4,450	0.15	
£2,500,000 Bank of America 8.125% 2028	3,450	0.12	
£9,000,000 Barclays 3.125% 2024	9,002	0.30	
£12,077,000 Barclays 3.25% 2033	10,873	0.36	
£3,420,000 Barclays Var. Rate 2023 (2.375%)	3,361	0.11	
£9,654,000 BAT Capital Corp 2.125% 2025	9,346	0.31	
\$10,000,000 BAT Capital Corp 4.39% 2037	7,233	0.24	
£30,000,000 BAT International Finance 2.25% 2052	22,613	0.76	
£4,000,000 BAT International Finance 4% 2026	4,341	0.15	
£8,500,000 BAT International Finance 4% 2055	9,176	0.31	
£1,250,000 BAT International Finance 5.75% 2040	1,676	0.06	
£2,000,000 BAT International Finance 6% 2034	2,655	0.09	
\$6,000,000 Bayer 6.65% 2028	5,393	0.18	
\$10,000,000 Bayer US Finance 4.375% 2028	7,574	0.25	
\$10,000,000 Bayer US Finance 4.625% 2038	7,486	0.25	
\$6,000,000 Bayer US Finance 4.7% 2064	4,085	0.14	
\$15,000,000 Bayer US Finance 4.875% 2048	11,418	0.38	
\$2,286,000 BNP Paribas 4.375% 2025	1,734	0.06	
\$15,000,000 BNP Paribas 4.625% 2027	11,450	0.38	
£3,000,000 Bouygues 5.5% 2026	3,604	0.12	
£9,000,000 BPCE 5.25% 2029	10,234	0.34	
£25,000,000 British Telecommunications 3.125% 2031	24,568	0.82	
£7,500,000 British Telecommunications 3.625% 2047	7,285	0.24	
\$12,414,000 British Telecommunications 8.625% 2030	13,690	0.46	
£2,260,000 Bunzl Finance 2.25% 2025	2,214	0.07	
£13,456,000 Cadent Finance (formerly National Grid) 2.125% 2028	12,733	0.43	
£3,667,000 Channel Link Enterprises Finance 3.848% 2050	3,910	0.13	
£10,000,000 Channel Link Enterprises Finance Var. Rate 2050 (3.043%)	9,890	0.33	
\$8,002,000 Citigroup 4.4% 2025	6,166	0.21	
\$35,000,000 Citigroup 4.45% 2027	26,668	0.89	
£5,000,000 Citigroup 4.5% 2031	5,469	0.18	
\$4,985,000 Citigroup 5.5% 2025	4,082	0.14	
£1,500,000 Compagnie de St. Gobain 5.625% 2024	1,786	0.06	
£9,000,000 CPUK Finance 7.239% 2042	11,050	0.37	
\$5,000,000 Crédit Agricole 4.125% 2027	3,760	0.13	
\$3,000,000 Crédit Agricole Var. Rate 2033 (4%)	2,139	0.07	
£3,000,000 Credit Suisse Group Funding 2.750% 2025 (formerly CS Group Funding)	2,982	0.10	
£9,000,000 Credit Suisse Group Var. Rate 2025 (2.125%)	8,646	0.29	
£2,703,000 CRH Finance (U.K.) 4.125% 2029	3,029	0.10	
\$10,000,000 Deutsche Telekom International Finance 3.6% 2027	7,356	0.25	
\$3,692,000 Deutsche Telekom International Finance 4.875% 2042	2,865	0.10	
\$10,000,000 Deutsche Telekom International Finance 8.75% 2030	10,406	0.35	
£15,000,000 Deutsche Telekom International Finance 8.875% 2028	23,049	0.77	
£3,111,000 Deutsche Telekom International Finance Var. Rate 2030 (7.625%)	4,582	0.15	
£1,776,000 Digital Stout Holding 2.75% 2024	1,790	0.06	
£3,806,000 Digital Stout Holding 3.3% 2029	3,822	0.13	

# M&G Strategic Corporate Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at 31 August Holding	2018 £'000	2018 %	2017 %
<b>'BBB' credit rated bonds (continued)</b>			
£1,500,000 E.ON International Finance 5.875% 2037	2,034	0.07	
£2,000,000 Enel 5.75% 2037	2,487	0.08	
\$4,000,000 Enel Finance International 3.5% 2028	2,753	0.09	
\$28,970,000 Enel Finance International 3.625% 2027	20,431	0.68	
£500,000 Enel Var. Rate 2075 (7.75%)	549	0.02	
\$500,000 Energy Transfer Partners 4.9% 2035	363	0.01	
\$1,000,000 Energy Transfer Partners 6.125% 2045	813	0.03	
\$7,143,000 Energy Transfer Partners 6.5% 2042	6,025	0.20	
£3,000,000 ENGIE Var. Rate Perp. (4.625%)	3,027	0.10	
\$3,333,000 Ford Motor Company 4.75% 2043	2,151	0.07	
\$20,000,000 Ford Motor Credit 4.389% 2026	14,709	0.49	
£17,500,000 Gatwick Funding 3.125% 2041	17,014	0.56	
£15,000,000 Gatwick Funding 3.25% 2050	14,762	0.49	
£5,000,000 Gatwick Funding 5.25% 2050	5,754	0.19	
£12,500,000 Gatwick Funding 6.125% 2028	15,477	0.52	
\$6,000,000 General Motors (formerly General Motors Financial) 6.6% 2036	4,975	0.17	
\$5,000,000 General Motors Corp 5.15% 2038	3,669	0.12	
\$3,000,000 General Motors Financial 4% 2025	2,239	0.07	
\$2,500,000 General Motors Financial 4% 2026	1,829	0.06	
\$10,000,000 General Motors Financial 4.3% 2025	7,549	0.25	
£10,000,000 Goldman Sachs Group 3.125% 2029	9,896	0.33	
£5,500,000 Goldman Sachs Group 5.5% 2021	6,063	0.20	
£4,720,000 Goldman Sachs Group 6.875% 2038	6,625	0.22	
£5,900,000 Goldman Sachs Group 7.125% 2025	7,536	0.25	
£7,500,000 Goldman Sachs Group 7.25% 2028	10,126	0.34	
£2,413,409 Greene King Finance 4.0643% 2035	2,559	0.09	
£2,105,970 Greene King Finance 5.318% 2031	2,425	0.08	
£7,000,000 H.J. Heinz Finance 6.25% 2030	8,687	0.29	
\$955,000 HCA 5% 2024	749	0.03	
\$4,615,000 HCA 5.25% 2025	3,652	0.12	
\$10,000,000 HCA 5.5% 2047	7,621	0.25	
\$1,000,000 HCA 5.875% 2022	814	0.03	
£2,500,000 Heathrow Funding 7.125% 2024	3,056	0.10	
\$2,326,000 HSBC Holdings 4.375% 2026	1,778	0.06	
£8,500,000 HSBC Holdings 5.75% 2027	10,148	0.34	
£7,500,000 HSBC Holdings 6% 2040	9,529	0.32	
£12,500,000 HSBC Holdings 6.75% 2028	15,936	0.53	
£4,000,000 HSBC Holdings 7% 2038	5,637	0.19	
£11,000,000 Imperial Brands Finance (formerly Imperial Tobacco Finance) 5.5% 2026	12,937	0.43	
£10,000,000 Imperial Brands Finance (formerly Imperial Tobacco Finance) 8.125% 2024	12,832	0.43	
£6,500,000 Imperial Brands Finance 4.875% 2032	7,387	0.25	
£7,133,000 Informa 3.125% 2026	7,170	0.24	
£6,500,000 InterContinental Hotels 2.125% 2026	6,157	0.21	
£1,823,000 Italy (Republic of) 5.25% 2034	2,073	0.07	
£35,000,000 Italy (Republic of) 6% 2028	41,388	1.38	
\$10,000,000 JPMorgan Chase 3.625% 2027	7,310	0.24	
\$15,000,000 JPMorgan Chase 3.875% 2024	11,439	0.38	
\$4,000,000 JPMorgan Chase 4.125% 2026	3,072	0.10	
\$15,000,000 JPMorgan Chase 4.25% 2027	11,531	0.39	

### Portfolio statement (continued)

as at 31 August Holding	2018 £'000	2018 %	2017 %
<b>'BBB' credit rated bonds (continued)</b>			
\$7,000,000 Kinder Morgan 5.05% 2046	5,283	0.18	
\$3,500,000 Kinder Morgan Energy Partners 5.8% 2035	2,836	0.09	
\$3,000,000 Kinder Morgan Energy Partners 6.95% 2038	2,709	0.09	
£4,500,000 KPN 5% 2026	5,184	0.17	
£11,250,000 KPN 5.75% 2029	13,854	0.46	
\$12,000,000 KPN 8.375% 2030	11,996	0.40	
£15,000,000 Kraft Heinz Foods 4.125% 2027	16,133	0.53	
£10,000,000 LafargeHolcim Sterling Finance (Netherlands) 3% 2032	9,432	0.32	
£21,000,000 Legal & General Group Var. Rate 2045 (5.375%)	22,679	0.76	
\$10,000,000 Legal & General Group Var. Rate 2047 (5.25%)	7,372	0.25	
£23,000,000 Legal & General Group Var. Rate 2064 (5.5%)	24,276	0.81	
£7,000,000 Lloyds Bank 7.625% 2025	8,890	0.30	
£5,500,000 Lloyds Bank 9.625% 2023	7,078	0.24	
£1,750,000 Longstone Finance 4.896% 2036	1,971	0.07	
€1,384,779 Ludgate Funding FRN BB 2061	1,146	0.04	
€1,384,779 Ludgate Funding FRN CB 2061	1,128	0.04	
£750,000 Marston's Issuer Var. Rate 2027 (5.1576%)	739	0.02	
£2,800,000 Marston's Issuer Var. Rate 2032 (5.1774%)	3,049	0.10	
£3,375,000 McDonald's 5.875% 2032	4,453	0.15	
\$3,250,000 McDonald's 6.3% 2037	3,024	0.10	
\$3,000,000 McDonald's 6.3% 2038	2,798	0.09	
£28,000,000 Mexico (United Mexican States) 5.625% 2114	28,980	0.97	
£1,263,794 Mitchells & Butlers Finance 6.013% 2030	1,449	0.05	
£3,000,000 Mitchells & Butlers Finance FRN 2033	2,548	0.09	
£1,000,000 Mondelēz International 3.875% 2045	1,035	0.03	
£1,750,000 Mondelēz International 4.5% 2035	1,955	0.07	
£22,167,000 Morgan Stanley 2.625% 2027	21,856	0.73	
\$1,041,000 Morgan Stanley 3.625% 2027	772	0.03	
\$15,000,000 Morgan Stanley 3.95% 2027	11,121	0.37	
\$1,000,000 Morgan Stanley 4.1% 2023	774	0.03	
\$8,500,000 Morgan Stanley 4.35% 2026	6,498	0.22	
\$4,810,000 Nationwide Building Society 4% 2026	3,501	0.12	
€1,146,637 Newgate Funding FRN 2050	923	0.03	
£12,500,000 Next 3.625% 2028	12,517	0.42	
£9,000,000 Next 4.375% 2026	9,657	0.32	
£11,250,000 NGG Finance Var. Rate 2073 (5.625%)	12,325	0.41	
£16,850,000 Orange 5.625% 2034	22,067	0.74	
£15,000,000 Orange 8.125% 2028	22,183	0.74	
\$15,000,000 Orange 8.5% 2031	16,301	0.53	
€12,500,000 Orange Var. Rate Perp. (5%)	12,321	0.41	
£10,500,000 Orange Var. Rate Perp. (5.75%)	11,381	0.38	
£1,500,000 Orange Var. Rate Perp. (5.875%)	1,627	0.05	
£3,167,000 Rabobank 4.625% 2029	3,520	0.12	
£833,000 Rabobank 5.25% 2027	964	0.03	
\$5,400,000 Rabobank Var. Rate 2029 (4%)	4,023	0.13	
\$3,000,000 RELX Capital (formerly Reed Elsevier Capital) 7.5% 2025	2,716	0.09	
\$1,000,000 Reynolds American 6.15% 2043	867	0.03	
€6,844,000 Royal Bank of Scotland 2.5% 2023	6,419	0.21	
£15,000,000 Royal Bank of Scotland Var. Rate 2026 (2.875%)	14,691	0.49	

# M&G Strategic Corporate Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at 31 August	2018	2018	2017	
Holding	£'000	%	%	
<b>'BBB' credit rated bonds (continued)</b>				
\$15,450,000 Royal Bank of Scotland Var. Rate 2029 (4.8920%)	11,912	0.40		
£1,000,000 Severn Trent 1.3% IL 2022	1,238	0.04		
£8,320,000 Severn Trent Utilities Finance 2.75% 2031	8,201	0.27		
£8,000,000 Severn Trent Utilities Finance 3.625% 2026	8,557	0.29		
£1,816,000 Severn Trent Utilities Finance 6.125% 2024	2,180	0.07		
£5,000,000 Severn Trent Utilities Finance 6.25% 2029	6,613	0.22		
\$6,000,000 Société Générale 4% 2027	4,450	0.15		
\$5,000,000 Société Générale 5% 2024	3,898	0.13		
£3,800,000 Southern Gas Networks 3.1% 2036	3,809	0.13		
£2,000,000 Student Finance 2.6663% 2024	1,979	0.07		
\$10,000,000 Telefónica (Europe) 8.25% 2030	9,993	0.33		
\$5,000,000 Telefónica Emisiones 4.895% 2048	3,678	0.12		
£2,900,000 Telefónica Emisiones 5.375% 2026	3,387	0.11		
\$12,000,000 Telefónica Emisiones 7.045% 2036	11,175	0.37		
£5,000,000 Thames Water Utilities Cayman 1.875% 2024	4,871	0.16		
£1,967,000 Thames Water Utilities Cayman 2.375% 2023	1,919	0.06		
£3,543,000 Thames Water Utilities Cayman 2.875% 2027	3,408	0.11		
£1,485,000 Thames Water Utilities Cayman 3.5% 2028	1,569	0.05		
£15,000,000 Thames Water Utilities Cayman 4% 2025	16,406	0.55		
£5,000,000 Thames Water Utilities Cayman 4.375% 2034	5,739	0.19		
£7,500,000 Thames Water Utilities Cayman Var. Rate 2030 (5.75%)	8,321	0.28		
£1,250,000 Thames Water Utilities Finance 3.375% IL 2021	2,229	0.07		
£7,500,000 Thames Water Utilities Finance 6.75% 2028	10,070	0.34		
£24,075,000 Time Warner Cable 5.25% 2042	26,547	0.89		
£5,675,000 Time Warner Cable 5.75% 2031	6,496	0.22		
\$4,000,000 United Business Media 5.75% 2020	3,131	0.10		
\$20,000,000 Verizon Communications 4.272% 2036	14,570	0.49		
\$15,000,000 Verizon Communications 4.522% 2048	10,886	0.36		
\$35,000,000 Verizon Communications 4.672% 2022	25,007	0.84		
\$5,000,000 Verizon Communications 5.012% 2049	3,868	0.13		
\$40,000,000 Verizon Communications 5.012% 2054	30,151	1.01		
£40,000,000 Vodafone Group 3% 2056	34,380	1.15		
£9,000,000 Vodafone Group 3.375% 2049	8,396	0.28		
\$5,000,000 Vodafone Group 5% 2038	3,845	0.13		
\$8,889,000 Vodafone Group 5.25% 2048	6,961	0.23		
£532,000 Wales & West Utilities Finance Var. Rate 2036 (6.75%)	539	0.02		
£4,659,000 Walgreens Boots Alliance 3.6% 2025	4,838	0.16		
\$14,362,000 Wells Fargo 4.1% 2026	10,949	0.37		
£4,000,000 Wells Fargo 4.875% 2035	4,629	0.15		
£7,500,000 Welltower 4.5% 2034	8,346	0.28		
£2,198,000 Welltower 4.8% 2028	2,488	0.08		
£4,000,000 WPP Finance 2.875% 2046	3,233	0.11		

### Portfolio statement (continued)

as at 31 August	2018	2018	2017
Holding	£'000	%	%
<b>'BB' credit rated bonds</b>			
	<b>171,688</b>	<b>5.74</b>	<b>5.68</b>
\$2,000,000 Crédit Agricole Var. Rate Perp. (7.875%)	1,631	0.05	
£3,050,000 Daily Mail & General Trust 6.375% 2027	3,502	0.12	
£6,055,851 Delamare Finance 5.5457% 2029	6,758	0.23	
£6,000,000 Enterprise Inns 6% 2023	6,459	0.22	
£2,000,000 Enterprise Inns 6.375% 2031	2,201	0.07	
£750,000 Enterprise Inns 6.875% 2021	811	0.03	
£2,500,000 Enterprise Inns 6.875% 2025	2,728	0.09	
€1,800,000 Gas Natural Fenosa Var. Rate Perp. (4.125%)	1,689	0.06	
£1,250,000 KPN Var. Rate 2073 (6.875%)	1,326	0.04	
\$4,000,000 Lloyds Bank Var. Rate Perp. 2024 (12%)	3,731	0.12	
£4,000,000 Lloyds Banking Group Var. Rate Perp. (7.625%)	4,393	0.15	
£3,367,000 Lloyds Banking Group Var. Rate Perp. (7.875%)	3,885	0.13	
£8,000,000 Nationwide Building Society Var. Rate Perp. (6.875%)	8,209	0.27	
\$7,000,000 Natwest Markets 6.125% 2022	5,647	0.19	
£3,000,000 Petrobras Global Finance 5.375% 2029	2,755	0.09	
£814,000 Petrobras Global Finance 6.25% 2026	827	0.03	
£3,000,000 Petrobras Global Finance 6.625% 2034	2,947	0.10	
\$6,601,000 Royal Bank of Scotland 6% 2023	5,307	0.18	
\$10,588,000 Royal Bank of Scotland 6.1% 2023	8,529	0.28	
\$211,000 Société Générale Var. Rate Perp. (7.875%) (Listing Germany)	170	0.01	
\$1,289,000 Société Générale Var. Rate Perp. (7.875%) (Listing Luxembourg)	1,038	0.03	
€5,000,000 Telecom Italia 5.25% 2055	4,542	0.15	
£13,000,000 Telecom Italia 5.875% 2023	14,299	0.48	
£14,580,066 Tesco Property Finance 3 5.744% 2040	16,764	0.56	
£19,578,950 Tesco Property Finance 4 5.8006% 2040	22,706	0.76	
£19,686,906 Tesco Property Finance 5 5.6611% 2041	22,522	0.75	
€2,000,000 UBS Group Funding (Switzerland) (formerly UBS) Var. Rate Perp. (5.75%)	1,990	0.07	
\$10,000,000 UBS Group Funding (Switzerland) Var. Rate Perp. (5%)	6,625	0.22	
€4,000,000 Unitymedia Hessen 3.5% 2027	3,779	0.13	
€2,000,000 Unitymedia Hessen 4% 2025	1,884	0.06	
£2,000,000 Virgin Media Secured Finance 5.125% 2025	2,034	0.07	
<b>'B' credit rated bonds</b>			
	<b>0</b>	<b>0.00</b>	<b>0.14</b>
<b>Bonds with no credit rating</b>			
	<b>162,150</b>	<b>5.42</b>	<b>5.58</b>
\$2,145,000 Aquarius Plus Investments 8.25% IL Perp.	1,649	0.06	
€3,643,000 Assicurazioni Generali Var. Rate 2047 (5.5%)	3,389	0.11	
£8,900,000 Assicurazioni Generali Var. Rate Perp. (6.269%)	8,952	0.30	
£3,250,000 Assura Financing 3% 2028	3,273	0.11	
£100,000 British Land 5.264% 2035	126	0.00	
£6,000,000 BUPA Finance 5% 2026	6,550	0.22	
£3,993,000 Charter Mortgage Funding 2018-1 FRN 2055	3,978	0.13	

# M&G Strategic Corporate Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at 31 August Holding	2018 £'000	2018 %	2017 %
<b>Bonds with no credit rating (continued)</b>			
€103,500 Codere Finance Luxembourg 9.25% 2019	511	0.02	
£4,152,000 Eversholt Funding 3.529% 2042	3,998	0.13	
£8,000,000 Eversholt Funding 6.359% 2025	9,782	0.33	
£3,645,008 Feldspar 2016-1 FRN 2045	3,648	0.12	
£13,242 Gemgarto 2015-1 FRN 2047	13	0.00	
£1,492,658 Gosforth Funding FRN 2058	1,493	0.05	
£7,423,000 Gosforth Funding FRN 2059	7,393	0.25	
£250,000 Grosvenor UK Finance 6.5% 2026	321	0.01	
£6,000,000 Hammerson 6% 2026	7,109	0.24	
£3,000,000 Hammerson 7.25% 2028	3,948	0.13	
£1,840,000 Hastings Group Finance 3% 2025	1,828	0.06	
£2,000,000 Heathrow Finance 5.75% 2025	2,150	0.07	
£776,256 Highbury Finance 7.017% 2023	896	0.03	
£3,441,109 Housing Securities 8.375% 2019	3,521	0.12	
£2,500,000 John Lewis 4.25% 2034	2,420	0.08	
£6,000,000 John Lewis 6.125% 2025	6,885	0.23	
£300,000 LAB Investments 7.125% 2019	307	0.01	
£4,667,000 Leeds Building Society Var. Rate 2029 (3.75%)	4,455	0.15	
£3,478,000 Midland Heart Capital 5.087% 2044	4,617	0.15	
£4,985,000 Moat Homes Finance 5% 2041	6,423	0.21	
£4,565,000 National Express 2.5% 2023	4,520	0.15	
£4,984,000 Orbit Capital (formerly Orbit Group) 3.5% 2045	5,167	0.17	
£7,071,000 Orbit Capital 3.375% 2048	7,214	0.24	
£382,106 Orbita Funding FRN 2023	383	0.01	
£1,143,224 Paragon Mortgages No.22 FRN 2042	1,144	0.04	
£5,000,000 Places for People 3.625% 2028	5,063	0.17	
£2,500,000 Princiarity Building Society 2.375% 2023	2,461	0.08	
£4,750,000 South West Water Finance 5.875% 2040	6,828	0.23	
\$4,500,000 Stora Enso 7.25% 2036	4,135	0.14	
£5,000,000 Suez 5.375% 2030	6,385	0.21	
£5,000,000 Virgin Money Holdings (UK) Var. Rate 2026 (3.375%)	4,959	0.17	
£2,000,000 Westfield Stratford City Finance (formerly Westfield Stratford) FRN 2024	1,998	0.07	
£1,342,000 Wm Morrison Supermarkets 3.5% 2026	1,419	0.05	
£7,158,000 Wm Morrison Supermarkets 4.75% 2029	8,241	0.28	
£2,500,000 Yorkshire Building Society 3.5% 2026	2,598	0.09	
<b>Debt derivatives</b>	<b>1,427</b>	<b>0.04</b>	<b>(0.13)</b>
<b>Credit default swaps</b>	<b>15</b>	<b>0.00</b>	<b>(0.01)</b>
€(10,000,000) Markit iTraxx Europe Series 27 10 Year Jun 2027	15	0.00	
<b>Interest rate swaps</b>	<b>234</b>	<b>0.00</b>	<b>(0.06)</b>
£10,000,000 Pay 1.5425% Receive VAR Mar 2047	234	0.00	
<b>Interest rate futures</b>	<b>1,178</b>	<b>0.04</b>	<b>(0.06)</b>
(375) Euro Bund Sep 2018	(308)	(0.01)	
(2,976) UK Long Gilt Bond Dec 2018	896	0.03	
(300) US Long Treasury Bond Dec 2018	50	0.00	
(2,850) US Ultra Long Treasury Bond Dec 2018	540	0.02	

### Portfolio statement (continued)

as at 31 August Holding	2018 £'000	2018 %	2017 %
<b>CURRENCY</b>	<b>(3,072)</b>	<b>(0.10)</b>	<b>(0.12)</b>
<b>Forward currency contracts</b>	<b>(3,072)</b>	<b>(0.10)</b>	<b>(0.12)</b>
€513,308 Bought for £460,460 (expires 19.09.18)	0	0.00	
€(32,380,592) Sold for £28,964,320 (expires 19.09.18)	(102)	0.00	
€(38,659,691) Sold for £34,565,081 (expires 17.10.18)	(171)	0.00	
\$(268,081,841) Sold for £201,275,630 (expires 19.09.18)	(4,739)	(0.16)	
\$(364,753,078) Sold for £276,990,078 (expires 17.10.18)	(2,979)	(0.10)	
\$(340,852,407) Sold for £266,219,865 (expires 14.11.18)	4,919	0.16	
<b>Portfolio of investments</b>	<b>2,794,711</b>	<b>93.36</b>	<b>93.28</b>
<b>CASH EQUIVALENTS</b>	<b>138,874</b>	<b>4.64</b>	<b>5.23</b>
<b>'AAA' rated money market funds [a]</b>	<b>138,874</b>	<b>4.64</b>	<b>5.23</b>
138,873,999 Northern Trust Global Fund - Sterling	138,874	4.64	
<b>Total portfolio (notes 2c &amp; 2d on page 19)</b>	<b>2,933,585</b>	<b>98.00</b>	<b>98.51</b>
<b>Net other assets / (liabilities)</b>	<b>59,953</b>	<b>2.00</b>	<b>1.49</b>
<b>Net assets attributable to shareholders</b>	<b>2,993,538</b>	<b>100.00</b>	<b>100.00</b>

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

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

# M&G Strategic Corporate Bond Fund

## Financial highlights

### Fund performance

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

The following chart and tables show the performance for two of the fund's share classes – Sterling Class 'A' (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 Strategic Corporate Bond Fund, which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

### Fund level performance

Fund net asset value			
	2018	2017	2016
as at 31 August	£'000	£'000	£'000
Fund net asset value (NAV)	2,993,538	3,518,319	4,287,965

### Performance since launch

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



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

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 <sup>[a]</sup>

	One year 01.09.17 % <sup>[b]</sup>	Three years 03.09.15 % p.a.	Five years 03.09.13 % p.a.	Since launch % p.a.
<b>Sterling <sup>[c]</sup></b>				
Class 'A'	-0.7	+3.7	+4.1	+6.0 <sup>[d]</sup>
Class 'I'	-0.2	+4.2	+4.5	+4.3 <sup>[e]</sup>
Class 'R'	-0.4	+4.0	+4.3	+4.1 <sup>[e]</sup>
Class 'X'	-0.7	+3.6	+3.9	+5.8 <sup>[d]</sup>

<sup>[a]</sup> On 1 September 2009 the M&G Strategic Corporate Bond Fund de-merged from M&G Investment Funds (1) to become the M&G Strategic Corporate Bond Fund.

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

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

<sup>[d]</sup> 20 February 2004, the launch date of the merging fund.

<sup>[e]</sup> 3 August 2012, the launch date of the share class.

# M&G Strategic Corporate Bond Fund

## Financial highlights

### Fund performance

## Operating charges and portfolio transaction costs

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

### Operating charges

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

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

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

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

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

### Portfolio transaction costs

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

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

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

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

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

### Portfolio transaction costs

as at 31 August	2018	2017	2016	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.80	0.73	0.93	0.82

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

# M&G Strategic Corporate Bond Fund

## Financial highlights

### Specific share class performance

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

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

The share class was launched on 20 February 2004.

for the year to 31 August Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	77.00	78.12	72.58
Return before operating charges and after direct portfolio transaction costs	0.28	2.59	8.44
Operating charges	(0.88)	(0.89)	(0.86)
Return after operating charges	(0.60)	1.70	7.58
Distributions	(2.69)	(2.82)	(2.04)
Closing NAV	73.71	77.00	78.12
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	1.16	1.16	1.16
Return after operating charges	-0.78	+2.18	+10.44
Distribution yield <sup>[c]</sup>	3.66	3.45	2.40
Effect on yield of charges offset against capital	1.15	1.15	0.00
<b>Other information</b>			
Closing NAV (£'000)	322,710	497,660	816,583
Closing NAV percentage of total fund NAV (%)	10.78	14.14	19.04
Number of shares	437,797,845	646,288,771	1,045,331,484
Highest share price (UK p)	77.65	78.04	78.56
Lowest share price (UK p)	73.77	74.50	71.22

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

The share class was launched on 20 February 2004.

for the year to 31 August Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	117.09	114.64	104.21
Return before operating charges and after direct portfolio transaction costs	0.41	3.92	12.26
Operating charges	(1.36)	(1.32)	(1.24)
Return after operating charges	(0.95)	2.60	11.02
Distributions	(2.79)	(2.89)	(2.95)
Retained distributions	2.79	2.74	2.36
Closing NAV	116.14	117.09	114.64
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	1.16	1.16	1.16
Return after operating charges	-0.81	+2.27	+10.57
Distribution yield	2.50	2.31	2.40
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	863,290	1,078,937	1,330,254
Closing NAV percentage of total fund NAV (%)	28.84	30.67	31.02
Number of shares	743,347,947	921,487,919	1,160,411,896
Highest share price (UK p)	119.06	117.28	114.65
Lowest share price (UK p)	115.14	110.15	102.80

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

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	1,122.49	1,133.02	1,052.64
Return before operating charges and after direct portfolio transaction costs	4.04	37.87	122.36
Operating charges	(7.35)	(7.34)	(7.07)
Return after operating charges	(3.31)	30.53	115.29
Distributions	(39.25)	(41.06)	(34.91)
Closing NAV	1,079.93	1,122.49	1,133.02
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.02	0.03	0.03
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.02	0.03	0.03
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.66	0.66	0.66
Return after operating charges	-0.29	+2.69	+10.95
Distribution yield <sup>[c]</sup>	3.66	3.45	2.90
Effect on yield of charges offset against capital	0.65	0.65	0.00
<b>Other information</b>			
Closing NAV (£'000)	581,855	716,956	875,209
Closing NAV percentage of total fund NAV (%)	19.44	20.38	20.41
Number of shares	53,878,810	63,872,156	77,245,877
Highest share price (UK p)	1,133.75	1,134.63	1,140.60
Lowest share price (UK p)	1,079.93	1,081.94	1,033.80

# M&G Strategic Corporate Bond Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	1,296.26	1,263.12	1,143.66
Return before operating charges and after direct portfolio transaction costs	4.51	43.37	134.88
Operating charges	(8.60)	(8.30)	(7.77)
Return after operating charges	(4.09)	35.07	127.11
Distributions	(37.46)	(38.17)	(38.26)
Retained distributions	37.46	36.24	30.61
Closing NAV	1,292.17	1,296.26	1,263.12

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

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.66	0.66	0.66
Return after operating charges	-0.32	+2.78	+11.11
Distribution yield	3.01	2.81	2.90
Effect on yield of charges offset against capital	0.00	0.00	0.00

#### Other information

Closing NAV (£'000)	1,116,634	1,092,958	1,109,224
Closing NAV percentage of total fund NAV (%)	37.29	31.06	25.87
Number of shares	86,415,276	84,316,483	87,816,178
Highest share price (UK p)	1,320.24	1,298.32	1,263.23
Lowest share price (UK p)	1,280.08	1,214.80	1,130.25

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

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	111.98	113.31	105.28
Return before operating charges and after direct portfolio transaction costs	0.40	3.80	12.23
Operating charges	(1.01)	(1.03)	(0.98)
Return after operating charges	(0.61)	2.77	11.25
Distributions	(3.91)	(4.10)	(3.22)
Closing NAV	107.46	111.98	113.31

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

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.91	0.91	0.91
Return after operating charges	-0.54	+2.44	+10.69
Distribution yield <sup>[c]</sup>	3.66	3.45	2.65
Effect on yield of charges offset against capital	0.90	0.90	0.00

#### Other information

Closing NAV (£'000)	9,464	10,084	3,043
Closing NAV percentage of total fund NAV (%)	0.32	0.29	0.07
Number of shares	8,806,487	9,005,704	2,685,561
Highest share price (UK p)	113.01	113.20	114.01
Lowest share price (UK p)	107.50	108.13	103.35

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

The share class was launched on 3 August 2012.

for the year to 31 August Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	128.31	125.33	113.70
Return before operating charges and after direct portfolio transaction costs	0.45	4.29	13.39
Operating charges	(1.17)	(1.13)	(1.06)
Return after operating charges	(0.72)	3.16	12.33
Distributions	(3.38)	(3.47)	(3.51)
Retained distributions	3.38	3.29	2.81
Closing NAV	127.59	128.31	125.33

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

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.91	0.91	0.91
Return after operating charges	-0.56	+2.52	+10.84
Distribution yield	2.76	2.56	2.65
Effect on yield of charges offset against capital	0.00	0.00	0.00

#### Other information

Closing NAV (£'000)	3,483	1,748	1,997
Closing NAV percentage of total fund NAV (%)	0.12	0.05	0.05
Number of shares	2,729,759	1,362,432	1,593,550
Highest share price (UK p)	130.58	128.52	125.34
Lowest share price (UK p)	126.45	120.48	112.27

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

The share class was launched on 20 February 2004.

for the year to 31 August Change in NAV per share	2018 UK p	2017 UK p	2016 UK p
Opening NAV	76.92	78.09	72.56
Return before operating charges and after direct portfolio transaction costs	0.27	2.60	8.42
Operating charges	(0.88)	(0.95)	(1.04)
Return after operating charges	(0.61)	1.65	7.38
Distributions	(2.68)	(2.82)	(1.85)
Closing NAV	73.63	76.92	78.09

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

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	1.16	1.24*	1.41
Return after operating charges	-0.79	+2.11	+10.17
Distribution yield <sup>[c]</sup>	3.66	3.45	2.15
Effect on yield of charges offset against capital	1.15	1.15	0.00

#### Other information

Closing NAV (£'000)	27,575	33,853	44,621
Closing NAV percentage of total fund NAV (%)	0.92	0.96	1.04
Number of shares	37,449,114	44,009,822	57,140,267
Highest share price (UK p)	77.57	78.01	78.50
Lowest share price (UK p)	73.69	74.43	71.16

\* As the annual management charge has been discounted during the period, 1.16% is a more reliable estimate of the period to 31.08.17 ongoing charges.

# M&G Strategic Corporate Bond Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 20 February 2004.

for the year to 31 August	2018	2017	2016
Change in NAV per share	UK p	UK p	UK p
Opening NAV	114.22	111.90	101.92
Return before operating charges and after direct portfolio transaction costs	0.40	3.82	11.97
Operating charges	(1.33)	(1.37)	(1.47)
Return after operating charges	(0.93)	2.45	10.50
Distributions	(2.72)	(2.74)	(2.62)
Retained distributions	2.72	2.61	2.10
Closing NAV	113.29	114.22	111.90
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	1.16	1.23*	1.41
Return after operating charges	-0.81	+2.19	+10.30
Distribution yield	2.50	2.16	2.15
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	68,527	86,123	107,034
Closing NAV percentage of total fund NAV (%)	2.29	2.45	2.50
Number of shares	60,486,200	75,400,465	95,654,213
Highest share price (UK p)	116.15	114.41	111.91
Lowest share price (UK p)	112.32	107.47	100.45

\* As the annual management charge has been discounted during the period, 1.16% is a more reliable estimate of the period to 31.08.17 ongoing charges.

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

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

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

# M&G Strategic Corporate Bond Fund

## Financial statements and notes

### Financial statements

Statement of total return					
for the year to 31 August	Note	2018		2017	
		£'000	£'000	£'000	£'000
Income					
Net capital gains / (losses)	5		(102,374)		(27,426)
Revenue	7	114,394		139,226	
Expenses	8	(28,904)		(34,578)	
Net revenue / (expense) before taxation		85,490		104,648	
Taxation	9	(125)		(212)	
Net revenue / (expense) after taxation			85,365		104,436
<b>Total return before distributions</b>			<b>(17,009)</b>		<b>77,010</b>
Distributions	10		(94,956)		(116,784)
<b>Change in net assets attributable to shareholders from investment activities</b>			<b>(111,965)</b>		<b>(39,774)</b>

Statement of change in net assets attributable to shareholders					
for the year to 31 August	Note	2018		2017	
		£'000	£'000	£'000	£'000
<b>Opening net assets attributable to shareholders</b>			<b>3,518,319</b>		<b>4,287,965</b>
Amounts received on issue of shares		200,941		107,099	
Value of in specie transfers received		0		9,045	
Amounts paid on cancellation of shares		(671,058)		(909,824)	
			(470,117)		(793,680)
Dilution adjustments			1,752		3,296
Change in net assets attributable to shareholders from investment activities (see above)			(111,965)		(39,774)
Retained distributions on Accumulation shares			55,547		60,511
Unclaimed distributions			2		1
<b>Closing net assets attributable to shareholders</b>			<b>2,993,538</b>		<b>3,518,319</b>

Balance sheet			
as at 31 August	Note	2018 £'000	2017 £'000
<b>Assets</b>			
<b>Fixed assets</b>			
Investments		2,803,010	3,293,297
<b>Current assets</b>			
Debtors	11	44,512	50,655
Cash and bank balances	12	30,056	24,554
Cash equivalents		138,874	183,892
<b>Total assets</b>		<b>3,016,452</b>	<b>3,552,398</b>
<b>Liabilities</b>			
Investment liabilities		(8,299)	(11,310)
<b>Creditors</b>			
Bank overdrafts		0	(1,647)
Overdrawn positions at futures clearing houses and collateral manager		(90)	0
Distribution payable		(8,896)	(11,490)
Other creditors	13	(5,629)	(9,632)
<b>Total liabilities</b>		<b>(22,914)</b>	<b>(34,079)</b>
<b>Net assets attributable to shareholders</b>		<b>2,993,538</b>	<b>3,518,319</b>

### 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 Strategic Corporate Bond 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 31 August 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 31 August 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 Strategic Corporate Bond 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.

##### 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.

# M&G Strategic Corporate Bond Fund

## Financial statements and notes

### Notes to the financial statements

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

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

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 21 to 23 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 Strategic Corporate Bond Fund	VaR

##### Liquidity risk

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

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

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

Cashflow liquidity is managed in each fund on a daily basis using reports that include subscription and redemption information as well as the impact of trading, derivative lifecycle events and corporate action activity. In addition to the daily reporting, the fund managers are

# M&G Strategic Corporate Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 3 Risk management policies (continued)

##### Liquidity risk (continued)

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 and administration charge are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

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

for the year to 31 August	2018 £'000	2017 £'000
Non-derivative securities	(130,684)	(23,138)
Derivative contracts	26,353	3,634
Currency gains / (losses)	1,972	(7,903)
Transaction charges	(15)	(19)
<b>Net capital gains / (losses)</b>	<b>(102,374)</b>	<b>(27,426)</b>

#### 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 page 15.

for the year to 31 August	2018 £'000	2017 £'000		
<b>a) Purchases</b>				
Debt securities <sup>[a]</sup>	674,704	1,002,068		
<b>Other transaction types</b>				
In specie	0	9,045		
<b>Total purchases after transaction costs</b>	<b>674,704</b>	<b>1,011,113</b>		
<b>b) Sales</b>				
Debt securities <sup>[a]</sup>	956,072	1,722,854		
<b>Other transaction types</b>				
Corporate actions	75,105	120,777		
<b>Total sales after transaction costs</b>	<b>1,031,177</b>	<b>1,843,631</b>		
<b>c) Direct portfolio transaction costs</b>				
	2018 £'000	% of average NAV	2017 £'000	% of average NAV
<b>Commissions paid</b>				
Derivatives	60	0.00	88	0.00
<b>Taxes paid</b>				
Derivatives	10	0.00	0	0.00
<b>Total direct portfolio transaction costs</b>	<b>70</b>	<b>0.00</b>	<b>88</b>	<b>0.00</b>
<b>d) Indirect portfolio transaction costs</b>			%	%
Portfolio dealing spread <sup>[b]</sup>			0.80	0.73

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

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

#### 7 Revenue

for the year to 31 August	2018 £'000	2017 £'000
Bank interest	49	51
Derivative revenue	(5,422)	(8,587)
Interest distributions	642	369
Interest on debt securities	119,125	147,393
<b>Total revenue</b>	<b>114,394</b>	<b>139,226</b>

#### 8 Expenses

for the year to 31 August	2018 £'000	2017 £'000
<b>Payable to the ACD or associate</b>		
Annual management charge	23,764	28,607
Administration charge	4,848	5,647
	28,612	34,254
<b>Payable to the Depositary or associate</b>		
Depositary's charge (including VAT)	121	137
<b>Other expenses</b>		
Audit fee (including VAT)	10	10
Interest payable	29	21
Legal fees	0	1
Safe custody charge	132	155
	171	187
<b>Total expenses</b>	<b>28,904</b>	<b>34,578</b>

# M&G Strategic Corporate Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 9 Taxation

for the year to 31 August	2018 £'000	2017 £'000
<b>a) Analysis of charge in the year</b>		
Corporation tax	0	0
Withholding tax	125	212
Deferred tax (note 9c)	0	0
<b>Total taxation</b>	<b>125</b>	<b>212</b>
<b>b) Factors affecting taxation charge for the year</b>		
Net revenue / (expense) before taxation	85,490	104,648
Corporation tax at 20%	17,098	20,930
Effects of:		
Interest distributions	(17,098)	(20,930)
Withholding tax	125	212
<b>Total tax charge (note 9a)</b>	<b>125</b>	<b>212</b>
<b>c) Provision for deferred taxation</b>		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 9a)	0	0
<b>Provision at the end of the year</b>	<b>0</b>	<b>0</b>

The fund has not recognised a deferred tax asset in the current financial year (2017: same).

Interest distributions have been made in respect of all distributions during the current and preceding periods. Income tax at 20% was accounted for on shareholders' behalf to HM Revenue & Customs up to 30 November 2016.

#### 10 Distributions

for the year to 31 August	2018		2017	
	Inc <sup>[a]</sup> £'000	Acc <sup>[b]</sup> £'000	Inc <sup>[a]</sup> £'000	Acc <sup>[b]</sup> £'000
<b>Interest distributions</b>				
First interim	9,626	13,537	11,577	13,510
Second interim	9,319	13,571	11,893	15,919
Third interim	9,648	13,907	11,711	15,743
Final	8,896	14,532	11,597	15,339
<b>Total net distributions</b>		93,036		107,289
Income tax deducted at source		0		6,479
Interest distributions		93,036		113,768
Income deducted on cancellation of shares		2,877		3,440
Income received on issue of shares		(957)		(424)
<b>Distributions</b>		<b>94,956</b>		<b>116,784</b>
Net revenue / (expense) per statement of total return		85,365		104,436
Expenses offset against capital		9,591		12,342
Undistributed income brought forward		1		7
Undistributed income carried forward		(1)		(1)
<b>Distributions</b>		<b>94,956</b>		<b>116,784</b>

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

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

#### 11 Debtors

as at 31 August	2018 £'000	2017 £'000
Amounts receivable on issues of shares	91	25
Debt security interest receivable	44,206	50,342
Derivative revenue receivable	18	245
Distributions receivable	70	24
Withholding tax recoverable	127	19
<b>Total debtors</b>	<b>44,512</b>	<b>50,655</b>

#### 12 Cash and bank balances

as at 31 August	2018 £'000	2017 £'000
Amounts held at futures clearing houses and collateral manager	18,454	22,761
Cash held as bank balances	11,602	1,793
<b>Total cash and bank balances</b>	<b>30,056</b>	<b>24,554</b>

#### 13 Other creditors

as at 31 August	2018 £'000	2017 £'000
ACD's annual management charge payable	1,069	1,227
Administration charge payable	224	248
Amounts payable on cancellation of shares	4,171	8,109
Derivative expense payable	125	5
Expenses payable	40	43
<b>Total other creditors</b>	<b>5,629</b>	<b>9,632</b>

#### 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 01.09.17	Movements		Closing 31.08.18
		Issued	Cancelled	
<b>Sterling</b>				
Class 'A' Income	646,288,771	5,502,113	(213,993,039)	437,797,845
Class 'A' Accumulation	921,487,919	4,824,250	(182,964,222)	743,347,947
Class 'I' Income	63,872,156	4,387,648	(14,380,994)	53,878,810
Class 'I' Accumulation	84,316,483	10,472,288	(8,373,495)	86,415,276
Class 'R' Income	9,005,704	1,127,004	(1,326,221)	8,806,487
Class 'R' Accumulation	1,362,432	1,896,290	(528,963)	2,729,759
Class 'X' Income	44,009,822	1,675,062	(8,235,770)	37,449,114
Class 'X' Accumulation	75,400,465	1,569,298	(16,483,563)	60,486,200

#### 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 %
<b>Sterling</b>			
Class 'A'	nil	n/a	1.00
Class 'I'	nil	n/a	0.50
Class 'R'	nil	n/a	0.75
Class 'X'	nil	n/a	1.00

# M&G Strategic Corporate Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 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 and administration charge are disclosed in note 8. Amounts due at the year end in respect of the ACD's annual management charge and administration 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 12.82% (2017: 10.02%) of the fund's shares.

#### 18 Events after the balance sheet date

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

#### 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 31 August	Assets	Liabilities	Assets	Liabilities
Basis of valuation	2018	2018	2017	2017
	£'000	£'000	£'000	£'000
Level 1	44,947	(308)	97,163	(2,235)
Level 2	2,758,063	(7,991)	3,196,134	(9,075)
Level 3	0	0	0	0
	<b>2,803,010</b>	<b>(8,299)</b>	<b>3,293,297</b>	<b>(11,310)</b>

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 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 21 and 22.

#### 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 31 August 2018 was 12% (2017: 12%).

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 31 August 2018 and 31 August 2017.

for the year to 31 August	2018		2017	
	2018 % of VaR	Utilisation of VaR <sup>[a]</sup> 12%	2017 % of VaR	Utilisation of VaR <sup>[a]</sup> 12%
Lowest	2.11	17.56	2.43	20.23
Highest	2.67	22.29	4.10	34.14
Average	2.39	19.89	3.19	26.59

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

# M&G Strategic Corporate Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 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 table below shows the credit quality of the investments held in the portfolio.

as at 31 August	2018 £'000	2017 £'000
Investment grade securities	2,462,518	2,889,897
Below investment grade securities	171,688	204,518
Unrated securities	162,150	196,338
Other investments	(1,645)	(8,766)
<b>Total</b>	<b>2,794,711</b>	<b>3,281,987</b>

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

as at 31 August 2018	Swaps £'000	Forward currency contracts £'000	Futures £'000
Bank of America Merrill Lynch	0	1,224	1,178
Barclays Bank	0	(152)	0
BNP Paribas	0	(3)	0
Citigroup	234	(1,297)	0
Goldman Sachs	15	0	0
HSBC	0	(1,328)	0
J.P.Morgan	0	1,230	0
Standard Chartered Bank	0	(1,457)	0
State Street Bank	0	(114)	0
UBS	0	(1,175)	0
<b>Total</b>	<b>249</b>	<b>(3,072)</b>	<b>1,178</b>

as at 31 August 2017	Swaps £'000	Forward currency contracts £'000	Futures £'000
Bank of America Merrill Lynch	0	672	(2,234)
Barclays Bank	(186)	(706)	0
BNP Paribas	0	(710)	0
Citigroup	(2,620)	(1,342)	0
Credit Suisse	(140)	0	0
HSBC	0	685	0
J.P.Morgan	0	(173)	0
National Australia Bank Limited	0	(72)	0
State Street Bank	0	(2,339)	0
UBS	399	0	0
<b>Total</b>	<b>(2,547)</b>	<b>(3,985)</b>	<b>(2,234)</b>

#### 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 31 August 2018 and 31 August 2017 are disclosed in the table below.

for the year to 31 August	2018 <sup>[a]</sup> £'000	2018 <sup>[a]</sup> % <sup>[b]</sup>	2017 <sup>[a]</sup> £'000	2017 <sup>[a]</sup> % <sup>[b]</sup>
Lowest	1,392,092	42	1,689,009	44
Highest	2,268,436	75	2,667,238	65
Average	1,554,856	48	1,935,724	51

<sup>[a]</sup> Leverage has been calculated using the Gross Sum of Notional Approach for derivative positions only (including forward currency) and excludes all physical holdings. The prior period leverage disclosures have been restated to conform with the revisions to the current period leverage calculation.

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

#### 24 Interest distribution tables

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

Quarterly distribution periods				
	Start	End	Xd	Payment
First interim	01.09.17	30.11.17	01.12.17	31.01.18
Second interim	01.12.17	28.02.18	01.03.18	30.04.18
Third interim	01.03.18	31.05.18	01.06.18	31.07.18
Final	01.06.18	31.08.18	03.09.18	31.10.18

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.

Sterling Class 'A' Income shares				
Interest distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	2018	Distribution 2017
	p	p	p	p
First interim	0.4225	0.2245	0.6470	0.5764
Second interim	0.2302	0.4277	0.6579	0.6894
Third interim	0.1647	0.5193	0.6840	0.7048
Final	0.3251	0.3716	0.6967	0.7099

# M&G Strategic Corporate Bond Fund

## Financial statements and notes

### Notes to the financial statements

#### 24 Interest distribution tables (continued)

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

Interest distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	2018	Distribution 2017
	p	p	p	p
First interim	0.2834	0.3725	0.6559	0.5868
Second interim	0.2787	0.3945	0.6732	0.7096
Third interim	0.3254	0.3932	0.7186	0.7204
Final	0.4337	0.3070	0.7407	0.7220

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

Interest distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	2018	Distribution 2017
	p	p	p	p
First interim	4.4937	4.9439	9.4376	8.3648
Second interim	4.4025	5.2058	9.6083	10.0136
Third interim	3.4569	6.5449	10.0018	10.2552
Final	3.9346	6.2654	10.2000	10.3394

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

Interest distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	2018	Distribution 2017
	p	p	p	p
First interim	4.2597	4.5850	8.8447	7.7112
Second interim	4.1264	4.9577	9.0841	9.3169
Third interim	4.0710	5.5464	9.6174	9.5540
Final	4.6645	5.2458	9.9103	9.6573

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

Interest distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	2018	Distribution 2017
	p	p	p	p
First interim	0.3446	0.5966	0.9412	0.8364
Second interim	0.2648	0.6928	0.9576	1.0006
Third interim	0.2826	0.7136	0.9962	1.0240
Final	0.3509	0.6644	1.0153	1.0319

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

Interest distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	2018	Distribution 2017
	p	p	p	p
First interim	0.3449	0.4523	0.7972	0.7032
Second interim	0.4411	0.3773	0.8184	0.8501
Third interim	0.3342	0.5356	0.8698	0.8676
Final	0.4511	0.4451	0.8962	0.8738

##### Sterling Class 'X' Income shares

Interest distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	2018	Distribution 2017
	p	p	p	p
First interim	0.2422	0.4041	0.6463	0.5760
Second interim	0.2022	0.4550	0.6572	0.6886
Third interim	0.2190	0.4643	0.6833	0.7044
Final	0.2693	0.4266	0.6959	0.7088

##### Sterling Class 'X' Accumulation shares

Interest distributions for the year to 31 August	Group 2		Group 1 & 2	
	Income 2018	Equalisation 2018	2018	Distribution 2017
	p	p	p	p
First interim	0.2841	0.3558	0.6399	0.5176
Second interim	0.2129	0.4439	0.6568	0.6820
Third interim	0.3184	0.3827	0.7011	0.7024
Final	0.5167	0.2060	0.7227	0.7043

# M&G Strategic Corporate Bond Fund

## Other regulatory disclosures

### Remuneration

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

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

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

M&G Securities Limited does not directly employ any staff members. However, for the financial year ended 31 December 2017, aggregate remuneration of £39,245,473 (£4,916,932 in respect of fixed remuneration and £34,328,541 in respect of variable remuneration) was paid to individuals whose actions may have a material impact on the risk profile of the UCITS Manager, of which £1,812,300 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'.

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

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

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

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

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

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

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

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

**Bunds:** Fixed income securities issued by the German government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# Glossary

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

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

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

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

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

**Equities:** Shares of ownership in a company.

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

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

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

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

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

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

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

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

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

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

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

**Gilts:** Fixed income securities issued by the UK government.

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

**Hedging:** A method of reducing unnecessary or unintended risk.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# Glossary

**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



