

## **M&G Investment Funds (10)**

Interim Long Report and unaudited Financial Statements  
for the six months ended 30 September 2018

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# M&G Investment Funds (10)

## Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Investment Funds (10) presents its Interim Long Report and unaudited Financial Statements for the six months ended 30 September 2018.

The unaudited financial statements of M&G Investment Funds (10) and the investment report and unaudited financial statements and notes of each sub-fund are presented in their individual sections of this report as set out in the contents page.

Please note that we have included an explanation of key investment terminology in the 'Glossary' (at the back of this report).

### Company information

M&G Investment Funds (10) is an umbrella Open-Ended Investment Company (OEIC) and contains three sub-funds, hereinafter referred to as 'funds' in the rest of this report. Each fund is a UCITS (Undertakings for Collective Investment in Transferable Securities) scheme as defined in the Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Conduct Authority (FCA). This OEIC is an Investment Company with Variable Capital (ICVC) incorporated under the Open-Ended Investment Companies Regulations 2001. It is authorised and regulated by the FCA under the Financial Services and Markets Act 2000.

The Company was authorised on 26 August 2010, the M&G UK Inflation Linked Corporate Bond Fund was launched on 16 September 2010, the M&G Absolute Return Bond Fund was launched on 13 December 2016 and the M&G Global Listed Infrastructure Fund was launched on 5 October 2017.

The Company's principal activity is to carry on business as an OEIC. The Company is structured as an umbrella company, and different funds may be established by the ACD from time to time with the agreement of the Depositary and approval from the FCA. The funds are operated separately and the assets of each fund are managed in accordance with the investment objective and policy applicable to that fund.

As at 30 September 2018, none of the funds held shares of the other funds within this OEIC.

A shareholder is not liable for the debts of the Company and will never be liable to make any further payment to the Company after paying the purchase price of the shares.

### Fund managers

The following fund managers are employed by M&G Limited which is an associate of M&G Securities Limited.

#### **M&G Absolute Return Bond Fund**

Jim Leaviss & Wolfgang Bauer

#### **M&G Global Listed Infrastructure Fund**

Alex Araujo

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

Ben Lord

### ACD

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

(Authorised and regulated by the Financial Conduct Authority. M&G Securities Limited is a member of the Investment Association and of the Tax Incentivised Savings Association.)

### Directors of the ACD

Margaret Ammon\*, G N Cotton, N M Donnelly, P R Jelfs,  
G W MacDowall, L J Mumford

\* Appointed 26 July 2018.

### Investment manager

M&G Investment Management Limited,  
Laurence Pountney Hill, London EC4R 0HH, UK  
Telephone: +44 (0)20 7626 4588

(Authorised and regulated by the Financial Conduct Authority)

### Registrar

DST Financial Services Europe Ltd,  
DST House, St. Nicholas Lane, Basildon, Essex SS15 5FS, UK  
(Authorised and regulated by the Financial Conduct Authority)

### Depositary

NatWest Trustee & Depositary Services Limited, Drummond House,  
1 Redheughs Avenue, Edinburgh EH12 9RH, UK  
(Authorised and regulated by the Financial Conduct Authority)

### Independent auditor

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

### Important information

On 20 April 2018, the Euro Class 'Z-H' (Accumulation) share class was launched in the M&G Absolute Return Bond Fund.

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

# M&G Investment Funds (10)

## Authorised Corporate Director's Report

### Investor information

The Prospectus, Instrument of Incorporation, Key Investor Information Documents, Costs and charges illustration, the latest Annual or Interim Investment Report and Financial Statements as well as a list of purchases and sales are available free of charge on request from the following addresses. The Instrument of Incorporation can also be inspected at our offices or at the office of the Depositary.

#### Customer services and administration for UK clients:

M&G Securities Limited,  
PO Box 9039, Chelmsford CM99 2XG, UK

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

Telephone: 0800 390 390 (UK only)

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

### Authorised Corporate Director's Responsibilities

The Authorised Corporate Director (ACD) is required to prepare annual and interim long reports for the Company. The ACD must ensure that the financial statements, contained in this report, for each of the funds are prepared in accordance with the Investment Association Statement of Recommended Practice for Financial Statements of UK Authorised Funds (SORP) and UK Financial Reporting Standards, and give a true and fair view of the net revenue or expenses and net capital gains or losses for the accounting period, and the financial position at the end of that period.

The ACD is required to keep proper accounting records, and to manage the Company in accordance with the Collective Investment Schemes sourcebook, as issued (and amended) by the FCA, the Instrument of Incorporation and the Prospectus, and to take reasonable steps for the prevention and detection of fraud or other irregularities.

The financial statements for M&G Investment Funds (10) comprise the individual financial statements for each fund and the notes below.

### Notes to the financial statements

#### Accounting policies

The interim financial statements have been prepared on the same basis as the audited financial statements for the year ended 31 March 2018. They are prepared under the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice (SORP) for Authorised Funds issued by the Investment Association in May 2014.

### Directors' statement

This report has been prepared in accordance with the requirements of the Collective Investment Schemes sourcebook, as issued and amended by the Financial Conduct Authority.

G W MACDOWALL }  
L J MUMFORD } Directors

14 November 2018

# M&G Absolute Return Bond Fund

## Authorised Corporate Director's Report

### Investment objective

The fund aims to achieve a total return (the combination of income and capital growth) of at least 2.5% per annum above the 3-month GBP LIBOR rate, before any charges are taken, in any market conditions and over any three year period. LIBOR is the rate at which banks borrow money from each other.

The fund aims to achieve this while seeking to minimise the degree to which the value of the fund fluctuates over time (volatility), while also seeking to limit monthly losses. Managing the fund in this way reduces its ability to achieve returns significantly above 3-month GBP LIBOR plus 2.5%.

There is no guarantee that the fund will achieve a positive return over three years, or any other period, and investors may not get back the original amount they invested.

### Investment policy

The fund invests at least 70% in fixed and variable rate securities (including, but not limited to, corporate bonds and government and public securities), currencies, cash, near cash and deposits. These may be from anywhere in the world and denominated in any currency.

The fund's exposure to these investments may also be gained through the use of derivatives, which are financial contracts whose value is derived from an underlying asset. The fund may take short positions (holding derivatives with the aim of delivering a positive return when the assets they are linked to fall in value) in markets, currencies, securities, and groups of securities. The fund also has the flexibility to gain exposure to investments exceeding the net asset value of the fund in order to increase potential returns in both rising and falling markets.

Derivatives may be used to meet the fund's objective and for efficient portfolio management purposes. The fund may also invest in other funds.

### Investment approach

The fund managers take a flexible approach, investing across a broad range of fixed income and currency markets according to where they identify value. A dynamic investment approach is followed, allowing the fund managers to change the blend of duration, credit and currency exposures based on their outlook. The fund will typically aim to have a high level of diversification in individual credit selection and across investment themes and sources of return. The managers will aim to achieve the performance objective while managing the fund's volatility and limiting losses during difficult market conditions.

### Risk profile

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

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 blend of assets held in the fund is regularly adjusted depending on where the managers see the most value and to manage risks, including liquidity, credit, currency and market risks. 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 changed during this period. From 3 April 2018 to 19 April 2018 the risk number was 4.

# M&G Absolute Return Bond Fund

## Authorised Corporate Director's Report

### Investment review

**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 Absolute Return Bond Fund delivered a flat total return (the combination of capital growth and income), which was below 3-month GBP LIBOR + 2.5%, across all share classes. The fund's objective is to achieve a total return of at least 2.5% per annum above the 3-month GBP LIBOR rate, before any charges are taken, in any market condition and over any three-year period.\* LIBOR is the rate at which banks borrow money from each other.

The M&G Absolute Return Bond Fund is a flexible, multi-strategy bond fund that targets steady positive returns, with a specific focus on minimising volatility and monthly losses in difficult market conditions. As a highly diversified portfolio, the fund provides exposure to a broad range of fixed income strategies across global corporate bond, government bond and currency markets. (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 fund draws on the best ideas of M&G's fixed interest team, giving investors access to an extensive range of investment knowledge across global bond markets. The team has long-running experience in managing flexible bond strategies and has demonstrated the ability to manage risk during periods of heightened volatility, such as during the global financial crisis and the eurozone debt crisis. (Volatility is the extent to which asset prices fluctuate over time.) A disciplined investment process, combining macroeconomic analysis, stock selection and robust risk management, is adopted. The fund also holds a modest allocation to asset-backed securities (ABS), a type of bond whose income is derived from a pool of underlying assets, such as mortgages, credit cards or student loans. ABS typically pay a variable rate of income and therefore provide an element of protection against rising interest rates.

\* For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Fund performance' section of this report.

#### Investment performance

During the six-month review period, the fund delivered a flat return in an environment of considerable volatility in global financial markets, triggered by fears of a US-China trade war and political events in Italy and Turkey. Markets were also influenced by investors' focus on the likelihood of central banks finally being able to move towards more 'normal' monetary policy and gradually withdrawing the support they had been providing to financial markets for over a decade.

In the US, the Federal Reserve has continued to raise interest rates, taking its total number of rate increases since the end of the financial crisis to seven. Meanwhile, the European Central Bank announced in June it would halve its monthly bond purchases in September and end them altogether in December.

This contributed to muted performance from government bonds over the six months under review, despite the extent of stockmarket volatility. Yields on US Treasuries and UK government bonds (gilts) rose over the period, while German bunds were more resilient, as Italy's threats to leave the eurozone and the potential consequences for its banking sector resulted in a 'flight to safety' on the continent. (Bond yields refer to the interest received from a fixed income security, which is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. Bond yields typically move in the opposite direction to bond prices.)

Performance from corporate bonds was generally weak overall, although July saw improved performance. US corporate bonds outperformed those from other regions, due partly to the country's stronger economic outlook and company earnings.

We placed a strong emphasis on minimising monthly losses and portfolio volatility during bouts of market turbulence in line with the fund's defensive mandate. We successfully kept these risk measures within our intended thresholds throughout the review period.

#### Investment activities

The portfolio remains cautiously positioned in terms of its sensitivity to interest rate changes. This reflects our belief that a highly active approach is needed to manage interest rate risk in the current environment, as aforementioned moves expected by central banks to return to more 'normal' monetary policy pose a medium-term threat to government bond prices.

We actively adjusted our positions in credit default swaps to navigate periods of volatility, as these positions are designed to protect the portfolio when corporate bond (credit) markets perform poorly.

In credit, we were active in the primary market, taking opportunities to realise some gains from positions that had performed well and switching these for attractively valued new issues. New positions included Bayer, BASF, Goldman Sachs, Nationwide Building Society and UBS.

The fund has modest exposure to traditional 'safe-haven' currencies via the US dollar, Swiss franc and Japanese yen. We slightly increased exposure to the Japanese yen during the review period.

#### Outlook

While global economic data remains positive, inflation measures in the US and Europe ended the review period modestly below expectations. We must therefore wait and see for tightness in the US labour market and wage pressures to filter through.

We remain cautious on emerging markets given that upcoming elections in Brazil and ongoing situations in Argentina and Turkey provide the potential for further volatility in the months ahead.

#### Jim Leaviss & Wolfgang Bauer

Co-fund managers

Employees of M&G Limited which is an associate of M&G Securities Limited.

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

# M&G Absolute Return Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement			
as at Holding	30.09.18 £'000	30.09.18 %	31.03.18 <sup>[a]</sup> %
<b>FIXED INCOME</b>	<b>35,405</b>	<b>98.75</b>	<b>98.06</b>
<b>Debt securities</b>	<b>35,383</b>	<b>98.68</b>	<b>98.69</b>
<b>'AAA' credit rated bonds</b>	<b>4,892</b>	<b>13.64</b>	<b>11.45</b>
AUD150,000 Australia (Commonwealth of) 3% 2047	81	0.22	
€250,000 Avoca CLO FRN 2030	222	0.62	
£151,743 Dukinfield FRN 2052	153	0.42	
€203,000 Harvest CLO FRN 2031	179	0.50	
£146,411 Hawksmoor Mortgages FRN 2053	147	0.41	
£500,000 Inter-American Development Bank 0.625% 2021	491	1.37	
£300,000 KfW 1.125% 2019	301	0.84	
£185,257 Paragon Mortgages No.14 FRN 2039	179	0.50	
£260,774 Residential Mortgage Securities FRN 2050	260	0.72	
£269,100 Residential Mortgage Securities No.29 FRN 2046	270	0.75	
£172,670 Ripon Mortgages FRN 2056	172	0.48	
£200,000 Santander UK FRN 2022	200	0.56	
£73,532 THRONES 2015-1 FRN 2050	74	0.21	
£357,860 Towd Point Mortgage Funding FRN 2045	358	1.00	
\$300,000 US Treasury 1.25% IL 2020	269	0.75	
\$700,000 US Treasury 0.625% IL 2024	572	1.60	
\$300,000 US Treasury 1.375% 2020	225	0.63	
\$500,000 US Treasury 2.75% 2023	380	1.06	
\$300,000 US Treasury 3.5% 2020	233	0.65	
£124,711 Warwick Finance Residential Mortgage FRN 2049	126	0.35	
<b>'AA' credit rated bonds</b>	<b>2,068</b>	<b>5.77</b>	<b>8.80</b>
£187,372 First Flexible No.6 FRN 2035	187	0.52	
€100,000 JT International Financial Services 1.125% 2025	89	0.25	
£226,000 New York Life Global Funding 1% 2021	223	0.62	
£243,000 Towd Point Mortgage Funding FRN 2046	244	0.68	
£215,000 Treasury 1.875% IL 2022	347	0.97	
\$250,000 US Treasury 0.125% IL 2021	200	0.56	
\$325,000 US Treasury 0.125% IL 2026	248	0.69	
\$700,000 US Treasury 1.5% 2019	530	1.48	
<b>'A' credit rated bonds</b>	<b>4,468</b>	<b>12.46</b>	<b>15.08</b>
£100,000 ABN AMRO Bank 1.375% 2022	98	0.27	
£170,744 Alba FRN 2038	163	0.46	
€250,000 Aon 2.875% 2026	239	0.67	
€700,000 Banco Santander Var. Rate Perp. (6.25%)	625	1.74	
€200,000 Bank of America FRN 2023	179	0.50	
\$300,000 Bank of America FRN 2026	226	0.63	
£200,000 Banque Fed Cred Mutuel 0.875% 2020	198	0.55	
€400,000 BBVA (formerly Banco Bilbao Vizcaya Argentaria) Var. Rate Perp. (7%)	362	1.01	
€200,000 Belfius Bank Var. Rate 2028 (1.625%)	173	0.48	
£200,000 BMW International Investment 1% 2021	195	0.54	
€162,000 CK Hutchison Europe Finance 18 1.25% 2025	142	0.40	
£100,000 Experian Finance 2.125% 2024	99	0.28	
\$53,000 Halfmoon Parent 4.375% 2028	41	0.11	

### Portfolio statement (continued)

as at Holding	30.09.18 £'000	30.09.18 %	31.03.18 <sup>[a]</sup> %
<b>'A' credit rated bonds (continued)</b>			
\$68,000 Halfmoon Parent 4.8% 2038	52	0.15	
£119,000 HSBC Holdings Var. Rate 2026 (2.256%)	114	0.32	
€200,000 ING Groep FRN 2023	178	0.50	
£184,000 LVMH Moët Hennessy Louis Vuitton 1% 2022	181	0.50	
\$65,902 Mitchells & Butlers Finance FRN 2030	47	0.13	
£400,000 Newgate Fund FRN 2050	377	1.05	
£93,965 ResLoC UK FRN 2043	90	0.25	
£149,030 RMAC 2003-Ns4 FRN 2044	142	0.40	
\$231,944 S-JETS 2017-1 3.967% 2042	177	0.49	
€200,000 Total Var. Rate Perp. (3.369%)	186	0.52	
£189,000 Wells Fargo & Company 1.375% 2022	184	0.51	
<b>'BBB' credit rated bonds</b>	<b>12,671</b>	<b>35.34</b>	<b>34.55</b>
£200,000 AA Bond Company 2.875% 2043	194	0.54	
£100,000 AA Bond Company 4.875% 2043	100	0.28	
£270,000 Akelius Residential Property 2.375% 2025	256	0.71	
€100,000 Allergan Funding 2.125% 2029	87	0.24	
€250,000 American International Group Var. Rate 2067 (1.403%)	207	0.58	
\$150,000 Andeavor Logistics / Tesoro Logistics Finance 4.25% 2027	113	0.32	
\$200,000 Anglo American Capital 4.5% 2028	146	0.41	
€262,000 Arion Bank 1% 2023	228	0.64	
£100,000 Arountown Property 3% 2029	94	0.26	
\$157,000 AT&T 5.25% 2037	120	0.33	
\$147,000 AT&T FRN 2024	113	0.32	
€101,000 Atrium European Real Estate 3% 2025	90	0.25	
£400,000 Aviva Var. Rate Perp. (6.125%)	433	1.21	
€286,000 Axa Var. Rate 2049 (3.25%)	249	0.69	
€300,000 Banco De Sabadell 1.625% 2024	265	0.74	
€100,000 Banco Santander 2.125% 2028	83	0.23	
£250,000 Barclays 3.125% 2024	249	0.69	
£137,000 Barclays Var. Rate 2023 (2.375%)	134	0.37	
\$200,000 BAT Capital 4.54% 2047	142	0.40	
€100,000 Bayer Capital 2.125% 2029	90	0.25	
€160,000 Beni Stabili 2.375% 2028	144	0.40	
COP200,000,000 Bogota Distrito Capital 9.75% 2028	56	0.16	
\$250,000 BPCE 3.5% 2027	175	0.49	
€300,000 BPCE FRN 2026	263	0.73	
€250,000 Channel Link Enterprises Finance Var. Rate 2050 (1.761%)	223	0.62	
\$100,000 Citigroup FRN 2024	77	0.21	
£200,000 Credit Suisse Group Funding Var. Rate 2025 (2.125%)	191	0.53	
€227,000 Deutsche Bank 1.125% 2023	203	0.57	
£200,000 Digital Stout Holding 2.75% 2024	200	0.56	
€400,000 ELM Var. Rate 2047 (3.375%)	361	1.01	
£150,000 Enel Var. Rate 2076 (6.625%)	162	0.45	
\$79,000 Energy Transfer Partners 5.8% 2038	63	0.18	
\$145,000 Energy Transfer Partners 6.125% 2045	118	0.33	
\$100,000 Express Scripts 4.8% 2046	75	0.21	
€100,000 Fastighets AB Balder 1.875% 2026	87	0.24	
£300,000 Goldman Sachs Group 3.125% 2029	294	0.82	
€200,000 Goldman Sachs Group FRN 2023	176	0.49	
\$200,000 Goldman Sachs Group FRN 2027	159	0.44	
£345,168 Greene King Finance FRN 2033	341	0.95	
\$100,000 HCA 5.5% 2047	77	0.21	
€200,000 ING Groep Var. Rate 2030 (2%)	174	0.49	
€150,000 Intesa Sanpaolo 1.75% 2028	119	0.33	



# M&G Absolute Return Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at Holding	30.09.18 £'000	30.09.18 %	31.03.18 <sup>[a]</sup> %
<b>'BBB' credit rated bonds (continued)</b>			
£100,000 LafargeHolcim Sterling Finance (Netherlands) 3% 2032	92	0.26	
€100,000 Lloyds Banking Group FRN 2024	88	0.25	
€200,000 Lloyds Banking Group (formerly Lloyds Bank) Var. Rate 2028 (1.75%)	172	0.48	
€207,105 Lusitano Mortgages No.5 FRN 2059	173	0.48	
€200,000 Mapfre Var. Rate 2048 (4.125%)	177	0.49	
\$55,000 Maple Escrow 4.057% 2023	42	0.12	
\$200,000 Morocco (Kingdom of) 5.5% 2042	161	0.45	
\$116,000 Mylan 4.55% 2028	87	0.24	
\$200,000 Mylan 5.4% 2043	147	0.41	
\$200,000 Nationwide Building Society Var. Rate 2024 (4.363%)	153	0.43	
€240,000 Nationwide Building Society Var. Rate 2026 (1.5%)	209	0.58	
€200,000 Orange Var. Rate Perp. (5%)	196	0.55	
€200,000 RCI Banque FRN 2023	176	0.49	
€150,000 Romania (Republic of) 3.875% 2035	135	0.38	
\$200,000 Royal Bank of Scotland Var. Rate May 2029 (4.892%)	153	0.43	
€158,000 Royal Bank of Scotland Var. Rate Mar 2026 (1.75%)	137	0.38	
£300,000 Royal Bank of Scotland Var. Rate Sep 2026 (2.875%)	292	0.81	
\$15,000,000 Russia (Federation of) 8.15% 2027	173	0.48	
€100,000 Ryanair 1.125% 2023	89	0.25	
€100,000 Santander UK Group Holdings FRN 2023	88	0.25	
€259,000 Santander UK Group Holdings FRN 2024	228	0.64	
£200,000 Sky 2.875% 2020	205	0.57	
\$200,000 Société Générale 4.25% 2023	153	0.43	
€200,000 Société Générale FRN 2024	177	0.49	
€200,000 Student Finance 2.6663% 2024	197	0.55	
\$100,000 Sunoco Logistics Partners Operations 5.4% 2047	76	0.21	
£100,000 Thames Water Utilities Cayman 2.375% 2023	97	0.27	
€100,000 Thermo Fisher Scientific 2.875% 2037	91	0.25	
€200,000 UniCredit Var. Rate Perp. (5.375%)	159	0.44	
\$67,961 US Bancorp Var. Rate Perp. (5.3%)	52	0.15	
€300,000 Verizon Communications 2.875% 2038	268	0.75	
€203,000 Vodafone Group 1.125% 2025	177	0.49	
\$28,000 Vodafone Group 5% 2038	21	0.06	
€194,000 Vodafone Group Var. Rate 2078 (4.2%)	172	0.48	
€300,000 Volkswagen International Finance Var. Rate Perp. (3.375%)	262	0.73	
€100,000 Vonovia Finance 1.5% 2028	85	0.24	
\$100,000 Western Gas Partner 4.65% 2026	75	0.21	
€119,000 WPC Eurobond 2.125% 2027	105	0.29	
<b>'BB' credit rated bonds</b>	<b>4,804</b>	<b>13.40</b>	<b>12.08</b>
€150,000 Arrow Global Finance FRN 2025	124	0.35	
€300,000 Barclays Bank Var. Rate 2028 (2%)	255	0.71	
€200,000 Bayer Var. Rate 2075 (2.375%)	175	0.49	
€229,000 Belden 3.375% 2027	200	0.56	
\$100,000 CCO Holdings Capital 5.125% 2027	72	0.20	
€104,000 Ceva Logistics Finance 5.25% 2025	90	0.25	

### Portfolio statement (continued)

as at Holding	30.09.18 £'000	30.09.18 %	31.03.18 <sup>[a]</sup> %
<b>'BB' credit rated bonds (continued)</b>			
€300,000 Crédit Agricole Var. Rate Perp. (6.5%)	291	0.81	
\$200,000 CSC Holdings 5.5% 2047	148	0.41	
\$50,000 Energy Transfer Partners FRN 2066	34	0.09	
\$255,000 Freeport-McMoRan 3.875% 2023	188	0.53	
\$300,000 HCA 5.375% 2026	231	0.64	
\$199,000 Inretail Pharma 5.375% 2023	154	0.43	
€126,000 Interxion Holding 4.75% 2025	117	0.33	
€200,000 Intesa Sanpaolo Var. Rate Perp. (7%)	182	0.51	
\$100,000 James Hardy International Finance 3.625% 2026	90	0.25	
€500,000 KBC Groep Var. Rate Perp. (5.625%)	450	1.26	
€350,000 Leonardo 1.5% 2024	298	0.83	
£400,000 Lloyds Banking Group (formerly Lloyds Bank) Var. Rate Perp. (7%)	406	1.13	
\$300,000 Olin 5% 2030	215	0.60	
\$350,000 Petrobras Global Finance 5.75% 2029	241	0.67	
£100,000 Petrobras Global Finance 6.625% 2034	97	0.27	
\$99,000 Sirius XM Holdings 5% 2027	73	0.20	
€100,000 Telecom Italia 2.375% 2027	84	0.24	
€124,000 Telecom Italia 2.875% 2026	110	0.31	
€200,000 Telefónica (Europe) Var. Rate Perp. (3%)	170	0.47	
\$200,000 United Rentals North America 4.875% 2028	144	0.40	
€200,000 Wind Tre FRN 2024	165	0.46	
<b>'B' credit rated bonds</b>	<b>1,356</b>	<b>3.78</b>	<b>3.99</b>
€250,000 Altice (formerly SFR Group) 5.625% 2024	232	0.65	
€100,000 Altice 5.875% (formerly SFR Group) 2027	93	0.26	
€100,000 Argentina (Republic of) 5% 2027	72	0.20	
\$69,000 Argentina (Republic of) 5.875% 2028	43	0.12	
\$50,000 Argentina (Republic of) 6.875% 2048	30	0.08	
€170,000 Cabot Financial Luxembourg FRN 2021	152	0.42	
\$50,000 Community Health Systems 5.125% 2021	37	0.10	
€250,000 Egypt (Arab Republic of) 5.625% 2030	209	0.58	
£16,955 Iceland Bondco FRN 2020	17	0.05	
€30,714 Matterhorn Telecom FRN 2023	27	0.08	
€177,000 Nexi Capital FRN 2023	157	0.44	
£174,000 Premier Foods Finance 6.25% 2023	176	0.49	
\$30,000 Tesla 5.3% 2025	20	0.06	
€100,000 Vallourec 6.375% 2023	91	0.25	
<b>'CCC' credit rated bonds</b>	<b>150</b>	<b>0.42</b>	<b>0.46</b>
€200,000 Altice Finco 4.75% 2028	150	0.42	
<b>Bonds with no credit rating</b>	<b>4,974</b>	<b>13.87</b>	<b>12.28</b>
£300,000 Admiral 5.5% 2024	325	0.91	
€100,000 Brass No.7 FRN 2059	100	0.28	
\$200,000 Bureau Veritas Sa 1.875% 2025	178	0.50	
€100,000 Cote d'Ivoire 5.125% 2025	89	0.25	
£500,000 Deutsche Pfandbriefbank FRN 2020	501	1.40	
£256,000 DP World 4.25% 2030	255	0.71	
\$100,000 DP World 6.85% 2037	88	0.25	
£97,180 Finsbury Square FRN 2065	97	0.27	
£144,871 Finsbury Square FRN 2065 2A	145	0.40	



# M&G Absolute Return Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at Holding	30.09.18 £'000	30.09.18 %	31.03.18 <sup>[a]</sup> %
<b>Bonds with no credit rating (continued)</b>			
€300,000 Groupe Bruxelles Lambert 1.375% 2024	267	0.75	
£110,000 Hastings Group Finance 3% 2025	108	0.30	
€200,000 Iliad 1.875% 2025	167	0.47	
€200,000 Lagardère 1.625% 2024	173	0.48	
£240,483 London Wall Mortgage Capital FRN 2049	241	0.67	
£200,000 NewDay Partnership Funding FRN 2027	200	0.56	
£458,652 Oat Hill No.1 FRN 2046	457	1.27	
£100,000 Ocado Group 4% 2024	100	0.28	
£100,000 PCL Funding II FRN 2022	100	0.28	
£114,000 PCL Funding III FRN 2023	114	0.32	
\$200,000 Puma International Financing 5% 2026	129	0.36	
\$200,000 Puma International Financing 5.125% 2024	134	0.37	
€100,000 SELP Finance Sarl 1.5% 2025	86	0.24	
£107,000 Shaftesbury 2.348% 2027	102	0.28	
€111,000 Stora Enso 2.5% 2028	101	0.28	
€300,000 Suez Var. Rate. Perp. (2.875%)	267	0.74	
€100,000 O2 Telefónica Deutschland Finanzierungs 1.75% 2025	89	0.25	
£112,000 Tower Bridge Funding No.3 FRN 2061	112	0.31	
£149,000 Virgin Money Holdings (UK) Var. Rate 2026 (3.375%)	147	0.41	
£100,000 Yorkshire Building Society Var. Rate 2024 (4.125%)	102	0.28	
<b>Debt derivatives</b>	<b>22</b>	<b>0.07</b>	<b>(0.63)</b>
<b>Credit default swaps</b>			
\$250,000 Amgen Jun 2023	(6)	(0.01)	(0.45)
€250,000 Anglo American Capital Jun 2022	33	0.09	
€200,000 Anheuser-busch Inbev Dec 2021	3	0.00	
€100,000 Glencore Finance Europe Jun 2022	13	0.03	
€400,000 Glencore Finance Europe Jun 2023	54	0.15	
\$150,000 Italy (Republic of) Dec 2022	(5)	(0.01)	
\$3,400,000 Markit CDX North American Investment Grade Series 30 5 Year Jun 2023	(53)	(0.15)	
€950,000 Markit iTraxx Europe Series 29 10 Year Jun 2028	(3)	0.00	
€5,800,000 Markit iTraxx Europe Series 30 5 Year Dec 2023	(88)	(0.25)	
€450,000 Markit iTraxx Europe Snr Fin Series 30 5 Year Dec 2023	(3)	(0.01)	
€1,250,000 Markit iTraxx Europe Sub Fin Series 30 5 Year Dec 2023	35	0.09	
€675,000 Markit iTraxx Europe Xover Series 30 5 Year Dec 2023	(66)	(0.18)	
\$200,000 Pfizer Jun 2022	(4)	0.00	
<b>Interest rate swaps</b>	<b>17</b>	<b>0.05</b>	<b>0.05</b>
£150,000 Pay 0.649% Receive VAR Jun 2022	4	0.01	
£150,000 Pay 0.786% Receive VAR Feb 2022	3	0.01	
£150,000 Pay 0.7975% Receive VAR Mar 2022	3	0.01	
£200,000 Pay 0.799% Receive VAR May 2022	4	0.01	
£300,000 Pay 1.0845% Receive VAR Oct 2022	3	0.01	

### Portfolio statement (continued)

as at Holding	30.09.18 £'000	30.09.18 %	31.03.18 <sup>[a]</sup> %
<b>Interest rate futures</b>	<b>95</b>	<b>0.27</b>	<b>(0.23)</b>
(4) 10 Year US Treasury Note Dec 2018	5	0.01	
(3) 5 Year US Treasury Note Dec 2018	3	0.01	
(32) Euro Bobl Dec 2018	25	0.07	
(16) Euro Bund Dec 2018	24	0.07	
(1) Euro Buxl 30 Dec 18	2	0.01	
(13) Euro Schatz Dec 2018	2	0.01	
(3) US Long Bond Dec 2018	8	0.02	
(7) US Ultra Long Treasury Bond Dec 2018	26	0.07	
<b>CURRENCY</b>	<b>(23)</b>	<b>(0.07)</b>	<b>0.69</b>
<b>Forward currency contracts</b>			
€414,274 Bought for £367,668 (expires 17.10.18)	0	0.00	
€(16,674,446) Sold for £14,843,688 (expires 17.10.18)	28	0.08	
¥129,077,192 Bought for £880,099 (expires 17.10.18)	(7)	(0.02)	
CHF236,200 Bought for £187,119 (expires 17.10.18)	(2)	(0.01)	
\$187,602 Bought for £142,562 (expires 17.10.18)	1	0.00	
\$(9,558,636) Sold for £7,282,243 (expires 17.10.18)	(43)	(0.12)	
<b>Portfolio of investments</b>	<b>35,382</b>	<b>98.68</b>	<b>98.75</b>
<b>CASH EQUIVALENTS</b>			
<b>'AAA' rated money market funds <sup>[b]</sup></b>			
423,340 Northern Trust Global Fund - Sterling	423	1.18	
<b>Total portfolio</b>	<b>35,805</b>	<b>99.86</b>	<b>99.50</b>
<b>Net other assets / (liabilities)</b>	<b>49</b>	<b>0.14</b>	<b>0.50</b>
<b>Net assets attributable to shareholders</b>	<b>35,854</b>	<b>100.00</b>	<b>100.00</b>

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

<sup>[a]</sup> The portfolio has been reclassified to more appropriately reflect how the fund is managed. 31.03.18 comparatives have been restated to reflect this.

<sup>[b]</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 £'000	2017 £'000
<b>Portfolio transactions</b>		
Total purchases	12,572	17,527
Total sales	10,629	9,307

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

# M&G Absolute Return Bond Fund

## Financial highlights

### Fund performance

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

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

We show performance for these two share classes because:

- The performance of the Sterling Class 'A' (Accumulation) share is what most individuals investing directly with M&G have received. It has the highest ongoing charge of all the sterling share classes. Performance is shown after deduction of this charge. All 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.

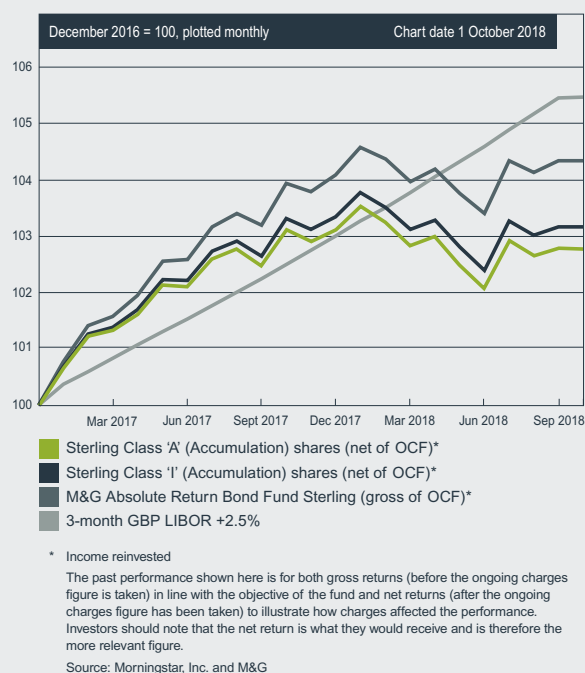
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (10), which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

### Fund level performance

Fund net asset value			
as at	30.09.18 £'000	31.03.18 £'000	31.03.17 £'000
Fund net asset value (NAV)	35,854	33,565	17,126

### 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 the performance of the fund, the following table shows the compound rate of return, per annum, over the period. Calculated on a price to price basis with income reinvested.

### Long-term performance by share class

	Six months 03.04.18 % [a]	Three years 01.10.15 % p.a.	Five years 01.10.13 % p.a.	Since launch % p.a.
<b>Euro [b]</b>				
Class 'Z-H'	n/a	n/a	n/a	-0.5 [c]
<b>Sterling [b]</b>				
Class 'A'	-0.1	n/a	n/a	+1.5 [d]
Class 'I'	+0.0	n/a	n/a	+1.7 [d]
Class 'L'	+0.0	n/a	n/a	+1.9 [d]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 20 April 2018. Not annualised.

[d] 13 December 2016, the launch date of the fund.

# M&G Absolute Return Bond Fund

## Financial highlights

### Fund performance

## Operating charges and portfolio transaction costs

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

### Operating charges

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

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

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

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

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

### Portfolio transaction costs

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

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

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

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

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

### Portfolio transaction costs

As at	30.09.18	31.03.18	31.03.17	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.44	0.50	0.46	0.47

[a] Average of first three columns.

# M&G Absolute Return Bond Fund

## Financial highlights

### Specific share class performance

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

#### Euro Class 'Z-H' Accumulation share performance

The share class was launched on 20 April 2018.

Change in NAV per share	Six months to 30.09.18 Euro ¢	Year to 31.03.18 Euro ¢	Year to 31.03.17 Euro ¢
Opening NAV	1,000.00	n/a	n/a
Return before operating charges and after direct portfolio transaction costs	(5.74)	n/a	n/a
Operating charges	(1.28)	n/a	n/a
Return after operating charges	(7.02)	n/a	n/a
Distributions	(11.34)	n/a	n/a
Retained distributions	11.34	n/a	n/a
Closing NAV	992.98	1,000.00	n/a

Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.01	n/a	n/a
Dilution adjustments <sup>[a]</sup>	0.00	n/a	n/a
Total direct portfolio transaction costs	0.01	n/a	n/a

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	n/a	n/a
Operating charges	0.28	n/a	n/a
Return after operating charges	-0.70	n/a	n/a
Distribution yield	2.80	n/a	n/a
Effect on yield of charges offset against capital	0.00	n/a	n/a

#### Other information

Closing NAV (£'000)	26	n/a	n/a
Closing NAV percentage of total fund NAV (%)	0.07	n/a	n/a
Number of shares	3,000	n/a	n/a
Highest share price (Euro ¢)	1,000.00	n/a	n/a
Lowest share price (Euro ¢)	988.91	n/a	n/a

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

The share class was launched on 13 December 2016.

Change in NAV per share	Six months to 30.09.18 UK p	Year to 31.03.18 UK p	Year to 31.03.17 UK p
Opening NAV	99.88	100.35	100.00
Return before operating charges and after direct portfolio transaction costs	0.43	2.56	1.18
Operating charges	(0.46)	(0.82)	(0.31)
Return after operating charges	(0.03)	1.74	0.87
Distributions	(1.37)	(2.21)	(0.52)
Closing NAV	98.48	99.88	100.35

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

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.92	0.81	1.10*
Return after operating charges	-0.03	+1.73	+0.87
Distribution yield	2.98	2.42	2.26
Effect on yield of charges offset against capital	0.80	0.80	0.80

#### Other information

Closing NAV (£'000)	560	362	211
Closing NAV percentage of total fund NAV (%)	1.56	1.08	1.23
Number of shares	568,234	362,389	210,000
Highest share price (UK p)	100.40	102.28	101.37
Lowest share price (UK p)	99.30	100.80	99.89

\* The operating charge shown is an estimate of the charges, as the share class had not been in existence for a full financial year.

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

The share class was launched on 13 December 2016.

Change in NAV per share	Six months to 30.09.18 UK p	Year to 31.03.18 UK p	Year to 31.03.17 UK p
Opening NAV	102.58	100.87	100.00
Return before operating charges and after direct portfolio transaction costs	0.46	2.57	1.18
Operating charges	(0.47)	(0.86)	(0.31)
Return after operating charges	(0.01)	1.71	0.87
Distributions	(1.01)	(1.40)	(0.28)
Retained distributions	1.01	1.40	0.28
Closing NAV	102.57	102.58	100.87

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

Performance and charges	%	%	%
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.92	0.85	1.04*
Return after operating charges	-0.01	+1.70	+0.87
Distribution yield	2.15	1.59	1.40
Effect on yield of charges offset against capital	0.00	0.00	0.00

#### Other information

Closing NAV (£'000)	323	258	20
Closing NAV percentage of total fund NAV (%)	0.90	0.77	0.12
Number of shares	314,956	251,544	20,000
Highest share price (UK p)	103.13	103.61	101.38
Lowest share price (UK p)	101.99	101.32	99.89

\* The operating charge shown is an estimate of the charges, as the share class had not been in existence for a full financial year.

# M&G Absolute Return Bond Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 13 December 2016.

Change in NAV per share	Six months to 30.09.18 UK p	Year to 31.03.18 UK p	Year to 31.03.17 UK p
Opening NAV	100.12	100.41	100.00
Return before operating charges and after direct portfolio transaction costs	0.46	2.50	1.18
Operating charges	(0.36)	(0.61)	(0.25)
Return after operating charges	0.10	1.89	0.93
Distributions	(1.38)	(2.18)	(0.52)
Closing NAV	98.84	100.12	100.41
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.72	0.61	0.89*
Return after operating charges	+0.10	+1.88	+0.93
Distribution yield	3.00	2.38	2.26
Effect on yield of charges offset against capital	0.60	0.60	0.60
<b>Other information</b>			
Closing NAV (£'000)	5,267	4,542	186
Closing NAV percentage of total fund NAV (%)	14.69	13.53	1.08
Number of shares	5,328,790	4,535,836	185,000
Highest share price (UK p)	100.72	102.43	101.42
Lowest share price (UK p)	99.61	100.86	99.89

\* The operating charge shown is an estimate of the charges, as the share class had not been in existence for a full financial year.

#### Sterling Class 'I' Accumulation share performance

The share class was launched on 13 December 2016.

Change in NAV per share	Six months to 30.09.18 UK p	Year to 31.03.18 UK p	Year to 31.03.17 UK p
Opening NAV	102.86	100.93	100.00
Return before operating charges and after direct portfolio transaction costs	0.46	2.57	1.18
Operating charges	(0.37)	(0.64)	(0.25)
Return after operating charges	0.09	1.93	0.93
Distributions	(1.11)	(1.63)	(0.34)
Retained distributions	1.11	1.63	0.34
Closing NAV	102.95	102.86	100.93
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.72	0.63	0.85*
Return after operating charges	+0.09	+1.91	+0.93
Distribution yield	2.37	1.79	1.60
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	27,268	26,443	16,669
Closing NAV percentage of total fund NAV (%)	76.06	78.78	97.33
Number of shares	26,486,710	25,708,589	16,516,155
Highest share price (UK p)	103.46	103.86	101.42
Lowest share price (UK p)	102.32	101.38	99.89

\* The operating charge shown is an estimate of the charges, as the share class had not been in existence for a full financial year.

#### Sterling Class 'L' Income share performance

The share class was launched on 13 December 2016.

Change in NAV per share	Six months to 30.09.18 UK p	Year to 31.03.18 UK p	Year to 31.03.17 UK p
Opening NAV	100.25	100.44	100.00
Return before operating charges and after direct portfolio transaction costs	0.46	2.52	1.18
Operating charges	(0.31)	(0.51)	(0.22)
Return after operating charges	0.15	2.01	0.96
Distributions	(1.38)	(2.20)	(0.52)
Closing NAV	99.02	100.25	100.44
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.62	0.51	0.74*
Return after operating charges	+0.15	+2.00	+0.96
Distribution yield	2.98	2.39	2.26
Effect on yield of charges offset against capital	0.50	0.50	0.50
<b>Other information</b>			
Closing NAV (£'000)	2,389	1,939	20
Closing NAV percentage of total fund NAV (%)	6.66	5.78	0.12
Number of shares	2,412,955	1,934,436	20,000
Highest share price (UK p)	100.88	102.50	101.45
Lowest share price (UK p)	99.76	100.89	99.89

\* The operating charge shown is an estimate of the charges, as the share class had not been in existence for a full financial year.

#### Sterling Class 'L' Accumulation share performance

The share class was launched on 13 December 2016.

Change in NAV per share	Six months to 30.09.18 UK p	Year to 31.03.18 UK p	Year to 31.03.17 UK p
Opening NAV	103.01	100.96	100.00
Return before operating charges and after direct portfolio transaction costs	0.47	2.60	1.18
Operating charges	(0.32)	(0.55)	(0.22)
Return after operating charges	0.15	2.05	0.96
Distributions	(1.17)	(1.75)	(0.37)
Retained distributions	1.17	1.75	0.37
Closing NAV	103.16	103.01	100.96
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments <sup>[a]</sup>	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.00	0.00	0.00
Operating charges	0.62	0.54	0.74*
Return after operating charges	+0.15	+2.03	+0.96
Distribution yield	2.46	1.88	1.70
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	21	21	20
Closing NAV percentage of total fund NAV (%)	0.06	0.06	0.12
Number of shares	20,000	20,000	20,000
Highest share price (UK p)	103.66	103.99	101.45
Lowest share price (UK p)	102.50	101.41	99.89

\* The operating charge shown is an estimate of the charges, as the share class had not been in existence for a full financial year.

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

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

# M&G Absolute Return Bond Fund

## Financial statements and notes

### Financial statements

#### Statement of total return

for the six months to 30 September	2018		2017	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		(388)		111
Revenue	523		229	
Expenses	(114)		(71)	
Net revenue / (expense) before taxation	409		158	
Taxation	(1)		0	
Net revenue / (expense) after taxation		408		158
<b>Total return before distributions</b>		<b>20</b>		<b>269</b>
Distributions		(409)		(154)
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>(389)</b>		<b>115</b>

#### Statement of change in net assets attributable to shareholders

for the six months to 30 September	2018		2017	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		33,565		17,126
Amounts received on issue of shares	5,432		8,985	
Amounts paid on cancellation of shares	(3,056)		(154)	
		2,376		8,831
Dilution adjustments		4		18
Change in net assets attributable to shareholders from investment activities (see above)		(389)		115
Retained distributions on Accumulation shares		298		148
<b>Closing net assets attributable to shareholders</b>		<b>35,854</b>		<b>26,238</b>

The opening net assets attributable to shareholders for 2018 differs to the closing position in 2017 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

#### Balance sheet

as at	30 September 2018	31 March 2018
	£'000	£'000
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	35,662	33,503
<b>Current assets</b>		
Debtors	653	425
Cash and bank balances	127	300
Cash equivalents	423	252
<b>Total assets</b>	<b>36,865</b>	<b>34,480</b>
<b>Liabilities</b>		
Investment liabilities	(280)	(357)
<b>Creditors</b>		
Overdrawn positions at futures clearing houses and collateral manager	(41)	(4)
Distribution payable	(114)	(83)
Other creditors	(576)	(471)
<b>Total liabilities</b>	<b>(1,011)</b>	<b>(915)</b>
<b>Net assets attributable to shareholders</b>	<b>35,854</b>	<b>33,565</b>

### Notes to the financial statements

#### Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 2.

#### Distribution policy

In determining the amount available for distribution to Income shares, the annual management charge and administration charge are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.



# M&G Global Listed Infrastructure Fund

## Authorised Corporate Director's Report

### Investment objective

The fund has two aims:

- to deliver a higher total return (the combination of income and growth of capital), net of the ongoing charges figure, than that of the MSCI ACWI Index over any five-year period and;
- to deliver an income stream that increases every year in sterling terms.

### Investment policy

At least 80% of the fund is invested in publicly-listed equity securities issued by infrastructure companies, investment trusts and real estate investment trusts across any market capitalisation that are domiciled in any country. The minimum 80% allocation may include ordinary shares, preference shares and convertible bonds (the fund may hold up to a maximum of 20% in convertibles bonds). Infrastructure companies include those involved in the following business activities: utilities, energy, transport, health, education, security, communications and transactions. The fund is expected to exhibit lower volatility and offer a higher dividend yield than the MSCI ACWI Index which is consistent with the characteristics of infrastructure securities. The fund usually holds fewer than 50 companies.

The fund manager seeks to invest in companies with excellent capital discipline and the potential for long-term dividend growth. The fund manager believes rising dividends create upward pressure on the value of shares.

Sustainability considerations play an important role in assessing business models. Companies that derive more than 30% of their revenue from coalfired and nuclear power are excluded from the investment universe. Industries including tobacco, alcohol, adult entertainment, gambling, and controversial weapons are also excluded. United Nations Global Compact principles on human rights, labour, environmental and anti-corruption are also considered in the analysis of companies.

The fund may also invest in collective investment schemes, other transferable securities, cash, near cash, other money market securities and warrants. Derivatives may be used for hedging and efficient portfolio management.

### Investment approach

The fund employs a bottom-up stockpicking approach, driven by the fundamental analysis of individual companies. Dividend yield is not the primary consideration for stock selection.

The fund manager aims to create a portfolio with exposure to a broad range of countries and sectors. Stocks with different drivers of dividend growth are selected to construct a portfolio that has the potential to cope in a variety of market conditions.

Sustainability considerations encompassing environmental, social and governance issues are fully integrated into the investment process with a focus on risks specific to infrastructure companies. The monitoring of these risks involves regular engagement with company management.

### Risk profile

The fund invests globally in the shares of infrastructure companies, including emerging markets, and is, therefore, subject to the price volatility of the global stockmarket and the performance of individual companies.

The fund may also be subject to fluctuations in currency exchange rates.

The fund's focus is on shares of companies that have the potential to grow their dividends over the long term. Income distributions from the fund's holdings, however, are not guaranteed and may vary.

The fund usually invests in fewer than 50 companies, but is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease. Diversification across industry, geography, infrastructure class and market capitalisation is key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

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

### Investment review

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

#### Distribution summary

As the fund was launched in October 2017, we are not yet able to confirm a year-on-year distribution increase in sterling terms. However, the dividends paid by the fund's underlying holdings reflected considerable year-on-year growth, giving us confidence in the health of the businesses in the portfolio. (Dividends represent a share in the profits of a company and are paid out to the company's shareholders at set times of the year.)

The fastest dividend growth during the six-month period under review came from Spanish natural gas utility Naturgy, a core holding in the fund. At its June investor day, the business showcased its long-term corporate strategy and announced a 30% increase in its dividend. Other double-digit increases came from US water utility American Water and railroads company Union Pacific, which both raised their payments by 10%. In fact, Union Pacific's increase was the third of the year, taking its overall year-on-year rise to 32%. On the back of

# M&G Global Listed Infrastructure Fund

## Authorised Corporate Director's Report

### Investment review

#### Distribution summary (continued)

stronger profits, we also saw multiple dividend increases from ONEOK, a US energy infrastructure company, and CoreSite Realty, a US data centre business. ONEOK's year-on-year growth rate was 11%, while CoreSite's stands at 14%.

Not all growth was double digit, though – and we would not expect it to be. We saw some strong single-digit increases from other parts of the portfolio, all of which were well in excess of the level of UK inflation. Republic Services, a US waste management infrastructure business, raised its payment by 9%, while Keyera, a Canadian energy infrastructure company, increased its dividend by 7%. The majority of dividend announcements during the review period were from companies in the 'economic' class of infrastructure (which comprises utility, transport and energy infrastructure companies). In the 'social' class of infrastructure (health, education and civic infrastructure assets), we saw a 3% increase from HICL Infrastructure, the owner of UK health and education facilities. In addition, in the 'evolving' segment of the portfolio (which is made up of communications, transactional and royalty infrastructure), NetLink NBN, a Singaporean fibre optic infrastructure company, delivered on its commitment to start paying a dividend when it announced its inaugural dividend in May, which at the time resulted in a very healthy 4.25% starting yield.

#### Investment performance

The six-month period under review saw global stockmarkets rebound from their lows at the end of March, delivering strong positive returns. Listed infrastructure participated in the rebound, having offered protection as markets fell initially. There was, however, considerable divergence of returns delivered by different stocks and sectors on a monthly – and at times daily – basis, as market sentiment was meaningfully affected by geopolitical threats and monetary policy decisions.

The top contributors to fund performance were holdings in the 'economic' class of infrastructure, which rebounded after a temporary period of interest rate related weakness in January and February. Economic infrastructure stocks sometimes experience short-term weakness in rising interest rate environments because of their higher-than-average capital intensity and dividend yields. (Dividend yield refers to the income received from an investment and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value.)

Gibson Energy, a Canadian energy infrastructure business, made the greatest contribution to fund performance. Following extensive engagement from M&G, the company made considerable strategic and operational progress in the recent period, divesting of certain non-core assets and focusing on its infrastructure business. Its progress has been reflected in its results, which have beaten the market's expectations.

Several other energy infrastructure companies also featured among the top contributors, such as ONEOK and Enbridge, both of which are domiciled in North America. The companies delivered strong results during the period and have been underpinned by significant energy infrastructure requirements throughout the continent.

Among our utilities holdings, we saw an unwinding of short-term weakness in the sector earlier in the year. We had added to a number of the holdings that had been caught up in this weakness, including US businesses Edison International and Atmos Energy, in the belief that these businesses have structural growth prospects and should therefore have limited sensitivity to interest rates over the long term. The rally in these names during the period therefore rewarded our decision.

Outside of the 'economic' segment of the portfolio, 'social' infrastructure holding John Laing Infrastructure Fund made a significant contribution following a bid from a consortium of private investors at a 20% premium to the market value at which it was trading prior to the offer. In our view, this demonstrates the public markets' undervaluation of the long-life revenue streams generated by many infrastructure assets, which are sometimes better appreciated by private investors.

In the 'evolving' category of infrastructure, data centre business CoreSite rebounded strongly from interest rate related weakness earlier in the year. This weakness was caused predominantly by the company's real estate investment trust (REIT) corporate structure, a structure which can at times be perceived by the market as particularly sensitive to interest rate movements. However, we believe this weakness completely disregarded the rapid growth the company is experiencing, driven by society's increasing data consumption requirements. As such, we added significantly to the holding.

Turning to the detractors, our royalty holdings were the weakest part of the portfolio during the period under review, as market sentiment turned against them. PrairieSky Royalty, a Canadian energy royalty company, was weak as a result of the localised product price environment. We believe this weakness to be transitory, with our confidence in the business's long-term prospects having been reinforced by recent engagements with the company. As such, we added considerably to the holding on weakness.

Similarly, Franco Nevada, a Canadian mineral royalty company, suffered from a turn in market sentiment against its underlying commodity price exposure. The company's cashflows in fact demonstrate remarkable consistency over the long term; as such, we believe the weakness to have been overstated. We therefore took advantage of the weakness to add to the holding.

Elsewhere, Brazilian toll road business CCR detracted in a difficult period for emerging markets, with its weakness compounded by company-specific allegations of impropriety. We have engaged closely with the company on the issue. Our engagements have so far provided us with confidence that the company is managing the issue effectively and has the appropriate procedures in place to prevent and address these types of issues.

Italian electricity utility Enel, a new holding added during the period under review, also drifted lower on continued politics-driven sentiment issues in Italian equities. The market reaction disregards the business's significant revenue exposure outside of Italy, as well as the company's continued delivery of strong financial and operational performance.

# M&G Global Listed Infrastructure Fund

## Authorised Corporate Director's Report

### Investment review

#### Investment activities

There was one new purchase and one complete sale during the period under review, as well as the completion of the cash offer for John Laing Infrastructure Fund, meaning that the number of holdings fell from 43 to 42.

In June, we purchased Enel, an Italian electricity infrastructure business with assets mainly in Italy, Spain, and Latin America. We capitalised on the opportunity to buy this quality business at an unusually attractive valuation brought on by the politics-driven sell-off in Italian company shares (equities) in May and early June.

In July, we divested of our holding in Hydro One, a Canadian electricity utility, after a politically-motivated governance breach materially changed the investment case. The fund's ESG ('Environmental, Social and Governance') monitoring process helped to identify the potential for such a breach in January, and as such the position had already been substantially reduced in advance of this development.

Aside from adding to our royalty holdings on weakness, we also increased some of our highest-conviction positions during the period, such as Danish offshore wind business Orsted and US electricity utility Edison International. We also participated in an entitlement offer (when a company issues shares to investors at a specified price in a specified window) by Transurban, an Australian toll road company. The offering was put in place to fund a major infrastructure project win, which we believe to be strategically and financially advantageous for the business.

On the flipside, we reduced our position in Cheung Kong Infrastructure, the Hong Kong infrastructure conglomerate, in part to lower our exposure to what we see as heightened regulatory risk in certain parts of the company's portfolio. The reduction also reflects our weakening confidence in the company's recent capital allocation initiatives, following a material asset acquisition.

Despite this activity in individual names, our exposure to the three classes of infrastructure was largely unchanged over the period. The weighting in the 'economic' infrastructure class stands at 64%, the weighting of the 'social' sphere 11%, and the weighting of the 'evolving' segment 24%.

#### Outlook

Although we have seen a strong rebound in a number of the names to which we added most on weakness in January and February, we see further upside in these positions as valuations remain attractive. Indeed, valuations across our economic class of infrastructure look particularly compelling, both relative to history and other segments of listed infrastructure. As such, we are seeking new opportunities in this part of the portfolio, as well as adding to some of our current positions.

In fact, we saw some weakness in these names at the end of September when the US Federal Reserve voted to raise interest rates, which was reminiscent of the experience at the beginning of 2018 described previously. We are paying close attention and will respond to any opportunities that arise.

Moving away from economic infrastructure, valuations in the social segment of our portfolio currently appear more attractive than they have done in recent years. We are comfortable with our exposure at these levels, particularly given the defensive qualities these businesses add to the portfolio as markets become more uncertain.

Valuations in the evolving segment of the portfolio have become elevated in the recent market environment, benefiting from a market supportive of growth stocks, but not yet looking outright expensive. We are managing position sizes here and paying close attention to the price we are paying for growth on a stock-by-stock basis. Overall, we remain comfortable with our exposure given the portfolio diversification characteristics it provides – particularly in environments of rising interest rates.

From a regional perspective, the portfolio continues to demonstrate a tilt towards North America, where we have a broad preference for the regulatory backdrop. That said, we have recently taken advantage of valuation opportunities in Europe, given the region's underperformance relative to the US market this year, as well as the compelling entry points that have been thrown up by particular events, such as the Italian election.

Crucially, we must not lose sight of the long-term nature of listed infrastructure when thinking about this asset class and its outlook. Short-term monetary policy decisions will not materially affect the long-term performance of these exceptionally long-life assets and the companies that own or control them. Rather, powerful shifts in society's composition, needs and activities – and the implications of these shifts on infrastructure use – will have a greater bearing on the asset class's long-term performance. Examples of such shifts are society's digitalisation and transition to renewable energy sources, both of which represent powerful tailwinds for a number of businesses in the strategy.

#### Alex Araujo

Fund manager

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

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

# M&G Global Listed Infrastructure Fund

## Authorised Corporate Director's Report

### Investments

#### Portfolio statement

as at Holding	30.09.18 £'000	30.09.18 %	31.03.18 %
<b>EQUITIES</b>	<b>18,581</b>	<b>100.87</b>	<b>98.60</b>
<b>Oil, gas &amp; consumable fuels</b>	<b>3,577</b>	<b>19.42</b>	<b>17.64</b>
<b>United States</b>	<b>480</b>	<b>2.61</b>	<b>2.82</b>
9,176 ONEOK	480	2.61	
<b>Canada</b>	<b>3,097</b>	<b>16.81</b>	<b>14.82</b>
24,294 Enbridge	604	3.28	
56,663 Gibson Energy	671	3.64	
23,505 Keyera	476	2.58	
53,129 PrairieSky Royalty	716	3.89	
20,374 TransCanada	630	3.42	
<b>Metals &amp; mining</b>	<b>728</b>	<b>3.95</b>	<b>3.21</b>
<b>Canada</b>	<b>728</b>	<b>3.95</b>	<b>3.21</b>
15,257 Franco Nevada	728	3.95	
<b>Construction &amp; engineering</b>	<b>1,275</b>	<b>6.92</b>	<b>7.15</b>
<b>France</b>	<b>728</b>	<b>3.95</b>	<b>3.83</b>
10,037 Vinci	728	3.95	
<b>Spain</b>	<b>547</b>	<b>2.97</b>	<b>3.32</b>
34,512 Ferrovial	547	2.97	
<b>Commercial services &amp; supplies</b>	<b>352</b>	<b>1.91</b>	<b>1.74</b>
<b>United States</b>	<b>352</b>	<b>1.91</b>	<b>1.74</b>
6,312 Republic Services	352	1.91	
<b>Road &amp; rail</b>	<b>668</b>	<b>3.63</b>	<b>4.72</b>
<b>United States</b>	<b>450</b>	<b>2.44</b>	<b>2.76</b>
3,585 Union Pacific	450	2.44	
<b>Hong Kong</b>	<b>218</b>	<b>1.19</b>	<b>1.96</b>
54,000 MTR	218	1.19	
<b>Transportation infrastructure</b>	<b>1,367</b>	<b>7.43</b>	<b>7.63</b>
<b>Australia</b>	<b>809</b>	<b>4.39</b>	<b>4.20</b>
70,080 Sydney Airport	267	1.45	
87,319 Transurban	542	2.94	
<b>Switzerland</b>	<b>230</b>	<b>1.25</b>	<b>1.27</b>
1,488 Flughafen Zurich	230	1.25	
<b>Brazil</b>	<b>189</b>	<b>1.03</b>	<b>0.59</b>
122,557 CCR	189	1.03	
<b>Cayman Islands</b>	<b>139</b>	<b>0.76</b>	<b>1.57</b>
347,500 Hopewell Highway Infrastructure	139	0.76	
<b>Capital markets</b>	<b>799</b>	<b>4.34</b>	<b>4.43</b>
<b>United States</b>	<b>436</b>	<b>2.37</b>	<b>2.89</b>
2,049 CME Group	270	1.47	
2,894 Intercontinental Exchange	166	0.90	
<b>Guernsey</b>	<b>363</b>	<b>1.97</b>	<b>1.54</b>
238,062 HICL Infrastructure	363	1.97	
<b>IT services</b>	<b>306</b>	<b>1.66</b>	<b>1.42</b>
<b>United States</b>	<b>306</b>	<b>1.66</b>	<b>1.42</b>
904 MasterCard	154	0.84	
1,318 Visa	152	0.82	
<b>Diversified telecommunication services</b>	<b>492</b>	<b>2.68</b>	<b>3.61</b>
<b>Italy</b>	<b>173</b>	<b>0.95</b>	<b>1.20</b>
30,027 Infrastrutture Wireless Italiane	173	0.95	
<b>Singapore</b>	<b>319</b>	<b>1.73</b>	<b>2.41</b>
730,400 NetLink NBN	319	1.73	
<b>Electric utilities</b>	<b>3,324</b>	<b>18.03</b>	<b>17.95</b>
<b>Belgium</b>	<b>552</b>	<b>3.00</b>	<b>2.88</b>
11,168 Elia System Operator	552	3.00	

#### Portfolio statement (continued)

as at Holding	30.09.18 £'000	30.09.18 %	31.03.18 %
<b>Denmark</b>	<b>874</b>	<b>4.74</b>	<b>3.57</b>
16,975 Ørsted	874	4.74	
<b>Italy</b>	<b>723</b>	<b>3.92</b>	<b>0.00</b>
186,320 Enel	723	3.92	
<b>United States</b>	<b>1,163</b>	<b>6.31</b>	<b>6.07</b>
15,949 Edison International	815	4.42	
2,744 NextEra Energy	348	1.89	
<b>Canada</b>	<b>0</b>	<b>0.00</b>	<b>2.17</b>
<b>Bermuda</b>	<b>12</b>	<b>0.06</b>	<b>3.26</b>
2,000 CK Infrastructure	12	0.06	
<b>Gas utilities</b>	<b>817</b>	<b>4.43</b>	<b>5.82</b>
<b>Spain</b>	<b>367</b>	<b>1.99</b>	<b>2.31</b>
17,444 Gas Natural	367	1.99	
<b>United States</b>	<b>450</b>	<b>2.44</b>	<b>3.51</b>
6,297 Atmos Energy	450	2.44	
<b>Multi-utilities</b>	<b>523</b>	<b>2.84</b>	<b>2.76</b>
<b>United Kingdom</b>	<b>523</b>	<b>2.84</b>	<b>2.76</b>
66,721 National Grid	523	2.84	
<b>Water utilities</b>	<b>355</b>	<b>1.93</b>	<b>1.89</b>
<b>United States</b>	<b>355</b>	<b>1.93</b>	<b>1.89</b>
5,327 American Water Works	355	1.93	
<b>Independent power and renewable electricity producers</b>	<b>527</b>	<b>2.86</b>	<b>1.78</b>
<b>Guernsey</b>	<b>527</b>	<b>2.86</b>	<b>1.78</b>
468,764 The Renewables Infrastructure Group	527	2.86	
<b>Equity real estate investment trusts (REITs)</b>	<b>2,784</b>	<b>15.11</b>	<b>12.97</b>
<b>United Kingdom</b>	<b>642</b>	<b>3.49</b>	<b>2.75</b>
72,882 UNITE Group	642	3.49	
<b>United States</b>	<b>2,142</b>	<b>11.62</b>	<b>10.22</b>
2,443 American Tower	269	1.46	
6,543 CoreSite Realty	547	2.97	
5,369 Crown Castle International	448	2.43	
1,648 Equinix	544	2.95	
8,086 Ventas	334	1.81	
<b>Equity investment instruments</b>	<b>687</b>	<b>3.73</b>	<b>3.88</b>
<b>Guernsey</b>	<b>687</b>	<b>3.73</b>	<b>3.88</b>
244,733 International Public Partnerships	372	2.02	
221,251 John Laing Infrastructure Fund	315	1.71	
<b>Portfolio of investments</b>	<b>18,581</b>	<b>100.87</b>	<b>98.60</b>
<b>CASH EQUIVALENTS</b>	<b>0</b>	<b>0.00</b>	<b>0.50</b>
'AAA' rated money market funds <sup>[a]</sup>	<b>0</b>	<b>0.00</b>	<b>0.50</b>
<b>Total portfolio</b>	<b>18,581</b>	<b>100.87</b>	<b>99.10</b>
<b>Net other assets / (liabilities)</b>	<b>(160)</b>	<b>(0.87)</b>	<b>0.90</b>
<b>Net assets attributable to shareholders</b>	<b>18,421</b>	<b>100.00</b>	<b>100.00</b>

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

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

# M&G Global Listed Infrastructure Fund

## Authorised Corporate Director's Report

### Investments

#### Top ten portfolio transactions

for the six months to 30 September 2018

<b>Largest purchases</b>	<b>£'000</b>
Enel	770
PrairieSky Royalty	501
Franco Nevada	458
Ørsted	440
Edison International	398
Vinci	357
National Grid	350
TransCanada	350
UNITE Group	342
The Renewables Infrastructure Group	335
Other purchases	4,507
<b>Total purchases</b>	<b>8,808</b>
<b>Largest sales</b>	<b>£'000</b>
CK Infrastructure	295
Hydro One	207
National Grid	74
Atmos Energy	42
ONEOK	34
Gas Natural	25
CME Group	23
Ventas	23
John Laing Infrastructure Fund	17
MTR	12
Other sales	6
<b>Total sales</b>	<b>758</b>

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

# M&G Global Listed Infrastructure Fund

## Financial highlights

### Fund performance

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

The 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.

### Fund level performance

Fund net asset value		
	30.09.18	31.03.18
as at	£'000	£'000
Fund net asset value (NAV)	18,421	9,619

### Performance since launch

As the fund has not yet operated for a 12 month period, the performance since launch graph and long-term performance figures have not been calculated.

### Operating charges and portfolio transaction costs

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

#### Operating charges

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

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

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

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

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



# M&G Global Listed Infrastructure Fund

## Financial highlights

### Fund performance

## 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. 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	Period to 31.03.18	Average <sup>[a]</sup>
<b>Direct portfolio transaction costs <sup>[b]</sup></b>	%	%	%
Broker commission	0.02	0.11	0.07
Taxes	0.05	0.13	0.09
Costs before dilution adjustments	0.07	0.24	0.16
Dilution adjustments <sup>[c]</sup>	(0.06)	(0.14)	(0.10)
<b>Total direct portfolio transaction costs</b>	<b>0.01</b>	<b>0.10</b>	<b>0.06</b>
<b>As at</b>	<b>30.09.18</b>	<b>31.03.18</b>	<b>Average <sup>[a]</sup></b>
<b>Indirect portfolio transaction costs</b>	%	%	%
Average portfolio dealing spread	0.11	0.12	0.12

<sup>[a]</sup> Average of first two 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.

### Specific share class performance

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

Historic yields for the current period are calculated as at 12 October 2018.

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

The share class was launched on 5 October 2017.

	Six months to 30.09.18	Period to 31.03.18
<b>Change in NAV per share</b>	<b>UK p</b>	<b>UK p</b>
Opening NAV	89.91	100.00
Return before operating charges and after direct portfolio transaction costs	11.76	(8.23)
Operating charges	(0.69)	(0.68)
Return after operating charges	11.07	(8.91)
Distributions	(1.94)	(1.18)
Closing NAV	99.04	89.91
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.07	0.11
Dilution adjustments <sup>[a]</sup>	(0.05)	(0.07)
<b>Total direct portfolio transaction costs</b>	<b>0.02</b>	<b>0.04</b>
<b>Performance and charges</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.10
Operating charges	1.26	1.36
Return after operating charges	+12.31	-8.91
Historic yield	3.25	3.70
Effect on yield of charges offset against capital	1.10	1.10
<b>Other information</b>		
Closing NAV (£'000)	139	60
Closing NAV percentage of total fund NAV (%)	0.75	0.62
Number of shares	139,835	66,837
Highest share price (UK p)	103.46	101.11
Lowest share price (UK p)	90.08	88.92

# M&G Global Listed Infrastructure Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 5 October 2017.

	Six months to 30.09.18 UK p	Period to 31.03.18 UK p
<b>Change in NAV per share</b>		
Opening NAV	91.01	100.00
Return before operating charges and after direct portfolio transaction costs	11.93	(8.29)
Operating charges	(0.69)	(0.70)
Return after operating charges	11.24	(8.99)
Distributions	(1.43)	(0.66)
Retained distributions	1.43	0.66
Closing NAV	102.25	91.01
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.07	0.11
Dilution adjustments <sup>[a]</sup>	(0.05)	(0.06)
Total direct portfolio transaction costs	0.02	0.05
<b>Performance and charges</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.10
Operating charges	1.26	1.43
Return after operating charges	+12.35	-8.99
Historic yield	2.11	2.57
Effect on yield of charges offset against capital	0.01	0.00
<b>Other information</b>		
Closing NAV (£'000)	146	56
Closing NAV percentage of total fund NAV (%)	0.80	0.58
Number of shares	143,002	61,211
Highest share price (UK p)	105.87	101.12
Lowest share price (UK p)	91.20	89.49

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

The share class was launched on 5 October 2017.

	Six months to 30.09.18 UK p	Period to 31.03.18 UK p
<b>Change in NAV per share</b>		
Opening NAV	90.00	100.00
Return before operating charges and after direct portfolio transaction costs	11.76	(8.23)
Operating charges	(0.58)	(0.60)
Return after operating charges	11.18	(8.83)
Distributions	(1.95)	(1.17)
Closing NAV	99.23	90.00
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.06	0.11
Dilution adjustments <sup>[a]</sup>	(0.05)	(0.06)
Total direct portfolio transaction costs	0.01	0.05
<b>Performance and charges</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.10
Operating charges	1.06	1.20
Return after operating charges	+12.42	-8.83
Historic yield	3.25	3.70
Effect on yield of charges offset against capital	0.90	0.90
<b>Other information</b>		
Closing NAV (£'000)	2,987	1,285
Closing NAV percentage of total fund NAV (%)	16.21	13.36
Number of shares	3,010,230	1,428,209
Highest share price (UK p)	103.62	101.14
Lowest share price (UK p)	90.17	89.01

#### Sterling Class 'I' Accumulation share performance

The share class was launched on 5 October 2017.

	Six months to 30.09.18 UK p	Period to 31.03.18 UK p
<b>Change in NAV per share</b>		
Opening NAV	91.10	100.00
Return before operating charges and after direct portfolio transaction costs	11.95	(8.32)
Operating charges	(0.60)	(0.58)
Return after operating charges	11.35	(8.90)
Distributions	(1.53)	(0.75)
Retained distributions	1.53	0.75
Closing NAV	102.45	91.10
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.07	0.11
Dilution adjustments <sup>[a]</sup>	(0.06)	(0.07)
Total direct portfolio transaction costs	0.01	0.04
<b>Performance and charges</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.10
Operating charges	1.07	1.14
Return after operating charges	+12.46	-8.90
Historic yield	2.30	2.77
Effect on yield of charges offset against capital	0.01	0.00
<b>Other information</b>		
Closing NAV (£'000)	11,841	8,182
Closing NAV percentage of total fund NAV (%)	64.28	85.06
Number of shares	11,558,138	8,981,662
Highest share price (UK p)	106.05	101.13
Lowest share price (UK p)	91.29	89.57

#### Sterling Class 'L' Income share performance

The share class was launched on 5 October 2017.

	Six months to 30.09.18 UK p	Period to 31.03.18 UK p
<b>Change in NAV per share</b>		
Opening NAV	90.10	100.00
Return before operating charges and after direct portfolio transaction costs	11.80	(8.27)
Operating charges	(0.46)	(0.45)
Return after operating charges	11.34	(8.72)
Distributions	(1.95)	(1.18)
Closing NAV	99.49	90.10
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.07	0.11
Dilution adjustments <sup>[a]</sup>	(0.05)	(0.07)
Total direct portfolio transaction costs	0.02	0.04
<b>Performance and charges</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.10
Operating charges	0.81	0.86
Return after operating charges	+12.59	-8.72
Historic yield	3.24	3.70
Effect on yield of charges offset against capital	0.65	0.65
<b>Other information</b>		
Closing NAV (£'000)	20	18
Closing NAV percentage of total fund NAV (%)	0.11	0.19
Number of shares	20,000	20,000
Highest share price (UK p)	103.85	101.16
Lowest share price (UK p)	90.29	89.11

# M&G Global Listed Infrastructure Fund

## Financial highlights

### Specific share class performance

#### Sterling Class 'L' Accumulation share performance

The share class was launched on 5 October 2017.

	Six months to 30.09.18 UK p	Period to 31.03.18 UK p
<b>Change in NAV per share</b>		
Opening NAV	91.21	100.00
Return before operating charges and after direct portfolio transaction costs	11.95	(8.34)
Operating charges	(0.46)	(0.45)
Return after operating charges	11.49	(8.79)
Distributions	(1.66)	(0.87)
Retained distributions	1.66	0.87
Closing NAV	102.70	91.21
<b>Direct portfolio transaction costs</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.07	0.11
Dilution adjustments <sup>[a]</sup>	(0.06)	(0.07)
Total direct portfolio transaction costs	0.01	0.04
<b>Performance and charges</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs <sup>[b]</sup>	0.01	0.10
Operating charges	0.78	0.86
Return after operating charges	+12.60	-8.79
Historic yield	2.54	3.03
Effect on yield of charges offset against capital	0.01	0.00
<b>Other information</b>		
Closing NAV (£'000)	3,288	18
Closing NAV percentage of total fund NAV (%)	17.85	0.19
Number of shares	3,201,129	20,000
Highest share price (UK p)	106.28	101.16
Lowest share price (UK p)	91.40	89.68

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

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

# M&G Global Listed Infrastructure Fund

## Financial statements and notes

### Financial statements

Statement of total return		
	2018	
for the six months to 30 September	£'000	£'000
Income		
Net capital gains / (losses)		1,047
Revenue	298	
Expenses	(61)	
Net revenue / (expense) before taxation	237	
Taxation	(26)	
Net revenue / (expense) after taxation		211
<b>Total return before distributions</b>		<b>1,258</b>
Distributions		(212)
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>1,046</b>

Statement of change in net assets attributable to shareholders		
	2018	
for the six months to 30 September	£'000	£'000
<b>Opening net assets attributable to shareholders</b>		<b>9,619</b>
Amounts received on issue of shares	7,658	
Amounts paid on cancellation of shares	(108)	
		7,550
Dilution adjustments		13
Change in net assets attributable to shareholders from investment activities (see above)		1,046
Retained distributions on Accumulation shares		193
<b>Closing net assets attributable to shareholders</b>		<b>18,421</b>

The opening net assets attributable to shareholders for 2018 differs to the closing position in 2017 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet		
as at	30 September 2018	31 March 2018
	£'000	£'000
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	18,581	9,484
<b>Current assets</b>		
Debtors	163	129
Cash and bank balances	175	30
Cash equivalents	0	48
<b>Total assets</b>	<b>18,919</b>	<b>9,691</b>
<b>Liabilities</b>		
<b>Creditors</b>		
Bank overdrafts	0	(29)
Distribution payable	(28)	(8)
Other creditors	(470)	(35)
<b>Total liabilities</b>	<b>(498)</b>	<b>(72)</b>
<b>Net assets attributable to shareholders</b>	<b>18,421</b>	<b>9,619</b>

### Notes to the financial statements

#### Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 2.

#### Distribution policy

In determining the amount available for distribution to Income shares, the annual management charge and administration charge are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

In order to conduct a controlled dividend flow to shareholders, interim distributions will be at the fund manager's discretion, up to the maximum of the distributable income available for the period.

# M&G UK Inflation Linked Corporate Bond Fund

## Authorised Corporate Director's Report

### 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.

### Investment review

**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 this report.

# M&G UK Inflation Linked Corporate Bond Fund

## Authorised Corporate Director's Report

### Investment review

#### 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 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.



# M&G UK Inflation Linked Corporate Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement			
as at Holding	30.09.18 £'000	30.09.18 %	31.03.18 %
<b>FIXED INCOME</b>	<b>1,141,862</b>	<b>99.96</b>	<b>99.03</b>
<b>Debt securities</b>	<b>1,127,247</b>	<b>98.68</b>	<b>98.19</b>
<b>'AAA' credit rated bonds</b>	<b>290,293</b>	<b>25.41</b>	<b>2.74</b>
£148,000 European Investment Bank 2.1% IL 2022	235	0.02	
£3,632,837 Finsbury Square FRN 2065	3,624	0.32	
\$5,189,464 Home Partners of America Trust FRN 2033	3,979	0.35	
£3,435,475 London Wall Mortgage Capital FRN 2049	3,437	0.30	
£2,859,000 PCL Funding III FRN 2023	2,851	0.25	
£3,736,956 Precise Mortgage Funding FRN 2055	3,718	0.32	
\$4,473,588 Progress Residential Trust FRN 2034	3,436	0.30	
£2,261,448 Together Asset Backed Securitisation FRN 2049	2,264	0.20	
\$47,775,000 US Treasury 0.125% IL 2021	38,168	3.34	
\$50,500,000 US Treasury 0.125% IL 2022 (15 Jan)	42,065	3.68	
\$100,000,000 US Treasury 0.125% IL 2022 (15 Jul)	82,029	7.18	
\$27,500,000 US Treasury 0.625% IL 2021	23,523	2.06	
\$52,000,000 US Treasury 1.25% IL 2020	46,612	4.08	
\$37,500,000 US Treasury 1.875% IL 2019	34,352	3.01	
<b>'AA' credit rated bonds</b>	<b>477,583</b>	<b>41.81</b>	<b>68.73</b>
£19,702 Baglan Moor Healthcare 3.92% IL 2029	41	0.00	
€1,500,000 Réseau Ferré de France 2.45% IL 2023	1,936	0.17	
£9,300,000 Scotland Gas Network 2.966% IL 2022	15,437	1.35	
£36,850,000 Treasury 0.125% IL 2024	47,908	4.20	
£200,000 Treasury 0.125% IL 2026	251	0.02	
£200,000 Treasury 1.25% IL 2027	377	0.03	
£32,903,000 Treasury 1.875% IL 2022	53,005	4.64	
£89,578,623 Treasury 2.5% IL 2020	323,566	28.33	
£9,700,000 Treasury 2.5% IL 2024	35,062	3.07	
<b>'A' credit rated bonds</b>	<b>121,174</b>	<b>10.61</b>	<b>9.67</b>
£1,350,000 Anglian Water Services 3.666% IL 2024	2,701	0.24	
£11,168,000 Anglian Water Services 4.125% IL 2020	20,565	1.80	
£8,500,000 Banco Santander 2.75% 2023	8,435	0.74	
\$5,000,000 Bank of America FRN 2024	3,821	0.33	
\$17,500,000 Bank of America FRN 2026	13,183	1.15	
£5,920,000 Bank of Scotland 2.64% IL 2020	10,062	0.88	
£4,029,000 Coventry Building Society 1.875% 2023	3,935	0.35	
\$5,000,000 Halfmoon Parent 3.75% 2023	3,820	0.33	
\$5,097,000 Halfmoon Parent FRN 2021	3,912	0.34	
£698,628 HpC Kings College Hospital 3.443% IL 2036	1,552	0.14	
€2,600,000 ING Groep FRN 2023	2,312	0.20	
£2,199,000 National Grid Electricity Transmission 3.806% IL 2020	3,869	0.34	
£3,013,700 Nationwide Building Society 3.875% IL 2021	9,886	0.87	
£598,898 Nationwide Building Society 4.25% IL 2024	1,961	0.17	
£2,500,000 Newgate Funding FRN 2050 A3	2,358	0.21	
£142,634 Newgate Funding FRN 2050 A4	137	0.01	

### Portfolio statement (continued)

as at Holding	30.09.18 £'000	30.09.18 %	31.03.18 %
<b>'A' credit rated bonds (continued)</b>			
£2,126,000 Rabobank 2.25% IL 2022	3,308	0.29	
\$3,693,000 Rabobank FRN 2023	2,836	0.25	
£2,384,480 RMAC 2003-Ns4 FRN 2044	2,275	0.20	
€3,200,000 Santander Consumer Finance 1.125% 2023	2,831	0.25	
£2,944,000 South Eastern Power Networks 4.2148% IL 2023	5,416	0.47	
£1,452,000 Southern Water Services Finance 3.816% IL 2023	2,732	0.24	
£1,986,472 The Hospital Company (Dartford) 3.003% IL 2031	3,892	0.34	
€6,074,000 UBS Group Funding (Switzerland) Var. Rate 2025 (1.25%)	5,375	0.47	
<b>'BBB' credit rated bonds</b>	<b>195,656</b>	<b>17.13</b>	<b>10.04</b>
\$6,000,000 ABN AMRO Bank Var. Rate 2028 (4.4%)	4,515	0.40	
£4,300,000 Admiral 5.5% 2024	4,665	0.41	
€4,372,000 Arion Bank 1% 2023	3,797	0.33	
\$11,500,000 AT&T 5.25% 2037	8,807	0.77	
€2,500,000 Banco Santander 2.5% 2025	2,238	0.20	
£3,400,000 Barclays 3.125% 2024	3,382	0.30	
€1,500,000 Bayer Capital 0.625% 2022	1,338	0.12	
€1,500,000 Bayer Capital FRN 2022	1,336	0.12	
\$8,333,000 Bayer US Finance 3.875% 2023	6,346	0.56	
€2,600,000 Belfius Bank Var. Rate 2028 (1.625%)	2,253	0.20	
\$7,500,000 BPCE 4% 2023	5,674	0.50	
€7,500,000 BPCE FRN 2023	6,586	0.58	
£157,000 British Telecommunications 3.5% IL 2025	326	0.03	
€2,500,000 Channel Link Enterprises Finance Var. Rate 2050 (1.761%)	2,234	0.20	
\$7,500,000 Citigroup FRN 2024 (1 Jun)	5,772	0.50	
\$3,000,000 Crédit Agricole FRN 2023	2,304	0.20	
£5,000,000 Enel Var. Rate 2076 (6.625%)	5,411	0.47	
\$7,500,000 Goldman Sachs Group FRN 2023	5,978	0.52	
£3,282,164 Greene King Finance FRN 2033	3,242	0.28	
£1,840,000 Hastings Group Finance 3% 2025	1,806	0.16	
€3,513,000 Informa 1.5% 2023	3,141	0.27	
£1,067,000 LafargeHolcim Sterling Finance (Netherlands) 3% 2032	985	0.09	
£9,890,000 Lloyds Bank 7.625% 2025	12,487	1.09	
€7,500,000 Lloyds Banking Group (formerly Lloyds Bank) Var. Rate 2028 (1.75%)	6,457	0.56	
\$5,000,000 Morgan Stanley FRN 2023	3,924	0.34	
\$7,500,000 Morgan Stanley FRN 2024	5,844	0.51	
€9,500,000 Mylan 2.25% 2024	8,531	0.75	
\$2,500,000 Nationwide Building Society Var. Rate 2024 (3.766%)	1,869	0.16	
€4,506,000 Nationwide Building Society Var. Rate 2026 (1.5%)	3,927	0.34	
€2,287,000 Nationwide Building Society Var. Rate 2029 (2%)	1,983	0.17	
£9,900,000 Orange Var. Rate Perp. (5.75%)	10,637	0.93	
£14,250,000 Royal Bank of Scotland Var. Rate 2026 (2.875%)	13,882	1.22	
€4,324,000 Santander UK Group Holdings FRN 2024	3,800	0.33	
£1,950,000 Severn Trent 1.3% IL 2022	2,432	0.21	
\$15,000,000 Société Générale 4.25% 2023	11,464	1.00	
\$2,800,000 Syngenta Finance 4.441% 2023	2,132	0.19	
£1,967,000 Thames Water Utilities Cayman 2.375% 2023	1,912	0.17	
£3,152,000 Thames Water Utilities Finance 3.375% IL 2021	5,614	0.49	

# M&G UK Inflation Linked Corporate Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at Holding	30.09.18 £'000	30.09.18 %	31.03.18 %	
<b>'BBB' credit rated bonds (continued)</b>				
£2,674,000 TSB Banking Group Var. Rate 2026 (5.75%)	2,785	0.24		
\$4,286,000 Vodafone Group 4.125% 2025	3,262	0.29		
\$5,167,000 Vodafone Group FRN 2024	3,973	0.35		
€7,500,000 Vodafone Group Var. Rate 2079 (3.1%)	6,605	0.58		
	<b>30,962</b>	<b>2.71</b>	<b>1.59</b>	
<b>'BB' credit rated bonds</b>				
£1,493,210 Catalyst Healthcare 3.42 % IL 2040	2,554	0.22		
€1,899,000 James Hardy International Finance 3.625% 2026	1,709	0.15		
\$3,000,000 Royal Bank of Scotland 6% 2023	2,397	0.21		
€4,600,000 Telefónica (Europe) Var. Rate Perp. (3%)	3,912	0.34		
€5,000,000 Telefónica (Europe) Var. Rate Perp. (3.875%)	4,170	0.37		
£5,400,000 Tesco 3.322% IL 2025	10,387	0.91		
€6,500,000 Teva Pharmaceutical Finance 1.125% 2024	5,140	0.45		
€730,000 Teva Pharmaceutical Finance 4.5% 2025	693	0.06		
	<b>11,579</b>	<b>1.01</b>	<b>5.42</b>	
<b>Bonds with no credit rating</b>				
£216,735 Annes Gate Property 3.237% IL 2030	430	0.04		
€3,810,000 ATON 3.875% 2018	3,377	0.30		
€4,400,000 Bureau Veritas Sa 1.875% 2025	3,915	0.34		
€2,000,000 Eirles Two FRN 2020	0	0.00		
£410,357 Exchequer Partnerships 3.582% IL 2035	944	0.08		
€2,000,000 Lagardère 1.625% 2024	1,730	0.15		
£13 T.H.F.C 5.65% IL 2020	0	0.00		
£1,000,900 Tesco Personal Finance 1% IL 2019	1,183	0.10		
	<b>14,615</b>	<b>1.28</b>	<b>0.84</b>	
<b>Debt derivatives</b>				
<b>Credit default swaps</b>				
€(16,050,000) Ahold Finance USA Dec 2022	375	0.03		
\$ (13,000,000) América Móvil Dec 2021	51	0.01		
\$ (10,000,000) American International Jun 2027	(164)	(0.01)		
€(9,400,000) Anglo American Capital Dec 2022	1,351	0.12		
€9,500,000 Anglo American Capital Jun 2023	1,435	0.12		
€(5,000,000) Aroundtown Dec 2022	(12)	0.00		
€(11,500,000) BAT International Finance Dec 2021	190	0.02		
\$ (15,000,000) Berkshire Hathaway Dec 2022	246	0.02		
€(5,000,000) BNP Paribas Dec 2021	20	0.00		
\$5,000,000 Bristol-Myers Squibb Sep 2020	(68)	(0.01)		
€8,500,000 British American Tobacco Jun 2023	105	0.01		
\$ (10,000,000) Citigroup Dec 2021	164	0.01		
€(5,000,000) Cooperative Rabobank Dec 2021	49	0.00		
€(12,500,000) Credit Agricole Dec 2021	105	0.01		
\$ (11,250,000) CVS Health Dec 2022	194	0.01		
\$15,000,000 CVS Health Dec 2027	(12)	0.00		
€(7,250,000) Deutsche Telekom Jun 2023	185	0.02		
€(10,000,000) Deutsche Telekom Mar 2023	251	0.02		
\$ (13,000,000) Enbridge Energy Partners Dec 2021	56	0.01		
\$ (3,300,000) Ford Motor Credit Jun 2020	33	0.00		

### Portfolio statement (continued)

as at Holding	30.09.18 £'000	30.09.18 %	31.03.18 %
<b>Credit default swap (continued)</b>			
\$ (5,000,000) Ford Motor Credit Dec 2020	58	0.00	
\$8,500,000 Freeport-McMoran Copper & Gold Jun 2023	(148)	(0.01)	
€(11,700,000) Glencore Finance Europe Dec 2021	1,357	0.12	
€(7,500,000) Glencore Finance Europe Jun 2022	937	0.09	
€(7,000,000) Glencore Finance Europe Dec 2022	937	0.09	
€(2,500,000) Glencore International Jun 2021	13	0.01	
€(9,500,000) Imperial Brands Finance Dec 2021	143	0.01	
€(10,000,000) ING Groep Bank Jun 2022	121	0.01	
€(7,500,000) Intesa Sanpaolo Dec 2021	(38)	0.00	
€(5,000,000) Intesa Sanpaolo Jun 2022	(45)	(0.01)	
\$ (10,000,000) Kroger Dec 2022	120	0.01	
€(10,000,000) Leonardo Dec 2022	1,395	0.12	
€(69,000,000) Markit iTraxx Europe Series 27 10 Year Jun 2027	505	0.05	
€(10,000,000) Markit iTraxx Europe Series 28 5 Year Dec 2022	383	0.03	
€13,500,000 Markit iTraxx Europe Series 28 10 Year Dec 2027	24	0.00	
€(32,000,000) Markit iTraxx Europe Snr Fin Series 26 5 Year Jun 2022	597	0.05	
€(24,100,000) Markit iTraxx Europe Snr Fin Series 28 5 Year Dec 2022	380	0.04	
€(12,500,000) Markit iTraxx Europe Sub Fin Series 27 5 Year Jun 2022	(34)	0.00	
€(25,300,000) Markit iTraxx Europe Sub Fin Series 28 5 Year Dec 2022	(300)	(0.03)	
\$ (7,500,000) MetLife Dec 2022	114	0.01	
\$ (10,000,000) Morgan Stanley Dec 2021	153	0.01	
€(5,000,000) Nationwide Building Society Dec 2022	(39)	0.00	
\$10,000,000 Nordstrom Jun 2023	(19)	0.00	
€(20,000,000) Reckitt Benckiser Treasury Services Jun 2022	402	0.04	
€(8,000,000) Royal Bank of Scotland Group Dec 2022	(258)	(0.02)	
\$ (20,000,000) Simon Property Group Dec 2021	350	0.04	
€(7,500,000) Société Générale Jun 2022	(9)	0.00	
\$ (10,000,000) Target Jun 2022	209	0.02	
\$ (10,000,000) Target Dec 2022	224	0.02	
€(15,000,000) Telecom Italia Dec 2021	(228)	(0.03)	
\$ (5,000,000) Verizon Communications Sep 2023	84	0.00	
\$ (10,000,000) Verizon Communications Mar 2025	127	0.01	
€(10,000,000) Vodafone Group Dec 2022	153	0.01	
\$ (19,000,000) Wal-mart Stores Dec 2021	386	0.03	
	<b>497</b>	<b>0.04</b>	<b>0.02</b>
<b>Interest rate swaps</b>			
£20,000,000 Pay 0.785% Receive VAR Feb 2022	355	0.03	
£20,000,000 Pay 0.832% Receive VAR Mar 2022	328	0.03	
£30,000,000 Pay 0.874% Receive VAR Sep 2047	569	0.04	
£45,000,000 Pay 0.96% Receive VAR Mar 2022	554	0.04	
£22,500,000 Pay 0.974% Receive VAR Nov 2046	195	0.02	
£17,500,000 Pay 1.08875% Receive VAR Oct 2022	177	0.02	
£30,000,000 Pay 1.316% Receive VAR Feb 2020	(124)	(0.01)	
£25,000,000 Pay 1.319% Receive VAR Jan 2020	(122)	(0.01)	
£35,000,000 Pay 1.38% Receive VAR Mar 2023	21	0.01	
£60,000,000 Pay 1.49% Receive VAR Feb 2020	(402)	(0.03)	
£75,000,000 Pay 1.71% Receive VAR Oct 2019	(832)	(0.08)	
£50,000,000 Pay 272.9% Receive 3.3475 Sep 2022	(222)	(0.02)	

# M&G UK Inflation Linked Corporate Bond Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at Holding	30.09.18 £'000	30.09.18 %	31.03.18 %
<b>Interest rate futures</b>	<b>1,510</b>	<b>0.13</b>	<b>(0.31)</b>
500 5 Year US Treasury Note Dec 2018	(185)	(0.02)	
(598) 10 Year US Treasury Note Dec 2018	778	0.07	
127 Euro Bund Dec 2018	(214)	(0.02)	
(735) UK Long Gilt Bond Dec 2018	1,008	0.09	
(30) US Ultra Long Treasury Bond Dec 2018	123	0.01	
<b>CURRENCY</b>	<b>(2,021)</b>	<b>(0.18)</b>	<b>0.44</b>
<b>Forward currency contracts</b>	<b>(2,021)</b>	<b>(0.18)</b>	<b>0.44</b>
€3,246,186 Bought for £2,878,357 (expires 17.10.18)	6	0.00	
€(102,097,172) Sold for £90,930,292 (expires 17.10.18)	213	0.02	
\$7,378,522 Bought for £5,602,412 (expires 17.10.18)	52	0.00	
\$(507,713,552) Sold for £386,770,855 (expires 17.10.18)	(2,292)	(0.20)	
<b>Portfolio of investments</b>	<b>1,139,841</b>	<b>99.78</b>	<b>99.47</b>
<b>CASH EQUIVALENTS</b>	<b>8,710</b>	<b>0.76</b>	<b>0.26</b>
<b>'AAA' rated money market funds <sup>[a]</sup></b>	<b>8,710</b>	<b>0.76</b>	<b>0.26</b>
8,710,000 Northern Trust Global Fund - Sterling	8,710	0.76	
<b>Total portfolio</b>	<b>1,148,551</b>	<b>100.54</b>	<b>99.73</b>
<b>Net other assets / (liabilities)</b>	<b>(6,202)</b>	<b>(0.54)</b>	<b>0.27</b>
<b>Net assets attributable to shareholders</b>	<b>1,142,349</b>	<b>100.00</b>	<b>100.00</b>

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

<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.

# M&G UK Inflation Linked Corporate Bond Fund

## Financial highlights

### Fund performance

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

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

We show performance for these two share classes because:

- The performance of the Sterling Class 'A' (Accumulation) share is what most individuals investing directly with M&G have received. It has the highest ongoing charge of all the 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.

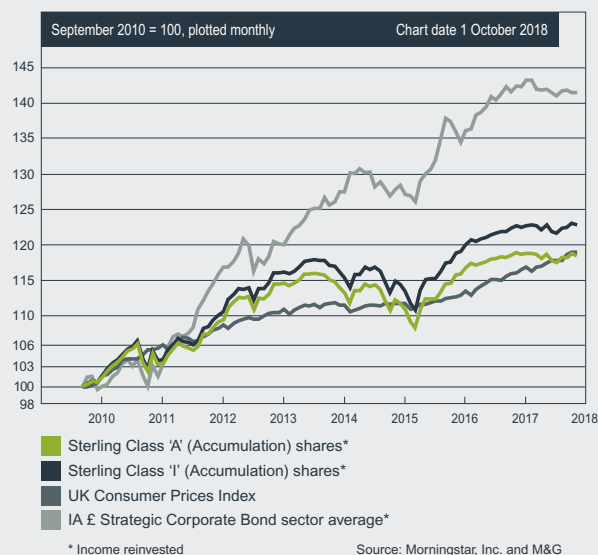
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (10), which is available free of charge either from our website at [www.mandg.co.uk/prospectuses](http://www.mandg.co.uk/prospectuses) or by calling M&G Customer Relations.

### Fund level performance

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

### 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 the performance of the fund, the following table shows the compound rate of return, per annum, over the period. Calculated on a price to price basis with income reinvested.

### Long-term performance by share class

	Six months 03.04.18 % <sup>[a]</sup>	Three years 01.10.15 % p.a.	Five years 01.10.13 % p.a.	Since launch % p.a.
<b>Sterling <sup>[b]</sup></b>				
Class 'A'	+0.3	+2.2	+0.9	+2.1 <sup>[c]</sup>
Class 'I'	+0.5	+2.7	+1.4	+2.6 <sup>[c]</sup>
Class 'R'	+0.4	+2.5	+1.2	+2.0 <sup>[d]</sup>

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

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

<sup>[c]</sup> 16 September 2010, the launch date of the fund.

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

# M&G UK Inflation Linked Corporate Bond Fund

## Financial highlights

### Fund performance

## Operating charges and portfolio transaction costs

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

### Operating charges

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

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

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

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

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

### Portfolio transaction costs

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

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

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

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. 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>
<b>Direct portfolio transaction costs <sup>[b]</sup></b>	%	%	%	%
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
<b>Total direct portfolio transaction costs</b>	<b>0.00</b>	<b>0.00</b>	<b>0.01</b>	<b>0.00</b>
<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>	%	%	%	%
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.

# M&G UK Inflation Linked Corporate Bond Fund

## Financial highlights

### Specific share class performance

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

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

The share class was launched on 16 September 2010.

Change in NAV per share	Six months to 30.09.18 UK p	Year to 31.03.18 UK p	Year to 31.03.17 UK p
Opening NAV	114.53	114.15	109.23
Return before operating charges and after direct portfolio transaction costs	1.05	2.39	7.55
Operating charges	(0.67)	(1.33)	(1.31)
Return after operating charges	0.38	1.06	6.24
Distributions	(0.62)	(0.68)	(1.32)
Closing NAV	114.29	114.53	114.15
<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	1.17	1.16	1.16
Return after operating charges	+0.33	+0.93	+5.71
Distribution yield <sup>[c]</sup>	0.95	0.61	0.91
Effect on yield of charges offset against capital	1.15	1.15	1.15
<b>Other information</b>			
Closing NAV (£'000)	153,265	131,816	91,542
Closing NAV percentage of total fund NAV (%)	13.42	11.06	8.44
Number of shares	134,096,675	115,089,107	80,196,352
Highest share price (UK p)	115.10	115.85	115.28
Lowest share price (UK p)	113.92	114.10	109.32

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

The share class was launched on 16 September 2010.

Change in NAV per share	Six months to 30.09.18 UK p	Year to 31.03.18 UK p	Year to 31.03.17 UK p
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>	<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	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
<b>Other information</b>			
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

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

The share class was launched on 16 September 2010.

Change in NAV per share	Six months to 30.09.18 UK p	Year to 31.03.18 UK p	Year to 31.03.17 UK p
Opening NAV	116.65	115.69	110.39
Return before operating charges and after direct portfolio transaction costs	1.08	2.42	7.63
Operating charges	(0.39)	(0.77)	(0.76)
Return after operating charges	0.69	1.65	6.87
Distributions	(0.63)	(0.69)	(1.57)
Closing NAV	116.71	116.65	115.69
<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	+6.22
Distribution yield <sup>[c]</sup>	0.95	0.61	0.91
Effect on yield of charges offset against capital	0.65	0.65	0.65
<b>Other information</b>			
Closing NAV (£'000)	507,056	553,103	494,005
Closing NAV percentage of total fund NAV (%)	44.39	46.39	45.53
Number of shares	434,470,043	474,150,953	427,021,439
Highest share price (UK p)	117.52	117.81	116.82
Lowest share price (UK p)	116.18	115.67	110.53



# M&G UK Inflation Linked Corporate Bond Fund

## Financial highlights

### Specific share class performance

#### Sterling Class 'T' 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
<b>Other information</b>			
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

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

The share class was launched on 3 August 2012.

	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	110.36	109.72	104.85
Return before operating charges and after direct portfolio transaction costs	1.02	2.29	7.24
Operating charges	(0.51)	(1.00)	(0.99)
Return after operating charges	0.51	1.29	6.25
Distributions	(0.60)	(0.65)	(1.38)
Closing NAV	110.27	110.36	109.72
<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	0.91	0.91	0.91
Return after operating charges	+0.46	+1.18	+5.96
Distribution yield <sup>[c]</sup>	0.95	0.62	0.91
Effect on yield of charges offset against capital	0.90	0.90	0.90
<b>Other information</b>			
Closing NAV (£'000)	501	522	577
Closing NAV percentage of total fund NAV (%)	0.04	0.04	0.05
Number of shares	454,601	472,989	525,726
Highest share price (UK p)	111.05	111.52	110.79
Lowest share price (UK p)	109.84	109.68	104.98

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

The share class was launched on 3 August 2012.

	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	112.65	111.34	105.18
Return before operating charges and after direct portfolio transaction costs	1.04	2.33	7.27
Operating charges	(0.52)	(1.02)	(0.99)
Return after operating charges	0.52	1.31	6.28
Distributions	(0.12)	0.00	(0.81)
Retained distributions	0.12	0.00	0.69
Closing NAV	113.17	112.65	111.34
<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	0.91	0.91	0.91
Return after operating charges	+0.46	+1.18	+5.97
Distribution yield	0.05	0.00	0.01
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	906	861	738
Closing NAV percentage of total fund NAV (%)	0.08	0.07	0.07
Number of shares	800,242	763,965	662,738
Highest share price (UK p)	113.35	113.51	111.71
Lowest share price (UK p)	112.12	111.30	105.27

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

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

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

# M&G UK Inflation Linked Corporate Bond Fund

## Financial statements and notes

### Financial statements

#### Statement of total return

for the six months to 30 September	2018		2017	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		(6,638)		12,069
Revenue	17,091		6,686	
Expenses	(4,318)		(3,979)	
Net revenue / (expense) before taxation	12,773		2,707	
Taxation	(6)		(40)	
Net revenue / (expense) after taxation		12,767		2,667
<b>Total return before distributions</b>		<b>6,129</b>		<b>14,736</b>
Distributions		(4,593)		(1,839)
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>1,536</b>		<b>12,897</b>

#### Statement of change in net assets attributable to shareholders

for the six months to 30 September	2018		2017	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		1,192,190		1,085,121
Amounts received on issue of shares	49,338		93,522	
Amounts paid on cancellation of shares	(101,798)		(81,590)	
		(52,460)		11,932
Dilution adjustments		106		162
Change in net assets attributable to shareholders from investment activities (see above)		1,536		12,897
Retained distributions on Accumulation shares		977		0
<b>Closing net assets attributable to shareholders</b>		<b>1,142,349</b>		<b>1,110,112</b>

The opening net assets attributable to shareholders for 2018 differs to the closing position in 2017 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

#### Balance sheet

as at	30 September 2018	31 March 2018
	£'000	£'000
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	1,145,608	1,193,372
<b>Current assets</b>		
Debtors	10,956	8,236
Cash and bank balances	3,608	7,322
Cash equivalents	8,710	3,133
<b>Total assets</b>	<b>1,168,882</b>	<b>1,212,063</b>
<b>Liabilities</b>		
Investment liabilities	(5,767)	(7,489)
<b>Creditors</b>		
Bank overdrafts	0	(358)
Overdrawn positions at futures clearing houses and collateral manager	(342)	0
Distribution payable	(3,594)	(1,959)
Other creditors	(16,830)	(10,067)
<b>Total liabilities</b>	<b>(26,533)</b>	<b>(19,873)</b>
<b>Net assets attributable to shareholders</b>	<b>1,142,349</b>	<b>1,192,190</b>

### Notes to the financial statements

#### Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 2.

#### Distribution policy

In determining the amount available for distribution to Income shares, the annual management charge and administration charge are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

In determining the amount available for distribution, a transfer has been made between revenue and capital to disregard the change in the Retail Prices Index during the period in respect of interest from index-linked gilt-edged securities. This is to contribute to the preservation of the share value in real terms.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



# Glossary

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

**Safe-haven assets:** Refers to assets that investors perceive to be relatively safe from suffering a loss in times of market turmoil.

**Security:** Financial term for a paper asset – usually a share in a company or a fixed income security also known as a bond.

**Share class:** Each M&G fund has different share classes, such as A, R and I. Each has a different level of charges and minimum investment. Details on charges and minimum investments can be found in the Key Investor Information Documents.

**Share class hedging:** Activities undertaken in respect of hedged shares to mitigate the impact on performance of exchange rate movements between the fund's currency exposure and the investor's chosen currency.

**Short position:** A way for a fund manager to express his or her view that the market might fall in value.

**Short selling:** This often refers to the practice whereby an investor sells an asset they do not own. The investor borrows the asset from someone who does own it and pays a fee. The investor must eventually return the borrowed asset by buying it in the open market. If the asset has fallen in price, the investor buys it for less than they sold it for, thus making a profit. The contrary may also occur.

**Short-dated corporate bonds:** Fixed income securities issued by companies and repaid over relatively short periods.

**Short-dated government bonds:** Fixed income securities issued by governments and repaid over relatively short periods.

**Sovereign debt:** Debt of a government. Also referred to as government bonds.

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

**Top-down investing:** An investment approach that analyses economic factors, ie surveys the 'big picture', before selecting which companies to invest in. The top-down investor will look at which industries are likely to generate the best returns in certain economic conditions and limit the search to that area.

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

**Treasuries:** Fixed income securities issued by the US government.

**Triple A or AAA rated:** The highest possible rating a fixed income security, also called a bond, can be assigned by credit rating agencies. Bonds that are rated AAA are perceived to have the lowest risk of default. Default means that a company or government is unable to meet interest payments or repay the initial investment amount at the end of a security's life.

**UCITS:** Stands for Undertakings for Collective Investment in Transferable Securities. This is the European regulatory framework for an investment vehicle that can be marketed across the European Union and is designed to enhance the single market in financial assets while maintaining high levels of investor protection.

**Unconstrained:** The term used to describe the mandate of a fund whereby the manager has the freedom to invest according to his or her own strategy, not being obliged to allocate capital according to the weightings of any index, for example.

**Underlying value:** The fundamental value of a company, reflecting both tangible and intangible assets, rather than the current market value.

**Underlying yield:** Refers to the income received by a managed fund, and is usually expressed annually as a percentage based on the fund's current value.

**Underweight:** If a portfolio is 'underweight' a stock, it holds a smaller proportion of that stock than the comparable index or sector.

**Unit trust:** A type of managed fund, whose value is directly linked to the value of the fund's underlying investments.

**Unit/share type:** Type of units/shares held by investors in a trust or fund (unit/share types differ by features such as whether income is to be paid out as cash or reinvested on the payment date).

**Valuation:** The worth of an asset or company based on its current price.

**Volatile:** When the value of a particular share, market or sector swings up and down fairly frequently and/or significantly, it is considered volatile.

**Volatility:** The degree to which a given security, fund, or index rapidly changes. It is calculated as the degree of deviation from the norm for that type of investment over a given time period. The higher the volatility, the riskier the security tends to be.

**Warrant:** A security issued by a company that gives the holder the right to buy shares in that company at a specified price and within a certain timeframe.

**Yield:** This refers to either the interest received from a fixed income security or to the dividends received from a share. It is usually expressed as a percentage based on the investment's costs, its current market value or its face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

**Yield (equity):** Refers to the dividends received by a holder of company shares and is usually expressed annually as a percentage based on the investment's cost, its current market value or face value. Dividends represent a share in the profits of the company and are paid out to a company's shareholders at set times of the year.

**Yield (bonds):** This refers to the interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.

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

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