



**M&G UK Inflation Linked Corporate  
Bond Fund**

a sub-fund of M&G Investment Funds (10)

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

## Fund information

The Authorised Corporate Director (ACD) of M&G Investment Funds (10) presents its Interim Short Report for M&G UK Inflation Linked Corporate Bond 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 (10), 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](http://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 28 September 2018, the Depositary changed from National Westminster Bank Plc to NatWest Trustee & Depositary Services Limited.

## Investment objective

The fund aims to protect the value of capital and income from inflation by generating a return consistent with or greater than UK inflation over a rolling three to five year period. There is no guarantee that the fund will achieve its objective over this, or any other, period. The income distributions and the value of your investment may rise and fall and investors may not recoup the original amount they invested.

## Investment policy

The fund invests mainly in investment grade corporate bonds, including inflation-linked corporate bonds, floating rate notes (including asset backed securities) and other fixed income instruments (including bonds not linked to inflation). Derivatives may be used in pursuit of the fund objective and for efficient portfolio management purposes. Corporate bond exposure may be achieved either directly or by investing in a combination of assets, including government securities and credit derivatives. Inflation strategies may, at times, result in a return profile different to that of corporate bonds not linked to inflation. If deemed appropriate by the investment manager, the associated currency risks may be hedged.

The fund may also invest in other assets including collective investment schemes, other transferable securities and debt instruments (including high yield debt, convertible and preference stocks), cash and near cash, deposits, warrants and money market instruments.

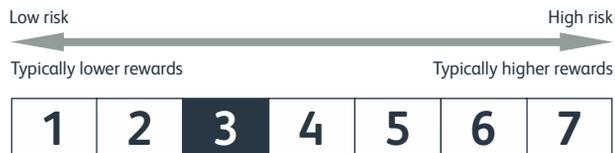
## Investment approach

The M&G UK Inflation Linked Corporate Bond Fund invests in a range of fixed interest securities that should perform well when inflation is high or rising. The fund will be mainly exposed to investment grade credit but can also invest in inflation-linked government bonds, floating rate notes (FRNs), senior secured loans, conventional corporate and government bonds, cash and derivatives such as credit default swaps (CDS). The fund manager may also form assets out of a combination of government bonds and derivatives, whose returns behave in a similar way to inflation-linked corporate bonds. The aim of the fund is to provide returns that are consistent with or exceed inflation, as measured by the Consumer Prices Index (CPI) over a rolling three- to five-year period.

### Risk profile

The fund invests in fixed interest assets that would be expected to perform well in an inflationary environment, such as inflation-linked bonds issued by companies and governments. It is therefore subject to the price volatility of the global bond market as well as the performance of individual issuers. The fund's focus is on investment grade or high-quality corporate bonds, which are securities that are normally traded with relative ease. The fund's exposure to index-linked bonds may be achieved either directly or by investing in a combination of assets, including government securities and credit 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.

As at 1 October 2018, for the six months ended 30 September 2018

### Performance against objective

Between 3 April 2018 (the start of the review period) and 1 October 2018, the M&G UK Inflation Linked Corporate Bond Fund delivered a small positive total return (the combination of income and growth of capital) across different share classes. However, returns over this period were behind the change in the UK Consumer Prices Index (CPI), which the fund seeks to match or exceed over a rolling three- to five-year period. Over three and five years, the fund's returns were broadly in line with the CPI.\*

\* 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 (10).

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 03.04.18	Three years 01.10.15	Five years 01.10.13	Since launch
	% [a]	% p.a.	% p.a.	% p.a.
<b>Sterling [b]</b>				
Class 'A'	+0.3	+2.2	+0.9	+2.1 [c]
Class 'I'	+0.5	+2.7	+1.4	+2.6 [c]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 16 September 2010, 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 fund invests in a range of instruments that can help to mitigate the potentially damaging effects of inflation. It is mainly invested in inflation-linked bonds issued by high-quality companies, where both the value of the loan and the interest payments are adjusted in line with inflation until they mature. Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. Bonds issued by companies are referred to as ‘corporate bonds’, while those issued by governments are called ‘government bonds’.

The six months period under review was a mixed period for fixed income markets as the prospect of further US interest rate increases and political turmoil in several emerging markets weighed on sentiment. In the UK, higher-than-expected inflation figures, along with some robust economic data, triggered a sell-off in UK government bonds (gilts).

After declining in the early part of 2018, UK inflation picked up again towards the end of the review period. The Consumer Prices Index (CPI) reached 2.7% in August – well ahead of expectations of 2.4% – with significant increases in prices for recreation, transport and clothing being blamed for the jump.

The fund delivered a modest positive return over the review period, helped by a rise in UK inflation expectations. In addition, the fund’s low sensitivity to movements in interest rates helped offset the negative impact of rising government bond yields. However, this was partly offset by overall weakness across corporate bond markets. (Yields refer to the income received from an investment and are usually expressed annually as a percentage based on the investment’s cost, its current market value or face value.)

## Investment activities

With the risk of a ‘no deal’ Brexit rising in our view, we increased our exposure to UK index-linked bonds towards the end of the period. We believe that a no-deal Brexit scenario could trigger a further sharp sell-off in sterling, which in turn would lead to a rise in UK inflation due to higher import costs. We currently favour index-linked gilts with a short time until maturity as we believe these instruments are particularly well placed to capture any future rise in UK inflation.

Another area of focus has been the primary corporate bond market, with new issues currently offering an attractive premium compared to

issues trading in the secondary market. We participated in a variety of new deals over the period, purchasing issues from Vodafone, Citibank and Royal Bank of Scotland.

Another trade worth highlighting was our decision to cut our peripheral eurozone exposure at the beginning of May, and therefore ahead of the sell-off in these assets following the Italian election. This decision was based on our opinion that valuations relative to German government bonds (bunds) had become too stretched and were no longer compensating investors for the risks.

The fund continues to be positioned with a low sensitivity to movements in interest rates, to help mitigate any future sell-off in government bond markets. The fund also maintains an allocation to US inflation-linked government bonds, which we believe are attractively valued and should benefit from a gradual pick-up in US inflation.

## Outlook

While we would not attempt to predict future political developments, we think it is fair to say that the UK faces unprecedented levels of political uncertainty at this moment. We believe that either a hard Brexit scenario, or the election of a Corbyn-led Labour government, could have a major impact on UK currency and bond markets which, in turn, would have significant implications for UK inflation.

By focusing on index-linked bonds issued by highly rated companies that are due to be repaid in a relatively short period of time, we believe the fund is well placed to withstand any future rise in UK inflation because of sterling weakness. Furthermore, by keeping a low sensitivity to movements in interest rates, the fund should also be able to withstand any future turbulence in government bond markets.

From a global perspective we maintain a broadly positive economic outlook. In the US, consumer confidence remains close to its highest level since the financial crisis, while a healthy labour market is expected to drive further wage growth over the coming months. Leading indicators look especially encouraging, with the recent surge in the number of people changing jobs indicative of a future rise in wages.

Despite some recent mixed economic data, we think Europe is also an improving economic story. Its growth outlook has brightened compared to this time last year and, while we saw significant market reaction to Italian political uncertainty in May, we think overall political risk has receded.

We continue to see attractive value in corporate bonds and believe that recent market weakness has provided an opportunity to add some high-quality names trading at compelling valuations. Our favoured areas include US corporate bonds and financials, where we think valuations look attractive relative to other sectors, and which stand to benefit from a future rise in interest rates.

### Ben Lord

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.

	% of fund as at	
	30.09.18	31.03.18
<b>FIXED INCOME</b>		
<b>Debt securities</b>		
'AAA' credit rated bonds	25.41	2.74
'AA' credit rated bonds	41.81	68.73
'A' credit rated bonds	10.61	9.67
'BBB' credit rated bonds	17.13	10.04
'BB' credit rated bonds	2.71	1.59
Bonds with no credit rating	1.01	5.42
<b>Debt derivatives</b>		
Credit default swaps	1.11	1.13
Interest rate swaps	0.04	0.02
Interest rate futures	0.13	(0.31)
<b>CURRENCY</b>		
Forward currency contracts	(0.18)	0.44
<b>CASH EQUIVALENTS</b>		
'AAA' rated money market funds <sup>[a]</sup>	0.76	0.26

<sup>[a]</sup> 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 30 September	2018	2017
Portfolio transactions	£'000	£'000
Total purchases	420,976	500,485
Total sales	491,330	492,410

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

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 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' (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 (10), 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. 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 (10), which is available free of charge either from our website at [www.mandg.co.uk/reports](http://www.mandg.co.uk/reports) or by calling M&G Customer Relations.

### Fund level performance

#### Fund net asset value

as at	30.09.18	31.03.18	31.03.17
	£'000	£'000	£'000
Fund net asset value (NAV)	1,142,349	1,192,190	1,085,121

# 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' (Accumulation) shares and Sterling Class 'I' (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 16 September 2010.

	Six months to 30.09.18 UK p	Year to 31.03.18 UK p	Year to 31.03.17 UK p
<b>Change in NAV per share</b>			
Opening NAV	118.14	117.06	110.82
Return before operating charges and after direct portfolio transaction costs	1.09	2.44	7.67
Operating charges	(0.69)	(1.36)	(1.33)
Return after operating charges	0.40	1.08	6.34
Distributions	0.00	0.00	(0.57)
Retained distributions	0.00	0.00	0.47
Closing NAV	118.54	118.14	117.06

<b>Direct portfolio transaction costs</b>	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.01

<b>Performance and charges</b>	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.01
Operating charges	1.17	1.16	1.16
Return after operating charges	+0.34	+0.92	+5.72
Distribution yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00

### Other information

Closing NAV (£'000)	44,992	48,328	53,420
Closing NAV percentage of total fund NAV (%)	3.94	4.05	4.92
Number of shares	37,954,561	40,906,802	45,636,252
Highest share price (UK p)	118.73	119.16	117.47
Lowest share price (UK p)	117.51	117.00	110.91

# Financial highlights

## Fund performance

### Sterling Class 'I' Accumulation share performance

The share class was launched on 16 September 2010.

	Six months to 30.09.18 UK p	Year to 31.03.18 UK p	Year to 31.03.17 UK p
<b>Change in NAV per share</b>			
Opening NAV	122.15	120.43	113.51
Return before operating charges and after direct portfolio transaction costs	1.13	2.52	7.86
Operating charges	(0.41)	(0.80)	(0.78)
Return after operating charges	0.72	1.72	7.08
Distributions	(0.28)	0.00	(1.17)
Retained distributions	0.28	0.00	1.01
Closing NAV	122.87	122.15	120.43

<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	0.01
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.01

<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.01
Operating charges	0.66	0.66	0.66
Return after operating charges	+0.59	+1.43	+6.23
Distribution yield	0.30	0.00	0.26
Effect on yield of charges offset against capital	0.00	0.00	0.00

#### Other information

Closing NAV (£'000)	435,629	457,560	444,839
Closing NAV percentage of total fund NAV (%)	38.13	38.39	40.99
Number of shares	354,543,472	374,593,898	369,378,412
Highest share price (UK p)	123.06	123.01	120.83
Lowest share price (UK p)	121.65	120.41	113.61

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

<sup>[b]</sup> 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.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depository, 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:

# Financial highlights

## Operating charges and 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](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

### Portfolio transaction costs

	Six months to 30.09.18	Year to 31.03.18	Year to 31.03.17	Average <sup>[a]</sup>
Direct portfolio transaction costs <sup>[b]</sup>	%	%	%	%
Broker commission	0.00	0.00	0.01	0.00
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.00	0.00	0.01	0.00
Dilution adjustments <sup>[c]</sup>	0.00	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.01	0.00
<b>As at</b>	<b>30.09.18</b>	<b>31.03.18</b>	<b>31.03.17</b>	<b>Average <sup>[a]</sup></b>
<b>Indirect portfolio transaction costs</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Average portfolio dealing spread	0.16	0.12	0.28	0.19

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

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

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

# Contact



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