



M&G Global Floating Rate High Yield Fund

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

Interim Short Report July 2019

For the six months ended 31 July 2019

Fund information

The Authorised Corporate Director (ACD) of M&G Investment Funds (7) presents its Interim Short Report for M&G Global Floating Rate High Yield 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

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(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 8 April 2019 M&G Global Floating Rate High Yield Fund launched Sterling Class 'PP-H' Accumulation shares.

As mentioned in the shareholder letter on 17 June 2019, we are making changes to the way we charge for M&G funds based in the UK, starting on Thursday 1 August 2019. The annual charge should be simpler to understand and easier to compare with other fund charges. We are combining all the charges that make up the current ongoing charge figure (OCF) into a single annual charge. Only exceptional items such as unforeseen legal and tax expenses, also known as extraordinary expenses, will be excluded from the annual charge. To find out the new annual charge and the OCF which are shown in the Key Investor Information Document (KIID) for the share class(es) you are invested in, visit our website www.mandg.co.uk.

Investment objective

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

Investment policy

The fund invests on a global basis mainly in high yield corporate or government floating rate notes and asset backed securities denominated in any currency. Floating rate note exposure may be achieved either directly or synthetically, through various combinations of government securities, corporate bonds, cash, credit default swaps, interest rate swaps, asset swaps or other credit derivatives.

The fund may also invest in other government and public securities and other transferable securities, collective investment schemes, cash and near cash, deposits, warrants, money market instruments and other derivative instruments.

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

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

Investment approach

The M&G Global Floating Rate High Yield Fund is designed to provide an attractive level of income, along with a natural hedge against rising interest rates, by investing mainly in high yield floating rate notes (FRNs). FRNs are bonds which pay a variable rate of income, which is regularly reset in line with changes in interest rates. If interest rates rise, investors in FRNs will benefit from a higher income as their coupons are automatically adjusted upwards (equally, should interest rates fall, then the coupons will be adjusted downwards).

The fund invests predominantly in FRNs issued by high yield companies, which typically pay higher rates of interest to compensate investors for the greater risk of default. The fund is globally diversified and the fund manager has the flexibility to invest in the best opportunities across different regions, including the US, continental Europe and the UK.

Risk profile

The fund invests globally in high yield corporate or government floating rate notes and asset-backed securities denominated in any currency. It is, therefore, subject to the price volatility of the global bond market and the performance of individual issuers. It is also subject to fluctuations in currency exchange rates.

The fund's exposure to the above assets 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.

The fund focuses on floating rate notes issued by companies with a low credit rating, which typically pay higher levels of interest to compensate investors for the greater risk of default. These higher risk assets could potentially experience a degree of illiquidity in times of market distress.

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

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



The above number:

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

As at 1 August 2019, for the six months ended 31 July 2019

Performance against objective

Between 1 February 2019 (the start of the review period) and 1 August 2019, the M&G Global Floating Rate High Yield Fund's sterling hedged share classes delivered a positive performance in terms of total return (the combination of income and growth of capital)*. In comparison, the ICE BofAML Global Floating Rate High Yield 3% Constrained (GBP Hedged) Index returned 4.7% over the same period.

The fund has met its objective of providing income** and capital growth over three 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).

** The fund's distribution and distribution yield are as shown in the 'Specific share class performance' tables in the 'Financial highlights' section of the Interim Long Report and unaudited Financial Statements for M&G Investment Funds (7). This fund provides a variable level of income.

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-H' (Accumulation) shares and Sterling Class 'I-H' (Accumulation) shares. Calculated on a price to price basis with income reinvested.

Long-term performance				
	Six months 01.02.19	Three years 01.08.16	Five years 01.08.14	Since launch
	% [a]	% p.a.	% p.a.	% p.a.
Sterling [b]				
Class 'A-H'	+2.8	+2.8	n/a	+2.1 [c]
Class 'I-H'	+3.1	+3.4	n/a	+2.7 [c]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 11 September 2014, 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 M&G Global Floating Rate High Yield Fund is designed to provide an attractive level of income, along with a natural hedge against rising interest rates, by investing mainly in floating rate notes (FRNs). These are securities whose interest payments, or coupons, are periodically adjusted depending on the change in a reference interest rate.

If interest rates rise, investors in FRNs will benefit from a higher income as coupons are automatically adjusted upwards (equally, should interest rates fall, then the coupons will be adjusted downwards).

The fund invests predominantly in FRNs issued by high yield companies, so called because they generally pay relatively high rates of interest to compensate investors for the greater risk that they might fail to repay the money they have borrowed.

After a turbulent year for financial markets in 2018, high yield bonds recovered strongly in 2019. Apart from a modest pullback in May, the asset class has generated positive returns over each monthly period in 2019 up to the end of July. Investor sentiment has been bolstered mainly by the more accommodative stance from the world's central banks, with both the Federal Reserve and the European Central Bank indicating further stimulus measures would be implemented to help boost slowing economic growth.

From a regional perspective, US high yield outperformed European high yield. This was mainly driven by the stronger economic situation in the US, in contrast to the eurozone, where economic data have weakened markedly over the past few months. High yield FRNs also delivered steady returns in the period, although their lack of sensitivity to movements in interest rates meant they did not directly benefit from the sharp decline in government bond yields.

In terms of sectors, companies which are more sensitive to changes in the economic environment (so called cyclicals) were typically the strongest performers, led by banking, financial services and consumer products. However, despite a strong recovery in oil prices, energy lagged other sectors, with the financial position of many of these names remaining under pressure.

The fund's sterling hedged share classes delivered a positive return over the review period. At the portfolio level, our defensive sector positioning weighed on relative returns, as cyclical areas generally outperformed. The fund's cash allocation also dragged on relative returns given the strong rally in high yield markets. This was partly offset by our above-index exposure to the media and telecom sectors.

Investment activities

We continue to find attractive opportunities in the primary high yield FRN market, where we participated in new issues from a variety of companies, including Spanish casino operator Cirsa and debt management company Cabot Financial.

In terms of sales, we took the opportunity to reduce some of our existing positions following strong performance, including issues from frozen food company Nomad Foods, UK pub operator Mitchells & Butlers and Swiss telecom Matterhorn. We also sold our position in UK insurance business Ardonagh on deteriorating fundamentals exacerbated by recent debt-fuelled acquisitions.

The fund remains relatively defensively positioned from a sector perspective, with a continued focus on businesses backed by high-quality assets and which should be able to perform well in a variety of economic conditions, such as global packaging companies and cable operators. However, we are maintaining minimal exposure to companies that are more exposed to the economic cycle, such as energy companies and retailers.

Outlook

In the current environment where interest rates are low and many assets are generating a low prospective return, or yield, we think high yield FRNs currently offer an attractive source of income. Following market weakness throughout much of 2018, we believe these assets still look attractively priced against a backdrop of modest economic expansion, and with the expectation that company default rates remain at historically low levels.

However, given where we are in the market cycle, we believe a cautious approach is still warranted and we maintain our preference for defensive businesses offering stable cashflows and healthy balance sheets. With heightened volatility likely to lead to a greater divergence in bond prices, we believe that careful individual bond selection and in-depth company analysis will become increasingly important to help identify the most attractive pockets of value.

Investment review

In our view, high yield investing is as much about avoiding the losers as picking the winners. On this basis, we remain cautiously positioned in the retail sector. We believe the sector is facing long-term structural headwinds as shoppers increasingly move towards online spending and away from traditional bricks-and-mortar stores. While some of these businesses will be able to adapt, we continue to be very selective in this space.

James Tomlins

Fund manager

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

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

Classification of investments

The table below shows the percentage holding per sector.

as at	% of fund	
	31.07.19	31.01.19
FIXED INCOME		
Debt securities		
'AA' credit rated bonds	3.12	8.57
'A' credit rated bonds	2.31	2.73
'BBB' credit rated bonds	2.88	4.08
'BB' credit rated bonds	24.80	21.67
'B' credit rated bonds	42.63	39.32
'CCC' credit rated bonds	0.53	0.44
Bonds with no credit rating	1.90	2.48
Debt derivatives		
Credit default swaps	1.45	1.25
Asset swaps	(0.28)	(0.22)
CURRENCY		
Forward currency contracts	0.05	(0.41)
CASH EQUIVALENTS		
'AAA' rated money market funds ^[a]	10.30	9.59
SHARE CLASS HEDGING		
Forward currency contracts for share class hedging	(2.77)	4.29

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

Portfolio transactions

for the six months to 31 July	2019	2018
Portfolio transactions	\$'000	\$'000
Total purchases	89,964	435,270
Total sales	196,863	553,453

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

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (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	31.07.19	31.01.19	31.01.18
	\$'000	\$'000	\$'000
Fund net asset value (NAV)	613,930	742,663	5,456,246

Financial highlights

Fund performance

Performance since launch

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



* Income reinvested.

** Past performance shown from 11 September 2014 to 31 March 2016 is the ICE BofAML Global Floating Rate High Yield (GBP Hedged) Index. Past performance shown from 1 April 2016 to 1 August 2019 is the ICE BofAML Global Floating Rate High Yield 3% Constrained (GBP Hedged) Index.

Source: Morningstar, Inc. and M&G

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

The share class was launched on 11 September 2014.

	Six months to 31.07.19 UK p	Year to 31.01.19 UK p	Year to 31.01.18 UK p
Change in NAV per share			
Opening NAV	107.57	108.50	105.77
Return before operating charges and after direct portfolio transaction costs	3.86	0.63	4.29
Operating charges	(0.79)	(1.56)	(1.56)
Return after operating charges	3.07	(0.93)	2.73
Distributions	(1.74)	(3.53)	(2.97)
Retained distributions	1.74	3.53	2.97
Closing NAV	110.64	107.57	108.50
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	1.45	1.44	1.43
Return after operating charges	+2.85	-0.86	+2.58
Distribution yield	3.13	3.27	2.69
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (\$'000)	8,205	15,547	23,374
Closing NAV percentage of total fund NAV (%)	1.34	2.09	0.43
Number of shares	6,095,826	11,007,640	15,212,723
Highest share price (UK p)	111.41	109.83	109.20
Lowest share price (UK p)	107.65	105.65	106.36

Financial highlights

Fund performance

Sterling Class 'I-H' Income share performance

The share class was launched on 11 September 2014.

	Six months to 31.07.19	Year to 31.01.19	Year to 31.01.18
	UK p	UK p	UK p
Change in NAV per share			
Opening NAV	94.01	98.88	99.87
Return before operating charges and after direct portfolio transaction costs	3.36	0.48	4.05
Operating charges	(0.40)	(0.80)	(0.84)
Return after operating charges	2.96	(0.32)	3.21
Distributions	(2.18)	(4.55)	(4.20)
Closing NAV	94.79	94.01	98.88
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges	0.85	0.84	0.83
Return after operating charges	+3.15	-0.32	+3.21
Distribution yield	4.59	4.66	4.08
Effect on yield of charges offset against capital	0.82	0.82	0.82
Other information			
Closing NAV (\$'000)	296,782	347,663	312,252
Closing NAV percentage of total fund NAV (%)	48.34	46.81	5.72
Number of shares	257,380,631	281,670,641	222,997,145
Highest share price (UK p)	96.61	99.83	101.80
Lowest share price (UK p)	94.08	93.46	99.53

^[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.

Financial highlights

Operating charges and portfolio transaction costs

Portfolio transaction costs

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

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

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

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. As the fund invests mainly in fixed interest securities no direct portfolio transaction costs are applicable. To give an indication of the indirect portfolio dealing costs the table below shows the average portfolio dealing spread.

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

Portfolio transaction costs

as at	Six months to 31.07.19	Year to 31.01.19	Year to 31.01.18	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.84	0.77	0.51	0.71

[a] Average of first three columns.

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* 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.

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