M&G Global Macro Bond Fund

Interim Short Report April 2018
For the six months ended 30 April 2018

M&G INVESTMENTS

Fund information

The Authorised Corporate Director (ACD) of M&G Global Macro Bond Fund presents its Interim Short Report 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 Global Macro Bond Fund, incorporating 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 4 May 2018, Sterling Class 'J' Income and 'J-H' Income shares were launched.

Investment objective

The fund's objective is to maximise long term total return (the combination of income and growth of capital).

Investment policy

The fund invests mainly in debt instruments on a global basis which include, but are not limited to, variable rate securities, fixed interest securities, sovereign debt and corporate debt. The fund's exposure to debt instruments may be gained through the use of derivatives. The fund may also invest in other assets including collective investment schemes, money market instruments, cash and near cash, deposits, other transferable securities and derivatives.

Investment approach

The M&G Global Macro Bond Fund is a flexible global bond fund. Its investment approach is driven primarily by the fund manager's views on macroeconomic factors such as economic growth, interest rates and inflation. This assessment determines the asset classes in which he believes the fund should invest in order to achieve its objective. It also influences the portfolio's mix of interest rate risk, credit risk and currency exposure, as well as the subsequent holdings. These factors drive the fund's long-term performance. With the active management of the fund's currency exposures being one of these drivers, its returns will include a higher degree of currency risk than domestic fixed income funds.

Fund information

Risk profile

The fund is a flexible bond fund which invests in a range of fixed income securities from anywhere in the world and in any currency. The fund is therefore subject to the price volatility of global bond markets and fluctuations in currency exchange rates.

There are no restrictions on the amount of government bonds, investment grade bonds or high yield bonds that can be held within the portfolio. While government and investment grade bonds are generally highly liquid assets that are normally traded with relative ease, high yield corporate bonds are higher risk assets that could potentially experience a degree of illiquidity in times of market distress.

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

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

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

Low risk — High risk

Typically lower rewards — Typically higher rewards

1	2	3	**4**	5	6	7

The above number:

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

Investment review

As at 1 May 2018, for the six months ended 30 April 2018

Performance against objective

Between 1 November 2017 (the start of the review period) and 1 May 2018, the M&G Global Macro Bond Fund delivered mixed performances across the different share classes. The returns of the fund's sterling, euro, and Swiss franc unhedged share classes, for example, were dampened by a decline in value of the US dollar against sterling, euros and Swiss francs, respectively, over this period. This effect on performance resulted as the fund maintained a sizeable exposure to the US currency. However, the fund's US dollar share classes recorded modestly positive returns. This helped most of the fund's hedged share classes to hold up better than their unhedged counterparts (the hedged share classes seek to closely replicate the performance of the fund's US dollar share classes). The sterling and euro hedged share classes registered modest declines, while the fund's two Singapore dollar hedged share classes delivered a small gain and a marginal decline. However, the fund's two Swiss franc hedged share classes registered negative returns and underperformed the Swiss franc unhedged share classes.

Over five years or since launch of the share class (if less than five years old), the fund has achieved its objective of maximising long-term total return.*

* 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 Global Macro Bond Fund.

Investment review

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 [a]

	Six months 01.11.17 % [b]	Three years 01.05.15 % p.a.	Five years 01.05.13 % p.a.	Since launch % p.a.
Sterling [c]				
Class 'A'	-2.6	+4.8	+3.1	+5.3 [d]
Class 'I'	-2.3	+5.3	+3.7	+5.1 [e]

[a] On 1 May 2009 the M&G Global Macro Bond Fund de-merged from M&G Investment Funds (4) to become the M&G Global Macro Bond Fund.

[b] Absolute basis.

[c] Price to price with income reinvested.

[d] 15 October 1999, the end of the initial offer period of the predecessor unit trust.

[e] 16 December 2011, the launch date of the share class.

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

Expected and actual rising interest rates due to firmer inflation remained key themes for global investors during the six months to 30 April 2018. In the important US market, the Federal Reserve confirmed two interest rate increases of 0.25 percentage points each. The moves added to the gradual steps taken by the US central bank in recent years to lift rates, against the backdrop of strengthening economic growth and inflation.

Improving economic growth was also evident in the eurozone, but the European Central Bank (ECB) held interest rates unchanged. However, expectations remained in financial markets that the significant economic stimulus policies operated by the ECB for some time would soon be scaled back. These measures are largely designed to keep interest rates low.

In the UK, the annual inflation rate, as measured by the Consumer Prices Index (CPI), stayed above the 2% target set by the Bank of England (BoE). Sterling's marked decline since the UK's Brexit referendum vote was largely behind the trend, as a lower-valued currency pushes up import costs. To counter rising consumer prices, central banks often raise interest rates, and the BoE confirmed a quarter of a percentage point rate rise in the opening month of the review period.

In the bond markets, actual or anticipated increases in inflation or interest rates typically dampen sentiment towards government bonds. The effects of US interest rate moves can even be felt internationally, given the size and influence of the US market within a global context. (Bonds are loans in the form of a security, usually issued by a government – government bonds – or company – corporate bonds; they normally pay a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.) Indeed, government bond prices generally declined in the US and Germany.

Among corporate bonds, declines were also recorded in most segments of the US and European markets. Later in the review period, sentiment towards corporate bonds and in international stockmarkets was adversely affected by concerns of a trade war developing between the US and China. In March, President Trump confirmed proposals to introduce trade tariffs on selected imports from China, and the Beijing government subsequently responded with its own proposals for tariffs on some US goods. Measures to restrict free trade can be harmful for export volumes and, therefore, the revenues of exporting companies. This partly influenced corporate bonds to give back some of their gains from earlier in the period.

Bond investors continued to weigh up the prospect and implications of higher interest rates and inflation as the review period drew to a close. Against this backdrop, we continued to favour positioning the fund with a large allocation to bonds that are less sensitive to anticipated (or actual) rises in interest rates, a strategy known as holding low or short duration.

We also maintained the portfolio's global diversification across bond markets throughout the period. This helped the fund's performance to benefit from those areas of the bond markets that generated gains, but it was countered by exposures to areas that declined. In addition, the fund maintained a sizeable exposure to the US dollar, which declined in value against some key currencies during the period, including sterling and the euro. The latter consideration detracted from the returns of the fund's unhedged sterling and euro share classes.

Investment review

Investment activities

Through the fund's flexible investment approach, we look to allocate its assets based on where we believe the most attractive relative value can be found in the global bond markets. Towards the end of the review period, for example, we began to consider that US government bonds (also known as Treasuries) began to offer better value, after their prices had generally fallen since the start of 2018. During March and April, therefore, we increased the fund's allocation to US Treasuries, believing that the backdrop of rising US interest rates had started to be priced in to their valuation levels.

In the US market, our preferred holdings also continued to include index-linked government bonds amid the background of strengthening inflation. (These are bonds where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security.) Known as US Treasury Inflation-Protected Securities (TIPS), these bonds performed well relative to conventional US government bonds during the review period.

Elsewhere, our fund positioning themes continued to include a cautious approach to their exposure to corporate bonds. This largely reflected our view that valuations in the corporate bond markets looked less attractive after a period of solid performance. While we maintained an allocation to corporate bond issuers with high credit ratings, we avoided exposure to companies whose creditworthiness is lower rated.

Within the corporate bond market, our preferred sectors continued to include financial companies and banks that have high credit rankings, with bonds known as floating rate notes (FRNs) being among our favoured investments. In our view, the attraction of FRNs is helped by the way these bonds pay a variable interest rate that is adjusted in line with movements in a reference interest rate. This not only minimises the impact of rising rates on investors, but also potentially allows them to benefit from higher rates.

The fund's flexible approach also allows us to allocate assets in the emerging bond markets. In our assessment, some decent relative value could be found among this area on a selective basis, partly as such assets can offer a higher return for taking on higher degrees of risk. Within this theme, for example, we added bonds from the governments of Brazil and Colombia, while a position in the Czech Republic was sold. At the end of the period, our other preferred allocations in the emerging markets continued to include bonds from the governments of South Africa and Indonesia.

Outlook

The prospect of central banks reducing their economic stimulus activities and weighing up whether to raise interest rates remains a key theme in the global bond markets. In this environment, we continue to hold low duration in the fund. However, among our recent transaction activity we added US government bonds to the portfolio to take advantage of their lower price levels. As a result, the fund's duration increased modestly during the review period.

Within the fund's overall government bond allocation, we are also keeping an exposure to index-linked securities in the US, given the backdrop of firmer inflation. Elsewhere, we maintained a relatively low allocation to corporate bonds at the end of the period, although we still favour holding corporate securities as useful contributors to returns when valuations are appealing. Given this approach, we continue to hold corporate bond positions on a selective basis and, as always, will monitor all areas of the market for better buying opportunities.

We also favour maintaining an allocation to emerging market bonds, which we think should be supported by the decent global economic growth outlook. Relevantly, however, potentially adverse factors also need to be considered in the outlook for emerging markets, such as deteriorating relations between the West and Russia, and tariff introductions in the US and elsewhere. On the other hand, firmer commodity prices, notably for oil, can be beneficial for commodity producers in emerging economies. Overall, we will continue to seek what we consider the best relative value in the international bond and currency markets amid the prevailing economic conditions, while avoiding areas where our outlook is less favourable.

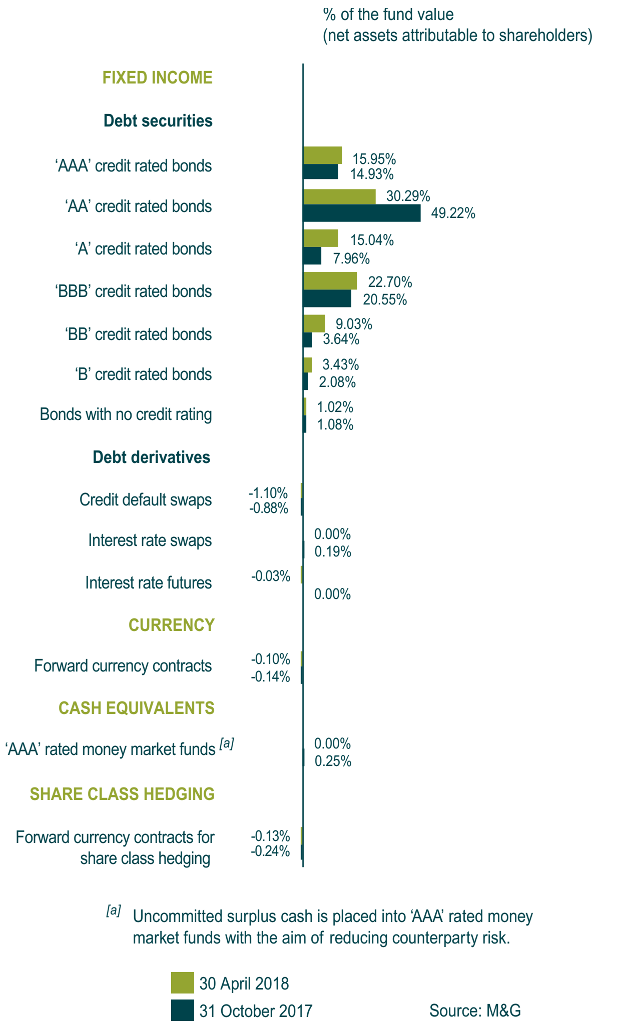
Jim Leaviss
Fund manager

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.

Investment review

Classification of investments



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

Source: M&G

Portfolio transactions

for the six months to 30 April Portfolio transactions	2018 $'000	2017 $'000
Total purchases	844,238	868,780
Total sales	1,068,370	657,505

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' (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 Global Macro Bond Fund, 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 Global Macro Bond Fund, which is available free of charge either from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations.

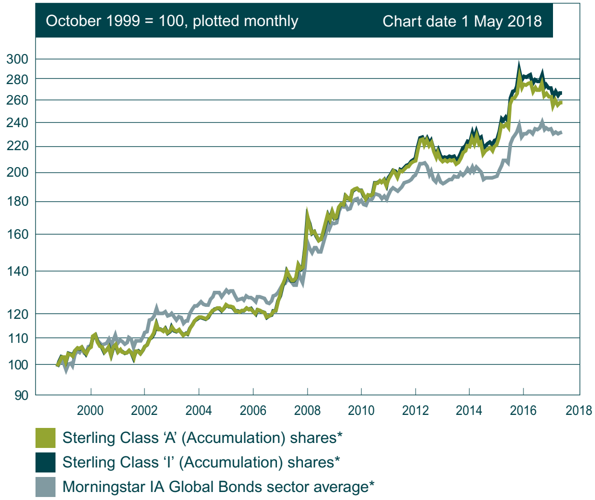
Fund level performance

Fund net asset value

as at	30.04.18 $'000	31.10.17 $'000	31.10.16 $'000
Fund net asset value (NAV)	2,166,812	2,335,573	1,882,678

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.



* Income reinvested Source: Morningstar, Inc. and M&G

The fund's Sterling Class 'I' (Accumulation) shares were launched on 16 December 2011. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

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 15 October 1999.

Change in NAV per share	Six months to 30.04.18 UK p	Year to 31.10.17 UK p	Year to 31.10.16 UK p
Opening NAV	129.16	136.70	105.24
Return before operating charges and after direct portfolio transaction costs	(2.99)	(5.60)	33.47
Operating charges	(0.88)	(1.87)	(1.67)
Return after operating charges	(3.87)	(7.47)	31.80
Distributions	(0.87)	(1.28)	(1.70)
Retained distributions	0.87	1.21	1.36
Closing NAV	125.29	129.16	136.70
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	1.41	1.41	1.42
Return after operating charges	-3.00	-5.46	+30.22
Distribution yield	1.80	0.74	1.12
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	31,475	39,031	43,499
Closing NAV percentage of total fund NAV (%)	1.45	1.67	2.32
Number of shares	18,304,023	22,860,213	26,142,132
Highest share price (UK p)	130.63	136.95	137.45
Lowest share price (UK p)	121.68	127.24	104.24

Sterling Class 'I' Accumulation share performance

The share class was launched on 16 December 2011.

Change in NAV per share	Six months to 30.04.18 UK p	Year to 31.10.17 UK p	Year to 31.10.16 UK p
Opening NAV	141.01	148.41	113.70
Return before operating charges and after direct portfolio transaction costs	(3.26)	(6.11)	36.28
Operating charges	(0.56)	(1.17)	(1.04)
Return after operating charges	(3.82)	(7.28)	35.24
Distributions	(1.35)	(2.24)	(2.62)
Retained distributions	1.35	2.12	2.09
Closing NAV	137.19	141.01	148.41
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	0.81	0.81	0.81
Return after operating charges	-2.71	-4.91	+30.99
Distribution yield	2.40	1.34	1.72
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV ($'000)	532,977	569,644	424,479
Closing NAV percentage of total fund NAV (%)	24.60	24.39	22.55
Number of shares	283,050,700	305,597,282	234,991,502
Highest share price (UK p)	142.64	148.81	149.22
Lowest share price (UK p)	133.21	138.82	112.69

[a] In respect of direct portfolio transaction costs.

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

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

Operating charges

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

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

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

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

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

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 wholly 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 Indirect portfolio transaction costs	30.04.18 %	31.10.17 %	31.10.16 %	Average [a] %
Average portfolio dealing spread	0.26	0.21	0.32	0.26

[a] Average of first three columns.

Notes

Contact

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** 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.

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