



M&G Global Convertibles Fund

a sub-fund of M&G Investment Funds (7)

Interim Short Report July 2018

For the six months ended 31 July 2018

Fund information

The Authorised Corporate Director (ACD) of M&G Investment Funds (7) presents its Interim Short Report for M&G Global Convertibles Fund which contains a review of the fund's investment activities and investment performance during the period. The ACD's Interim Long Report and unaudited Financial Statements for M&G Investment Funds (7), incorporating all the sub-funds and a Glossary of terms is available free of charge either from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations on 0800 390 390.

ACD

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

Important information

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

Please note that, subject to approval at an Extraordinary General Meeting of Shareholders on 4 October 2018, the non-sterling share classes within the M&G Investment Funds (7) sub-funds will merge into corresponding sub-funds of M&G (Lux) Investment Funds 1.

Formal notification of the proposal, including details on timings, will be sent to shareholders in September this year.

Investment objective

The fund aims to maximise long term total return (the combination of income and growth of capital) to investors by investing mainly in global convertible assets.

Investment policy

The fund seeks to maximise the risk-reward profile through investment in convertible assets whose issuers may be in any country, including emerging markets. Global convertible assets includes all assets that either directly or via a combination of instruments achieve exposure of a convertible bond nature. Such exposure can be achieved by investing directly or through the use of derivative instruments. Additionally, derivative instruments may be used to manage the risk characteristics of the fund. The remainder of the fund may be invested in securities in support of the fund objective, such as, equities, bonds, collective investment schemes, derivative instruments, money market instruments, cash and near cash.

Investment approach

Convertibles are investments that share the characteristics of both shares and fixed income securities issued by companies. They are initially issued as a fixed interest instrument, usually with regular interest payments and a fixed date when they will be repaid. Importantly, however, they also give the holder the opportunity to convert into a set number of company shares. This means that convertibles have the potential to participate when share prices are rising but can also provide a degree of protection against share price falls since they will eventually be repaid.

The fund manager aims to take advantage of the special characteristics of convertibles, which can mean they participate to a greater extent in share price rises than in share price falls. The fund manager invests in convertibles that he expects will provide the best combination of risk and reward, giving the maximum potential gains in the event of higher share prices while minimising the potential losses if share prices fall.

The fund has no set geographical or industry sector guidelines and no target return. The fund manager takes a global approach to selecting his investments, based on a thorough assessment of the individual characteristics of each convertible, rather than an overall view of the economic background. The fund is diversified in terms of region, industry and currency. At least 70% of the fund will be held in convertibles, although it can also hold company shares, fixed income investments and derivatives, which are financial instruments whose value is linked to the expected future price movements of an underlying asset.

Risk profile

The fund invests globally in a diversified portfolio of convertible bonds. These are a form of debt issued by companies that can be converted into shares, either of the issuer or another company. It is, therefore, subject to the price volatility of the global stocks and fixed income markets as well as the performance of individual issuers. The fund is also subject to fluctuations in currency exchange rates.

The fund may use derivatives to achieve the manager's desired exposure to convertibles. Additionally, derivative instruments may be used to manage the risk characteristics of the fund. 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.

As at 1 August 2018, for the six months ended 31 July 2018

Performance against objective

Between 1 February 2018 (the start of the review period) and 1 August 2018, the unhedged share classes of the M&G Global Convertibles Fund produced a positive total return (the combination of income and growth of capital). The currency hedged share classes produced negative returns.* Returns for the unhedged share classes were positively impacted by the strength of the US dollar against both sterling and the euro during the period, as assets denominated in US dollars make up the majority of the universe for convertible bonds (convertibles). Convertibles are fixed income securities (essentially, loans) that can be exchanged for predetermined amounts of company shares at certain times during their life. Returns from the hedged share classes are not influenced by currency movements.

The fund's returns lagged a comparative index, the UBS Thomson Reuters Global Focus Convertible Index, in each share class. (In the six months, returns for the index were 4.1% in sterling (hedged -2.0%), 2.6% in euros (hedged -2.5%), -1.3% in US dollar-hedged and -2.6% in Swiss franc-hedged terms.

During the period under review, the fund continued to invest mainly in global convertibles, with the aim of maximising long-term total return (the combination of income and growth of capital). The fund achieved this objective, with a positive performance in terms of total return across all its share classes over five years and since launch.

* For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Fund performance' section of the Interim Long Report and unaudited Financial Statements for M&G Investment Funds (7).

To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period for Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares. Calculated on a price to price basis with income reinvested.

Long-term performance

	Six months 01.02.18 % ^[a]	Three years 03.08.15 % p.a.	Five years 01.08.13 % p.a.	Since launch % p.a.
Sterling ^[b]				
Class 'A'	+2.4	+8.3	+5.4	+6.7 ^[c]
Class 'I'	+2.8	+9.0	+6.1	+7.3 ^[c]

^[a] Absolute basis.

^[b] Price to price with income reinvested.

^[c] 13 July 2007, the launch date of the fund.

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.

Investment performance

The market highlights of the period included a sudden return of significant volatility in equity markets and, to a lesser degree, bond markets. Though the FTSE 100 Index in the UK was stronger, indices for most major stockmarkets of the US, Europe and Japan were lower over the six-month period, with most weakness concentrated in February and March. This followed marked setbacks in bond markets during January, as bond yields (measures of return which move inversely to prices) increased. Those declines persisted for the remainder of the period in the US but were largely recovered in Europe and the UK. Shares prices in emerging markets were notably weak also, particularly in China, which ended the six-month period lower by more than 14%.

The divergence in the paths of the world's main government bond markets was notable. Bonds are loans in the form of a security, usually issued by a government (government bonds) or company (corporate bonds), which normally pay a fixed rate of interest over a given period of time, at the end of which the initial amount borrowed is also repaid. Yields on most US government bonds (Treasuries) ended the period generally higher than when they began (and accordingly, their prices

were lower). German government bonds, which are typically considered to represent the core of the European government bond market, recovered after having declined in January as their yields declined (and prices rose) once more. The UK government bond market broadly mirrored the directional moves of the German market. Corporate bonds were generally weaker, as the market reassessed the value of credit risk.

The mixed picture of performance across the world's equity and bond markets meant that returns across the convertible bond market were also variable. However, the strength of the US dollar relative to most other major currencies boosted returns in sterling and euro terms. As most convertibles are denominated in US dollars, when the US currency strengthens or weakens significantly, it can have a meaningful impact on returns measured in other currencies. Hedged currency share classes aim to mitigate the impact of currency movements on holdings of the fund that are denominated in currencies other than the currency of the hedged share class, and therefore did not benefit from the US dollar's strength.

Lower volatility (or variability in returns) relative to shares is a basic feature of convertibles. When share prices are weak, convertibles are supported by the value of their regular interest payments and potential repayment, known as the bond value. But when share prices recover, the value of convertibles rises as the value of the shares that would be received on conversion increases.

Among the key drivers of the recent volatility has been the gradual escalation of trade tensions, generated by US President Trump's implementation of increased tariffs on a significant number of US imports. Although the actions are directed primarily at China, they have also affected most other countries and regions, raising concerns that softer global economic activity will follow. Although some of the most affected sectors and companies have been technology companies that rely heavily on Chinese-produced inputs and others that have substantial revenue streams from China, the technology-heavy Nasdaq Index did register positive returns during the period.

All the fund's unhedged share classes generated positive returns over the review period, while the currency hedged share classes had negative returns. However, all lagged the comparative index. As is often the case, due to the US being the largest component of the convertible universe, holdings from the US provided the largest influence on returns. This effect will have been significantly influenced by the strength of the US dollar against sterling and the euro during the period.

One of the most influential fund holdings over the period was a convertible from Citrix Systems, the US cloud-computing company. The company reported stronger earnings than the market had widely expected, which had positive impacts on the share price and the price of the convertible. At the same time the fund also held a put option on Citrix shares, to mitigate some of the risk of holding the convertible, which had a higher sensitivity to the share price than the manager desired. Put options give the holder the right, but not the obligation, to sell an asset at a predetermined price. The value of the put option declined as the Citrix share price increased, which offset some of the positive returns from the convertible.

Other convertible bond holdings that had a positive impact on returns included Chart Industries, a manufacturer of gas production and storage equipment, which performed very strongly having reported positive results. The convertible from RPM International, a US chemicals company, benefited as the company reached an agreement with Elliott Management, an activist investor, regarding a plan to improve its operational and financial performance. Unicharm, a Japanese producer of personal products, and Kingdee International, a Hong Kong-based software developer, were both among other fund holdings that reported stronger earnings than the market expected and produced positive returns as a result.

NXP Semiconductors was the holding with the most significant negative impact, having experienced a volatile period. The company was a takeover target of Qualcomm from the US, and the share price was buffeted during the period by changing perceptions and expectations regarding official approval of the takeover by Chinese authorities. The ongoing trade dispute between the US and China may also have affected the progress of the takeover, and consequently, the NXP share price. In July, Qualcomm decided to abandon its bid and the NXP share price declined. We believe the company continues to offer a good value opportunity, so maintain the holding in the fund. Other detractors included Wereldhave, a Dutch property company which reported disappointing results early in the period.

Investment activities

Although the six-month review period witnessed some significant volatility in equity and bond prices, the manager maintained a focus on holdings that offered attractive risk and return characteristics.

Holdings of some convertible bonds were reduced where their prices had become too sensitive to the price of the underlying equity. Citrix Systems and Altaba, the equity investment company that has

ownership stakes in Yahoo and Alibaba, were examples of that risk reduction exercise in practice. The manager also scaled back some of the holding in Red Hat, the US software developer, before removing it completely later in the period.

New holdings added to the fund during the period included Supernus Pharmaceutical, a US drug developer that has a promising pipeline of new drugs. Another attractively priced convertible that was added was RingCentral, a telecommunications company from the US that develops cloud-based systems. Outside the US, the manager purchased convertible bonds from Outokumpu, the Finnish steel producer, and built a position in Screen Holdings, a Japanese semiconductor equipment maker. A second convertible bond from AMS, another semiconductor maker, this time from Austria, was also added alongside an existing AMS convertible, already held in the fund.

Some individual shares were also purchased. Stock in CRRC, the Chinese railway rolling stock manufacturer, was bought as the convertible bond holding did not have sufficient sensitivity to the share price at the prevailing level. In addition, the manager took on shares in US photo services provider Shutterfly, by converting the convertible bond as it matured. The Shutterfly shares were sold from the fund later in the period.

Outlook

The uncertainty that global stockmarkets have occasionally felt in 2018, often in response to President Trump announcing new or extended tariffs on a range of US imports, has the potential to continue. Though the measures are currently mainly targeted on China, few countries have escaped without impact from the protectionist tactics, which threaten to fall on substantial amounts of global trade. Stockmarkets may react negatively again, should the trade war escalate or widen further. However, the source of any uncertainty or volatility may not be confined to the US president. Other potential catalysts include such things as more geopolitical tensions and the UK Brexit negotiations.

At the same time, however, the prospects for the global economy remain broadly positive. This should be generally supportive for equities, although there may be differences in the outlook across the various global regions. In the US, growth appears relatively strong, although in the UK and Europe the economic picture is more mixed, with some countries showing more robust activity than others. Some emerging market countries are experiencing stress, though the reasons for that are not uniform and may be country specific.

Valuations in the equity markets remain quite elevated. Similarly, corporate credit spreads are still tight by historic standards, despite some widening having taken place in the first half of the year. We retain a positive outlook for the convertibles market, given the asymmetric risk profile they possess, participating in equity market rallies, yet being protected to some degree when stocks weaken by their bond characteristics. We continue to look for opportunities to enhance the asymmetry of the fund, by increasing convexity to improve the risk/return profile, and by reducing or removing holdings that have become too equity-sensitive.

There has been a significant increase in the amount of new issuance of convertible bonds in the six months to June 2018, much of it coming from issuers that are new to the market. We believe that conditions should remain in place for that strong pace of issuance to continue. As convertible bond holders can also benefit as the share price rises, convertibles can typically offer lower interest rates than conventional bonds. As interest rates and corporate bond yields have been gradually rising in most regions so far in 2018, particularly in the US which represents the bulk of the market, companies seeking new capital may prefer to issue convertibles. Companies may also take advantage of equity markets that are trading at something of a premium to secure relatively cheaper equity-related funding.

Léonard Vinville

Fund manager

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

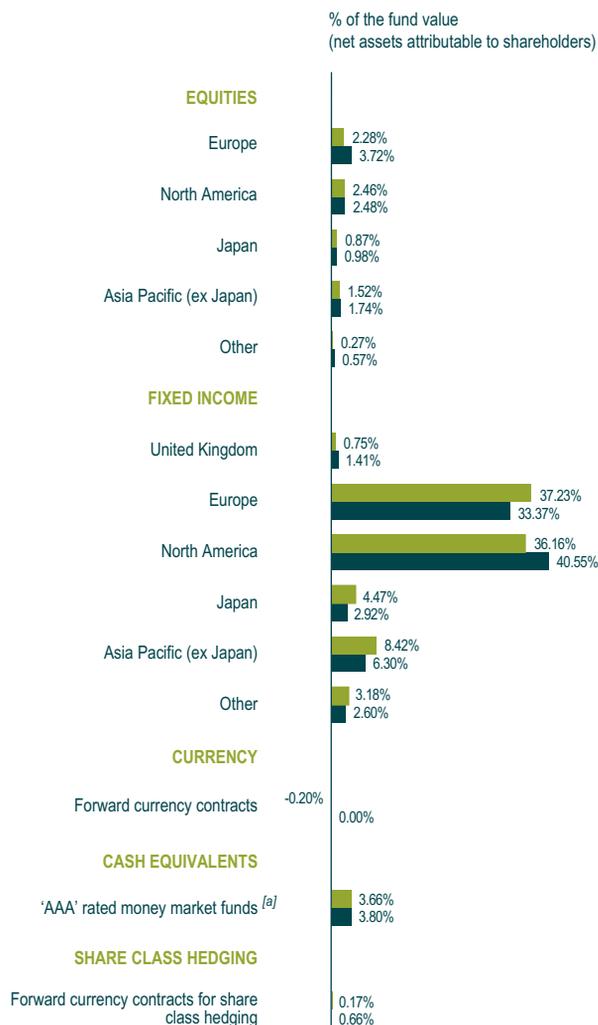
Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial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

Portfolio transactions

for the six months to 31 July	2018	2017
Portfolio transactions	\$'000	\$'000
Total purchases	360,971	456,564
Total sales	645,851	410,479

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

Classification of investments



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

31 July 2018
31 January 2018

Source: M&G

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (7), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations. For the specific performance tables of all share classes, please refer to the Interim Long Report and unaudited Financial Statements for M&G Investment Funds (7), which is available free of charge either from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at	31.07.18 \$'000	31.01.18 \$'000	31.01.17 \$'000
Fund net asset value (NAV)	2,036,063	2,452,079	2,278,773

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.



Financial highlights

Fund performance

To give an indication of how the fund has performed during the period the tables below show the performance of Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

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' Accumulation share performance

The share class was launched on 13 July 2007.

Change in NAV per share	Six months to 31.07.18 UK p	Year to 31.01.18 UK p	Year to 31.01.17 UK p
Opening NAV	199.28	206.63	166.65
Return before operating charges and after direct portfolio transaction costs	6.79	(3.86)	43.59
Operating charges	(1.66)	(3.49)	(3.18)
Return after operating charges	5.13	(7.35)	40.41
Distributions	0.00	(2.03)	(2.12)
Retained distributions	0.00	2.03	1.69
Closing NAV	204.41	199.28	206.63
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.02	0.02
Dilution adjustments ^[a]	0.00	(0.01)	(0.01)
Total direct portfolio transaction costs	0.01	0.01	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.01
Operating charges	1.66	1.67	1.67
Return after operating charges	+2.57	-3.56	+24.25
Distribution yield	1.17	0.96	1.16
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	309,019	279,136	146,667
Closing NAV percentage of total fund NAV (%)	15.18	11.38	6.44
Number of shares	114,850,437	98,914,572	56,961,269
Highest share price (UK p)	206.47	215.03	211.73
Lowest share price (UK p)	191.52	199.00	163.01

Sterling Class 'I' Accumulation share performance

The share class was launched on 13 July 2007.

Change in NAV per share	Six months to 31.07.18 UK p	Year to 31.01.18 UK p	Year to 31.01.17 UK p
Opening NAV	212.46	218.65	175.28
Return before operating charges and after direct portfolio transaction costs	7.25	(4.15)	45.99
Operating charges	(0.97)	(2.04)	(1.84)
Return after operating charges	6.28	(6.19)	44.15
Distributions	0.00	(3.68)	(3.86)
Retained distributions	0.00	3.68	3.08
Closing NAV	218.74	212.46	218.65
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.02	0.02
Dilution adjustments ^[a]	0.00	(0.01)	(0.01)
Total direct portfolio transaction costs	0.01	0.01	0.01
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.01	0.01	0.01
Operating charges	0.91	0.92	0.92
Return after operating charges	+2.96	-2.83	+25.19
Distribution yield	1.91	1.70	1.91
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	65,649	78,683	88,773
Closing NAV percentage of total fund NAV (%)	3.22	3.21	3.90
Number of shares	22,800,158	26,151,460	32,580,346
Highest share price (UK p)	220.90	227.75	224.00
Lowest share price (UK p)	204.51	212.14	171.49

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

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

Financial highlights

Operating charges and portfolio transaction costs

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

Operating charges

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

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

Operating charges do not include portfolio transaction costs or any entry and exit charges (also known as initial and redemption charges). The charging structures of share classes may differ, and therefore the operating charges may differ.

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

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

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

	Six months to 31.07.18	Year to 31.01.18	Year to 31.01.17	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.01	0.01	0.01	0.01
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.01	0.01	0.01	0.01
Dilution adjustments ^[c]	0.00	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01	0.01
as at	31.07.18	31.01.18	31.01.17	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.65	0.54	0.63	0.61

^[a] Average of first three columns.

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

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

Contact



Customer Relations*

0800 390 390



Write to us at:**

M&G Securities Limited

PO Box 9039

Chelmsford

CM99 2XG



Our website:

www.mandg.co.uk



Email us with queries:†

info@mandg.co.uk

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

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

† Please note that information contained within an email cannot be guaranteed as secure. We advise that you do not include any sensitive information when corresponding with M&G in this way.

M&G Securities Limited is authorised and regulated by the Financial Conduct Authority and provides investment products. The company's registered office is Laurence Pountney Hill, London EC4R 0HH. Registered in England number 90776.