

# M&G Optimal Income Fund

Interim Long Report and unaudited Financial Statements  
for the six months ended 31 March 2017



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# M&G Optimal Income Fund

## Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Optimal Income Fund presents its Interim Long Report and unaudited Financial Statements for the six months ended 31 March 2017.

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

### Company information

This Open-Ended Investment Company (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 Financial Conduct Authority (FCA) under the Financial Services and Markets Act 2000. The Company 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 FCA.

The Company was authorised on 17 November 2006 and the fund was launched on 8 December 2006.

The Company's principal activity is to carry on business as an 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 manager

Richard Woolnough is employed by M&G Limited which is an associate of M&G Securities Limited.

### 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

W J Nott (Chief Executive),  
G N Cotton, P R Jelfs, G W MacDowall, L J Mumford

### 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

International Financial Data Services (UK) Limited,  
IFDS House, St. Nicholas Lane, Basildon, Essex SS15 5FS, UK  
(Authorised and regulated by the Financial Conduct Authority)

### Depository

National Westminster Bank Plc, Trustee & Depository Services,  
Younger Building, 3 Redheughs Avenue, Edinburgh EH12 9RH, UK  
(Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority)

### Independent auditor

Ernst & Young LLP  
Ten George Street, Edinburgh EH2 2DZ, UK

### Important information

Please note that with effect from 16 December 2016:

- we have discounted the initial charge to zero on all new investments into sterling share classes that currently carry such a charge.
- we have waived the exit charges on future withdrawals from all Sterling Class 'X' shares.
- we have discounted the annual management charge (AMC) for the Sterling Class 'X' shares from 1.50% to 1.25%.

### Investor information

The Prospectus, Instrument of Incorporation, Key Investor Information Documents, 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 Depository.

### 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.

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

M&G International Investments Limited,  
mainBuilding, Taunusanlage 19, 60325 Frankfurt am Main, Germany  
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: +49 69 1338 6767

Email: [iocs@mandg.co.uk](mailto:iocs@mandg.co.uk)

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

### Austrian paying and information agent:

Société Générale, Vienna Branch,  
Prinz Eugen-Strasse 8-10/5/Top 11, 1040 Wien, Austria

# M&G Optimal Income Fund

## Authorised Corporate Director's Report

### Investor information

#### Belgian financial agent:

Société Générale Private Banking NV,  
Kortrijksesteenweg 302, 9000 Gent, Belgium

#### Danish representative agent:

Nordea Bank Danmark A/S,  
Client Relations DK, Investor Services & Solutions,  
Postbox 850, Reg.no.6428. HH. 6.1., 0900 København C, Denmark

#### French centralising agent:

RBC Investor Services, Bank France S.A.,  
105 rue Réaumur, 75002 Paris, France

#### German information agent:

M&G International Investments Limited,  
mainBuilding, Taunusanlage 19, 60325 Frankfurt am Main, Germany

#### Greek paying agent and distributor:

Eurobank Ergasias S.A.,  
8, Othonos Street, 10557 Athens, Greece

#### Irish facilities agent:

Société Générale S.A., Dublin Branch,  
3rd Floor IFSC House – The IFSC, Dublin 1, Ireland

#### Italian paying agents:

Allfunds Bank, S.A.,  
Via Santa Margherita 7, 20121 Milano, Italy

Banca Monte dei Paschi di Siena S.p.A.,  
Piazza Salimbeni 3, 53100 Siena, Italy

Banca Sella Holding S.p.A.,  
Piazza Gaudenzio Sella 1, 13900 Biella, Italy

BNP PARIBAS Securities Services,  
Via Ansperto 5, 20123 Milano, Italy

RBC Investor Services Bank S.A., Milan Branch  
Via Vittor Pisani 26, 20124 Milano, Italy

State Street Bank S.p.A.,  
Via Ferrante Aporti 10, 20125 Milano, Italy

Société Générale Securities Services S.A.,  
Via Benigno Crespi 19A - MAC 2, 20159 Milano, Italy

#### Luxembourg paying and information agent:

Société Générale Bank & Trust S.A.,  
Centre opérationnel, 28-32, place de la Gare, 1616 Luxembourg,  
Grand Duchy of Luxembourg

#### Portuguese distributor:

Best - Banco Electrónico de Serviço Total, S.A.,  
Praça Marquês de Pombal, no. 3 - 3º, 1250-161 Lisboa, Portugal

#### Spanish representative:

Allfunds Bank, S.A.,  
Calle Estafeta, No 6 Complejo Plaza de la Fuente,  
La Moraleja 28109, Alcobendas, Madrid, Spain

#### Swedish paying agent:

Nordea Bank AB (publ),  
Smålandsgatan 17, 105 71 Stockholm, Sweden

#### Swiss paying agent and representative:

Société Générale, Paris, Zurich Branch,  
Talacker 50, P.O. Box 5070, 8021 Zurich, Switzerland

## Authorised Corporate Director's Responsibilities

The Authorised Corporate Director (ACD) is required to prepare annual and interim long and short reports for the Company. The ACD must ensure that the financial statements, contained in the Long Report, for the fund 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.

# M&G Optimal Income Fund

## Authorised Corporate Director's Report

### Investment objective

The fund aims to provide a total return (the combination of income and growth of capital) to investors based on exposure to optimal income streams in investment markets.

### Investment policy

The fund aims to provide a total return (the combination of income and growth of capital) to investors through strategic asset allocation and specific stock selection. The fund will be at least 50% invested in debt instruments, but may also invest in other assets including collective investment schemes, money market instruments, cash, near cash, deposits, equities and derivatives. Derivative instruments may be used for both investment purposes and efficient portfolio management.

### Investment approach

The M&G Optimal Income Fund is a flexible bond fund, allowing investment across a broad range of fixed income assets according to where the fund manager identifies value. The investment approach begins with a top-down assessment of the macroeconomic environment, including the likely path of growth, inflation and interest rates. The results of this analysis help inform the fund's duration positioning and its allocation to the various bond asset classes. Individual credit selection is carried out in conjunction with M&G's in-house team of credit specialists, which provides bottom-up analysis of the corporate bond markets to complement the fund manager's views.

There are no restrictions on the amount of government bonds, investment grade bonds or high yield bonds that can be held within the portfolio. The fund may also invest in other assets, including cash, equities and derivatives. Derivative instruments may be used for both investment purposes and efficient portfolio management.

### Risk profile

The fund is a flexible bond fund which invests in a range of fixed income securities. In addition, up to 20% of the portfolio may be invested in company shares when the fund manager believes they offer better value than bonds. The fund is therefore subject to the price volatility of global bond and stockmarkets as well as the performance of individual companies. The fund is also subject to fluctuations in currency exchange rates.

There are no restrictions on the amount of government bonds, investment grade bonds or high yield bonds that can be held within the portfolio. While government and investment grade bonds are generally highly liquid assets that are normally traded with relative ease, high yield corporate bonds are higher risk assets that could potentially experience a degree of illiquidity in times of market distress. The fund's exposure to company shares is typically through large companies, where the shares are normally traded with relative ease.

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

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

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



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 3 April 2017, for the six months ended 31 March 2017**

#### Performance against objective

Between 3 October 2016 and 3 April 2017, the M&G Optimal Income Fund produced a positive total return (the combination of income and growth of capital) across all its different share classes.<sup>[a]</sup>

The majority of the M&G Optimal Income Fund's holdings are split between high quality, or investment grade, corporate bonds and high yielding corporate bonds, with a smaller allocation to government bonds, as these typically provide liquidity and stability in uncertain 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'. Investment grade corporate bonds refer to 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 of non-repayment than those issued by companies with lower credit ratings (known as high yield bonds). The performance of investment grade corporate bond markets can be influenced by the performance of government bonds.

#### Investment performance

As the review period began in October, a few months after the UK's momentous vote in favour of leaving the European Union (EU), the Bank of England had just begun a new programme of buying selected corporate bonds, one of several measures it had announced in August to mitigate any potential negative consequences of the 'Brexit' vote.

# M&G Optimal Income Fund

## Authorised Corporate Director's Report

### Investment review

#### Investment performance (continued)

The bond-buying programme aimed to keep interest rates low and promote lending activity.

Brexit-related uncertainty – over the timing and exact form that the country's departure from the EU might take – was a significant driver of market movements for the remainder of 2016. In November, the government lost a landmark legal case on whether it had the right to trigger Article 50 to begin the process of taking the country out of the European Union using what are known as 'prerogative powers' rather than needing an act of Parliament. Although the Supreme Court then upheld the ruling in January 2017, the government swiftly began work to pass legislation through parliament that would enable Prime Minister Theresa May to trigger Article 50 by the end of March as originally planned.

The final months of 2016 delivered further political surprises, the most significant of which was Donald Trump's US presidential election victory in November. The result caused US government bonds (also known as US Treasuries) to suffer their worst month in seven years. However, it did not deter the US Federal Reserve from completing only its second interest rate hike in more than 10 years a few weeks later in December (a second rise followed just three months later in March 2017). Also in December, a resounding 'No' result in Italy's referendum on sweeping constitutional reform caused Prime Minister Matteo Renzi to resign.

Politics continued to dominate financial markets in early 2017, with Dutch parliamentary elections, the UK's formal triggering of Article 50, and the run-up to hotly contested presidential elections in France, among the main events. This took place against a backdrop of broadly positive economic data releases, indicating that the global economy is in good health.

Many parts of the global bond markets came under pressure during the six-month period. The fall in bond prices in turn drove up yields on many government bonds, particularly in the last quarter of 2016. (Bond yield 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. Yields typically move in the opposite direction to bond prices.) However, in the high yield bond market, investors generally shrugged off these concerns, and the asset class delivered positive returns over the period.

Despite this volatility, the M&G Optimal Income Fund generated a positive return across all of its share classes.

#### Investment activities

We adjust the positioning of the M&G Optimal Income Fund to reflect changes in our outlook regarding interest rates, credit risk (companies' ability to repay their debts) and changes in relative value among the different fixed income asset classes.

One of the key drivers of the fund's performance is the ability to reduce or increase the portfolio's sensitivity to changes in bond yields, otherwise known as 'duration'. The longer the duration, the more sensitive a bond/bond fund is to movements in interest rates. We held the fund's duration short (between 2.2 and 2.7 years) during the entire period, as we believe that the more likely direction of interest rates over the medium term is upwards, finishing at 2.2 years at the end of March 2017.

We continued to find value in investment grade bonds denominated in US dollars, particularly in the very active new issue market. We also found value in bonds issued by a number of banks and insurance companies, particularly those in Europe. We believe these look attractively priced from a historical perspective, as they have been negatively affected by uncertainty about political developments in the region.

In early 2017, we reduced the fund's exposure to high yield bonds from around one third of the portfolio to closer to 20%. High yield bonds had performed very well over a sustained period, and we considered that, as a result, they looked less attractive compared to bonds from investment grade issuers.

We are able to invest a portion of the fund (up to 20%) in shares if we believe a company's stocks (equities) present a more attractive investment opportunity relative to its bonds. We had an exposure of around 5% to equities for much of the reporting period, which fell slightly to around 3.6% by the end of March after we reduced our holdings in several stocks that had performed particularly well.

#### Outlook

We believe we are entering a period of normalisation; growth and inflation are back and central banks are adjusting their policies accordingly. We have been positioning the fund for this.

We believe that US and UK politics will remain key throughout 2017, while there is a heavy political calendar in Europe this year that is also exerting an influence on markets. President Trump's policies of reducing taxation and encouraging companies to repatriate funds currently held offshore should prove supportive for US corporate bond markets. But the biggest danger to markets is Trump's unpredictability – something that markets and investors will have to get used to.

Yet while President Trump may be able to stop the march of globalisation partially, from a US perspective, we expect that this theme will remain intact, albeit less aggressively. Meanwhile, although UK Prime Minister Theresa May is pushing for a 'hard' Brexit, it will be several years until any deal is concluded and until then, the UK's economy is working at full capacity.

We believe that the global economy remains in reasonable health, and company default rates remain low. As a result, we remain positive on corporate bonds, especially issues from US companies. By contrast, we remain cautious on government bonds. We believe that further interest rate rises in the US are likely this year, as the US Federal Reserve tries to control rising inflation there.

**Richard Woolnough**  
Fund manager

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

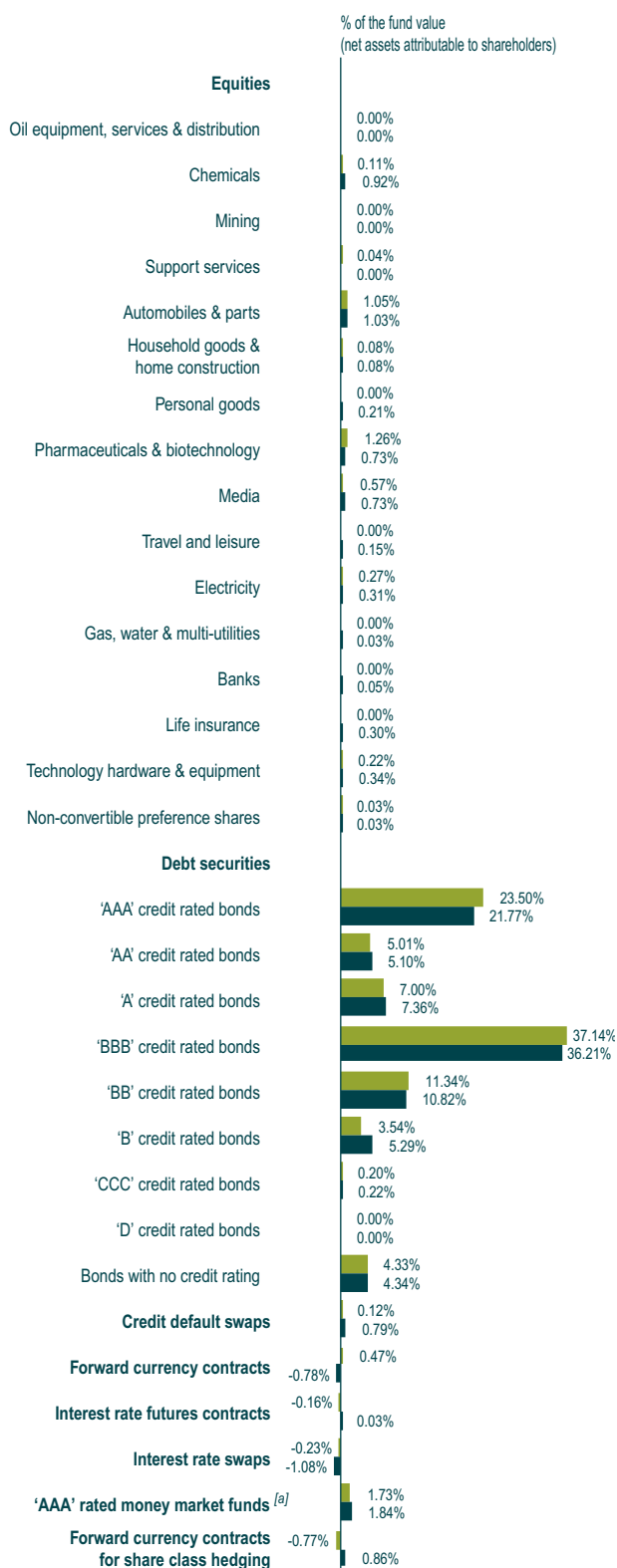
<sup>[a]</sup> For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Fund performance' section of this report.

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 Optimal Income Fund

## Authorised Corporate Director's Report

### Classification of investments



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

■ 31 March 2017  
■ 30 September 2016

Source: M&G

### Investments

#### Portfolio statement

as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>Equities</b>	<b>630,293</b>	<b>3.63</b>	<b>4.91</b>
<b>Oil equipment, services &amp; distribution</b>	<b>321</b>	<b>0.00</b>	<b>0.00</b>
3,177 Seventy Seven Energy	107	0.00	
17,254 Seventy Seven Energy wts. 2021	214	0.00	
<b>Chemicals</b>	<b>18,322</b>	<b>0.11</b>	<b>0.92</b>
250,000 LyondellBasell	18,322	0.11	
<b>Mining</b>	<b>8</b>	<b>0.00</b>	<b>0.00</b>
16,891,144 New World Resources <sup>[a]</sup>	8	0.00	
<b>Support services</b>	<b>7,012</b>	<b>0.04</b>	<b>0.00</b>
800,000 Babcock International Group	7,012	0.04	
<b>Automobiles &amp; parts</b>	<b>183,476</b>	<b>1.05</b>	<b>1.03</b>
700,000 Bayerische Motoren Werke	51,129	0.29	
1,000,000 Daimler	59,164	0.34	
5,000,000 Ford Motor	46,899	0.27	
750,000 Magna International	26,284	0.15	
<b>Household goods &amp; home construction</b>	<b>13,665</b>	<b>0.08</b>	<b>0.08</b>
100,000 Whirlpool	13,665	0.08	
<b>Personal goods</b>	<b>0</b>	<b>0.00</b>	<b>0.21</b>
<b>Pharmaceuticals &amp; biotechnology</b>	<b>217,804</b>	<b>1.26</b>	<b>0.73</b>
450,000 AbbVie	23,652	0.14	
400,000 AstraZeneca	19,694	0.11	
850,000 Novartis (Regd.)	51,017	0.29	
305,960 Pfizer	8,437	0.05	
215,000 Roche Holding 'Genusschein'	44,406	0.26	
650,000 Sanofi	46,948	0.27	
500,000 Shire	23,650	0.14	
<b>Media</b>	<b>100,163</b>	<b>0.57</b>	<b>0.73</b>
600,000 Publicis Groupe	33,404	0.19	
2,000,000 Sky	19,520	0.11	
600,000 Time Warner	47,239	0.27	
<b>Travel and leisure</b>	<b>0</b>	<b>0.00</b>	<b>0.15</b>
<b>Electricity</b>	<b>46,816</b>	<b>0.27</b>	<b>0.31</b>
3,200,000 SSE	46,816	0.27	
<b>Gas, water &amp; multi-utilities</b>	<b>0</b>	<b>0.00</b>	<b>0.03</b>
<b>Banks</b>	<b>0</b>	<b>0.00</b>	<b>0.05</b>
<b>Life insurance</b>	<b>0</b>	<b>0.00</b>	<b>0.30</b>
<b>Technology hardware &amp; equipment</b>	<b>37,933</b>	<b>0.22</b>	<b>0.34</b>
1,400,000 Cisco Systems	37,933	0.22	
<b>Non-convertible preference shares</b>	<b>4,773</b>	<b>0.03</b>	<b>0.03</b>
3,700,000 Standard Chartered 8.25% Non-cum. Irrd. Pref.	4,773	0.03	
<b>Debt securities</b>	<b>15,967,948</b>	<b>92.06</b>	<b>91.11</b>
<b>'AAA' credit rated bonds</b>	<b>4,076,113</b>	<b>23.50</b>	<b>21.77</b>
£461,108 Alba FRN 2042 05-1A3	434	0.00	
£1,526,320 Alba FRN 2049	1,533	0.01	
£30,000,000 Bank of Scotland 4.875% 2024	37,329	0.22	
£5,515,146 Broadgate Financing FRN 2032	5,314	0.03	
£6,287,959 Dukinfield FRN 2052	6,345	0.04	
£5,997,000 European Investment Bank 3.75% 2027	7,290	0.04	
£50,000,000 European Investment Bank FRN 2022	49,812	0.29	
£2,484,138 First Flexible No.5 FRN 2034	2,415	0.01	
€550,000,000 Germany (Federal Republic of) 0.25% 2018	476,443	2.75	

# M&G Optimal Income Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %	
<b>'AAA' credit rated bonds (continued)</b>				
€200,000,000 Germany (Federal Republic of) 0.5% 2017	171,502	0.99		
€750,000,000 Germany (Federal Republic of) 0.5% Snr. 2017	647,398	3.73		
€525,000,000 Germany (Federal Republic of) 0.5% 2018	454,939	2.62		
€400,000,000 Germany (Federal Republic of) 0.75% IL 2018	373,343	2.15		
€475,000,000 Germany (Federal Republic of) 1% 2018	418,391	2.41		
€250,000,000 Germany (Federal Republic of) 1.75% IL 2020	259,872	1.50		
€400,000,000 Germany (Federal Republic of) 4.25% 2018	364,584	2.10		
€10,135,000 Harvest CLO VIII FRN 2026 'D'	8,693	0.05		
£34,276,912 Hawksmoor Mortgages FRN 2053	34,678	0.20		
€10,000,000 Johnson & Johnson 0.25% 2022	8,584	0.05		
£6,099,170 Lanark Master Issuer FRN 2054	6,157	0.04		
\$34,930,000 Microsoft 3.3% 2027	28,375	0.16		
\$100,000,000 Microsoft 3.45% 2036	75,926	0.44		
\$20,000,000 Microsoft 3.5% 2035	15,371	0.09		
\$20,000,000 Microsoft 3.7% 2046	15,014	0.09		
\$150,000,000 Microsoft 3.95% 2056	111,639	0.64		
\$200,000,000 Microsoft 4% 2055	150,873	0.87		
\$25,000,000 Microsoft 4.1% 2037	20,581	0.12		
\$15,000,000 Microsoft 4.5% 2040	12,878	0.08		
\$80,000,000 Microsoft 4.5% 2057	65,863	0.38		
\$100,000,000 Microsoft 4.75% 2055	85,629	0.49		
£10,587,466 Moorgate Funding FRN 2050 14-1	10,612	0.06		
£8,925,000 NewDay Partnership Funding FRN 2025 14-2A	8,932	0.05		
£721,177 Paragon Mortgages No.11 FRN 2041 A2A	677	0.00		
€3,795,670 Paragon Mortgages No.11 FRN 2041 A2B	3,104	0.02		
€9,220,116 Paragon Mortgages No.12 FRN 2038 A2B	7,526	0.04		
\$14,060,384 Paragon Mortgages No.14 FRN 2039 A2C	10,525	0.06		
\$5,162,351 Paragon Mortgages No.15 FRN 2039 A2C	3,880	0.02		
£2,054,526 Paragon Mortgages No.19 FRN 2041	2,055	0.01		
£11,959,000 Penarth Master Issuer FRN 2022 A	11,984	0.07		
£3,645,861 Precise Mortgage Fund No.2 FRN 2047 B	3,650	0.02		
£1,223,803 Precise Mortgage Funding FRN 2047	1,224	0.01		
£3,092,985 Precise Mortgage Funding FRN 2048	3,101	0.02		
£1,188,653 Residential Mortgage Securities No. 26 FRN 2041	1,221	0.01		
£5,368,845 Residential Mortgage Securities No. 28 FRN 2046 A	5,404	0.03		
£3,971,713 Resimac UK RMBS No.1 A FRN 2045	3,963	0.02		
£10,191,776 Rochester Financing No.1 FRN 2046	10,239	0.06		
£29,987,457 Slate FRN 2052	30,155	0.17		
£1,325,159 Tenterden Funding FRN 2044	1,327	0.01		
£6,860,244 THRONES Mortgages FRN 2049 A	6,826	0.04		
£9,754,580 Towd Point Mortgage Funding FRN 2045	9,802	0.06		
£8,716,128 Trinity Square FRN 2051	8,806	0.05		
£6,190,914 Warwick Finance Residential Mortgage FRN 2049 01-A	6,210	0.04		
£7,655,104 Warwick Finance Residential Mortgage FRN 2049 02-A	7,685	0.04		

### Portfolio statement (continued)

as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>'AA' credit rated bonds</b>			
£2,440,805 Alba FRN 2037 06-1B	2,228	0.01	
£20,000,000 Apple 3.05% 2029	21,991	0.13	
\$12,000,000 Apple 3.45% 2045	8,569	0.05	
\$35,000,000 Apple 4.65% 2046	29,969	0.17	
€18,035,578 AyT Hipotecario Mixto FRN 2041	14,853	0.09	
€10,000,000 Coca-Cola FRN 2019	8,611	0.05	
€14,634,000 Colgate-Palmolive FRN 2019	12,596	0.07	
€14,571,000 Deutsche Bahn Finance FRN 2023	12,663	0.07	
€200,000,000 France (Govt. of) 0% 2020	172,996	1.00	
€25,000,000 France (Govt. of) 1.75% 2066	18,574	0.11	
€100,000,000 France (Govt. of) 3.75% 2021	99,268	0.57	
€15,000,000 GE Capital European Funding FRN 2020	12,918	0.07	
£160,410 General Electric Capital 6.44% 2022	184	0.00	
€10,000,000 General Electric FRN 2020	8,613	0.05	
£21,765,000 Land Securities Capital Markets Var. Rate 2026 (1.974%)	22,339	0.13	
£37,000,000 Land Securities Capital Markets Var. Rate 2027 A5 (5.391%)	47,288	0.27	
£8,858,000 Land Securities Capital Markets Var. Rate 2031 (2.399%)	9,255	0.05	
€3,880,000 Paragon Mortgages No.10 FRN 2041 A2B	3,146	0.02	
£190,098 Paragon Mortgages No.10 FRN 2041 B1A	170	0.00	
€1,080,273 Paragon Mortgages No.11 FRN 2041	830	0.00	
£1,315,232 Paragon Mortgages No.11 FRN 2041 B1A	1,176	0.01	
€4,004,393 Paragon Mortgages No.13 FRN 2039 A2B	3,263	0.02	
€1,470,401 Paragon Mortgages No.13 FRN 2039 A2B	1,200	0.01	
\$7,623,015 Paragon Mortgages No.13 FRN 2041 A2C	5,671	0.03	
€1,000,000 Paragon Mortgages No.15 FRN 2039 B1B	707	0.00	
\$15,000,000 Pfizer 7.2% 2039	17,117	0.10	
€11,029,000 Pfizer FRN 2019	9,496	0.06	
\$5,000,000 Security Capital Group 7.7% 2028	5,497	0.03	
£2,500,000 Slate No.1 FRN 2051 'C'	2,454	0.01	
£20,326,000 Slate No.1 FRN 2051 'B'	20,053	0.12	
£20,000,000 SLM Student Loan Trust 5.15% 2039	18,254	0.11	
£14,000,000 SNCF 5.375% 2027	18,228	0.11	
£14,441,000 Towd Point Mortgage Funding FRN 2046	14,484	0.08	
£3,400,000 Toyota Motor Credit 2.413% IL 2017	4,464	0.03	
€28,000,000 Toyota Motor Credit FRN 2018	24,076	0.14	
€100,000,000 Treasury 1% 2017	100,420	0.58	
€100,000,000 Treasury 5% 2018	104,534	0.60	
£5,000,000 Trinity Square 15-1 FRN 2051 'B'	4,974	0.03	
£6,000,000 Warwick Finance Residential Mortgage FRN 2049 01-B	5,872	0.03	
<b>'A' credit rated bonds</b>			
\$1,713,834 Air Canada 4.125% 2026	1,430	0.01	
£7,161,000 Alba FRN 2038	6,766	0.04	
£761,939 Alba FRN 2042 05-1C	672	0.00	
€25,000,000 Allianz Finance II Var. Rate 2041 (5.75%)	25,097	0.14	
€17,500,000 Allianz Finance II Var. Rate 2042 (5.625%)	17,963	0.10	
€15,000,000 Allianz Var. Rate Perp. (3.375%)	13,437	0.08	
\$15,000,000 América Móvil 6.125% 2040	13,981	0.08	
£10,000,000 Amgen 4% 2029	11,372	0.07	
\$60,000,000 Anheuser-Busch InBev 3.65% 2026	48,414	0.28	
\$36,000,000 Anheuser-Busch InBev 4.7% 2036	30,493	0.18	
€3,000,000 Aon 2.875% 2026	2,832	0.02	
	<b>1,213,432</b>	<b>7.00</b>	<b>7.36</b>



# M&G Optimal Income Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>'A' credit rated bonds (continued)</b>			
€6,050,000 Aquarius Plus Investments Var. Rate 2043 (4.25%)	5,855	0.03	
\$20,000,000 BNP Paribas 3.8% 2024	15,966	0.09	
\$13,151,721 British Airways 4.625% 2025	11,222	0.06	
€471,929 Brunel Residential Mortgages No.1 FRN 2039 A4A	404	0.00	
€19,300,000 Cloverie Var. Rate 2039 (7.5%)	19,100	0.11	
€1,000,000 Cloverie Var. Rate 2042 (6.625%)	1,079	0.01	
\$13,893,000 Cloverie Var. Rate 2046 (5.625%)	11,849	0.07	
\$3,600,000 Comcast 4.4% 2035	2,974	0.02	
\$6,000,000 Comcast 6.45% 2037	6,115	0.04	
\$4,500,000 Comcast 6.55% 2039	4,622	0.03	
\$3,500,000 Comcast 6.95% 2037	3,758	0.02	
\$5,783,000 Comcast Cable Communication 8.5% 2027	6,409	0.04	
€3,000,000 Demeter Investment Var. Rate 2046 (3.5%)	2,743	0.02	
€3,000,000 Eaton Capital 0.75% 2024	2,515	0.01	
\$35,000,000 EDF 6% 2114	28,640	0.17	
€21,000,000 EDF 6% 2114	28,619	0.16	
€9,995,000 ELM Var. Rate Perp. (2.6%)	8,412	0.05	
€6,300,000 ELM Var. Rate Perp. (6.3024%)	6,803	0.04	
€899,040 E-MAC NL 2005-III FRN 2038	758	0.00	
€6,000,587 E-MAC Program FRN 2046 A2	4,805	0.03	
\$35,000,000 EMD Finance 3.25% 2025	27,683	0.16	
€23,730,000 ENGIE 5.95% 2111	30,774	0.18	
€1,428,475 Eurosail-UK FRN 2045	1,390	0.01	
€1,167,706 Eurosail-UK FRN 2045 07-1NC	978	0.01	
€4,022,021 Great Hall Mortgages No.1 FRN 2038 A2B	3,383	0.02	
\$8,883,616 Great Hall Mortgages No.1 FRN 2039 AC	6,877	0.04	
€2,558,257 Greene King Finance 4.0643% 2035	2,820	0.02	
€8,105,400 Greene King Finance FRN 2033 A5	7,900	0.05	
\$1,543,317 Hawaiian Airlines 3.9% 2027	1,255	0.01	
€44,600,000 Heathrow Funding 6.75% 2028	61,545	0.35	
€3,250,000 Heathrow Funding Var. Rate 2023 (9.2%)	4,235	0.02	
€4,222,000 Heathrow Funding Var. Rate 2030 (7.075%)	6,138	0.04	
€5,000,000 Honeywell 1.3% 2023	4,464	0.03	
\$4,250,000 HSBC 9.125% 2021	4,160	0.02	
€12,000,000 HSBC Bank 5.375% 2033	15,104	0.09	
€2,000,000 HSBC Bank 6.5% 2023	2,477	0.01	
€8,756,000 HSBC Bank Var. Rate 2030 (5.375%)	10,268	0.06	
€16,000,000 HSBC Holdings 2.625% 2028	15,613	0.09	
\$39,800,000 HSBC Holdings Var. Rate 2028 (4.041%)	32,189	0.19	
€5,500,000 INTU Finance 4.625% 2028	6,460	0.04	
¥14,400,000,000 Japan (Govt. of) 0.1% IL 2026	108,331	0.62	
€6,500,000 Klépierre 1.375% 2027	5,598	0.03	
€276,305 Landmark Mortgage Securities FRN 2038	268	0.00	
€1,584,501 Landmark Mortgage Securities FRN 2039	1,472	0.01	
€10,010,125 Landmark Mortgage Securities FRN 2044	9,496	0.05	
\$8,000,000 Legrande France 8.5% 2025	8,327	0.05	
€11,280,792 Ludgate Funding FRN 2061 (A2A)	10,634	0.06	
€5,728,954 Mansard Mortgages FRN 2049 07-1 A1a	5,564	0.03	

### Portfolio statement (continued)

as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>'A' credit rated bonds (continued)</b>			
€900,000 Marble Arch Residential Securitisation No.4 FRN 2040	751	0.00	
£1,578,448 Marble Arch Residential Securitisation No.4 FRN 2040	1,571	0.01	
£3,398,850 Mitchells & Butlers Finance 5.574% 2030	3,979	0.02	
£1,814,150 Mitchells & Butlers Finance 5.965% 2025	2,037	0.01	
£2,727,989 Mitchells & Butlers Finance 6.013% 2030	3,256	0.02	
\$11,008,650 Mitchells & Butlers Finance FRN 2030	7,824	0.05	
£183,478 Mitchells & Butlers Finance FRN 2030 A1N	164	0.00	
£10,000,000 Mitchells & Butlers Finance FRN 2033	7,700	0.04	
£1,581,030 Money Partners No. 2 FRN 2039 A2A	1,555	0.01	
€996,676 Money Partners No. 2 FRN 2039 M1B	837	0.00	
£1,531,690 Money Partners No. 3 FRN 2039 A2A	1,493	0.01	
£1,672,948 Money Partners Securities FRN 2040	1,635	0.01	
€2,810,580 Mortgages No.6 FRN 2037	2,733	0.02	
€6,575,395 Mortgages No.7 FRN 2038 A2	6,428	0.04	
€2,026,000 Motability Operation Group 2.375% 2032	2,028	0.01	
€10,000,000 Munich Re Finance Var. Rate 2028 (7.625%)	10,727	0.06	
€15,000,000 Munich Re Finance Var. Rate 2042 (6.625%)	17,727	0.10	
€4,000,000 National Grid Electricity Transmission 3.806% IL 2020	7,190	0.04	
£1,864,668 Newgate Funding FRN 2050 A2	1,854	0.01	
£5,365,388 Newgate Funding FRN 2050 A3A	5,086	0.03	
£1,494,194 Newgate Funding FRN 2050 A4	1,440	0.01	
\$11,261,884 Paragon Mortgages No.7 FRN 2034 A1A	8,534	0.05	
€8,000,000 Paragon Mortgages No.13 FRN 2039 B1B	6,006	0.04	
€117,994 Preferred Residential Securities FRN 2040	101	0.00	
€2,530,000 Province of Quebec 12.25% 2020	3,314	0.02	
€2,581,920 Residential Mortgage Securities No.22 FRN 2039 A3C	2,150	0.01	
£1,348,843 RMAC 2005-Ns1 FRN 2037 A2A	1,277	0.01	
€1,509,898 RMAC 2005-Ns1 FRN 2037 A2C	1,241	0.01	
\$410,069 RMAC 2005-Nsp2 FRN 2037 A2B	314	0.00	
€2,585,819 RMAC 2006-Ns1 FRN 2044 A2A	2,451	0.01	
€2,107,985 RMAC 2006-Ns2 FRN 2044 A2C	1,728	0.01	
€27,805,805 RMAC 2006-Ns4 FRN 2044 A3A	26,463	0.15	
€1,506,308 RMAC 2006-Ns4 FRN 2044 M1C	1,169	0.01	
€4,593,226 RMAC Securities No1 FRN 2044 06-NS-3 A2A	4,330	0.02	
€1,418,000 SAP FRN 2018	1,220	0.01	
€5,010,000 SAP FRN 2020	4,311	0.02	
€7,176,000 Society of Lloyds Var. Rate 2047 (4.875%)	7,547	0.04	
€2,500,000 Suncorp Insurance Funding Var. Rate 2027 (6.25%)	2,475	0.01	
€8,446,000 Thames Water Utilities Cayman Var. Rate 2024 (1.875%)	8,519	0.05	
€1,250,000 Thames Water Utilities Finance 3.375% IL 2021	2,292	0.01	
€5,000,000 Thames Water Utilities Finance 6.75% 2028	7,323	0.04	
€10,000,000 Total Var. Rate Perp. (3.369%)	8,465	0.05	
€15,120,000 UBS FRN 2022	12,980	0.07	
€6,000,000 UNITE (USAF) II 3.374% 2023	6,540	0.04	
€2,303,000 UNITE (USAF) II 3.921% 2030	2,630	0.02	
€11,000,000 Wells Fargo 2% 2025	10,871	0.06	

# M&G Optimal Income Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>'A' credit rated bonds (continued)</b>			
£8,493,000 Wells Fargo 2.125% 2023	8,593	0.05	
\$6,000,000 Wells Fargo 3.45% 2023	4,849	0.03	
\$80,000,000 Wells Fargo 4.1% 2026	65,404	0.38	
\$30,000,000 Wells Fargo 4.125% 2023	25,168	0.15	
\$65,000,000 Wells Fargo 4.3% 2027	54,039	0.31	
£3,500,000 Wells Fargo 4.875% 2035	4,288	0.02	
£50,000,000 Wells Fargo 5.25% 2023	59,467	0.34	
£5,500,000 Western Power Distribution 3.875% 2024	6,256	0.04	
£10,000,000 Western Power Distribution 5.25% 2023	11,939	0.07	
£5,000,000 Western Power Distribution 6% 2025	6,537	0.04	
\$2,000,000 Willow No.2 (Ireland) Var. Rate 2045 (4.25%)	1,558	0.01	
£2,000,000 Yorkshire Water Services Odsal Finance 6.5876% 2023	2,560	0.01	
	<b>6,442,502</b>	<b>37.14</b>	<b>36.21</b>
<b>'BBB' credit rated bonds</b>			
£16,000,000 3i Group 6.875% 2023	20,039	0.12	
£5,000,000 3i Group Var. Rate. 2032 (5.75%)	6,516	0.04	
\$28,829,000 Abbott Laboratories 3.75% 2026	23,143	0.13	
\$19,600,000 ABN AMRO Bank Var. Rate 2028 (4.4%)	15,806	0.09	
€10,234,000 Albemarle 1.875% 2021	9,221	0.05	
£22,000,000 América Móvil Var. Rate 2073 (6.375%)	23,478	0.14	
£3,667,000 Anglian Water Services 2.625% 2027	3,686	0.02	
£10,000,000 Anglian Water Services 4.5% 2026	11,585	0.07	
£2,830,000 Annington Finance No.4 8.07% 2023	3,670	0.02	
£4,000,000 APT Pipelines 4.25% 2024	4,490	0.03	
\$25,000,000 AT&T 3.95% 2025	20,193	0.12	
\$10,000,000 AT&T 4.125% 2026	8,111	0.05	
£46,650,000 AT&T 4.25% 2043	50,156	0.29	
\$20,000,000 AT&T 4.3% 2042	14,260	0.08	
\$20,000,000 AT&T 4.35% 2045	14,094	0.08	
£58,000,000 AT&T 4.375% 2029	65,408	0.38	
\$6,000,000 AT&T 4.5% 2035	4,528	0.03	
\$169,581,000 AT&T 4.5% 2048	121,341	0.70	
\$100,237,000 AT&T 4.55% 2049	71,819	0.41	
\$25,000,000 AT&T 4.8% 2044	18,857	0.11	
£37,978,000 AT&T 4.875% 2044	44,593	0.26	
\$6,000,000 AT&T 5.15% 2042	4,761	0.03	
£8,500,000 AT&T 5.2% 2033	10,308	0.06	
\$39,332,000 AT&T 5.25% 2037	32,095	0.19	
\$8,369,000 AT&T 5.35% 2040	6,870	0.04	
\$35,000,000 AT&T 5.45% 2047	28,716	0.17	
\$34,000,000 AT&T 5.65% 2047	28,651	0.17	
\$50,000,000 AT&T 5.7% 2057	41,257	0.24	
\$15,000,000 AT&T 6.35% 2039	13,687	0.08	
\$13,000,000 AT&T 6.375% 2041	11,864	0.07	
£42,250,000 Aviva Var. Rate 2036 (6.125%)	47,447	0.27	
£18,000,000 Aviva Var. Rate 2041 (6.625%)	20,355	0.12	
€12,096,000 Aviva Var. Rate 2044 (3.875%)	10,838	0.06	
£4,953,000 Aviva Var. Rate 2049 (4.375%)	4,804	0.03	
£25,000,000 Aviva Var. Rate 2050 (5.125%)	25,680	0.15	
£35,000,000 Aviva Var. Rate 2058 (6.875%)	42,441	0.24	
£10,000,000 Aviva Var. Rate Perp. (6.125%)	10,883	0.06	
€2,000,000 AXA Var. Rate 2043 (5.125%)	1,994	0.01	
€60,000,000 AXA Var. Rate 2047 (3.375%)	53,298	0.31	
£18,000,000 AXA Var. Rate 2047 (5.125%)	14,834	0.09	
£44,000,000 AXA Var. Rate 2054 (5.625%)	46,663	0.27	

### Portfolio statement (continued)

as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>'BBB' credit rated bonds (continued)</b>			
£10,000,000 AXA Var. Rate Perp. (5.453%)	10,715	0.06	
£18,775,000 AXA Var. Rate Perp. (6.6862%)	20,893	0.12	
£19,668,000 Bank of America 2.3% 2025	19,795	0.11	
\$30,000,000 Bank of America 3.95% 2025	23,937	0.14	
\$15,000,000 Bank of America 4% 2025	12,018	0.07	
\$60,000,000 Bank of America 4.183% 2027	48,129	0.28	
\$30,000,000 Bank of America 4.2% 2024	24,622	0.14	
£7,500,000 Bank of America 4.25% 2026	8,617	0.05	
\$93,334,000 Bank of America 4.25% 2026	75,661	0.44	
\$25,000,000 Bank of America 4.45% 2026	20,558	0.12	
£16,500,000 Bank of America 5.5% 2021	19,081	0.11	
£29,000,000 Bank of America 7% 2028	41,050	0.24	
£12,500,000 Bank of America 8.125% 2028	17,690	0.10	
\$50,000,000 Bank of America Var. Rate 2028 (3.824%)	40,066	0.23	
£17,600,000 Bank of Scotland 9.375% 2021	22,662	0.13	
£22,936,000 Barclays 3.125% 2024	23,534	0.14	
\$4,750,000 Basell Finance 8.1% 2027	5,066	0.03	
£21,000,000 BAT International Finance 4% 2055	25,038	0.14	
€20,000,000 Bayer Var. Rate 2075 (3%)	17,494	0.10	
€9,869,000 Becton Dickinson 1.9% 2026	8,736	0.05	
£12,500,000 BG Energy Capital Var. Rate 2072 (6.5%)	12,943	0.07	
€30,000,000 BNP Paribas 2.25% 2027	25,018	0.14	
€40,500,000 BNP Paribas 2.375% 2025	35,212	0.20	
€15,000,000 BNP Paribas 2.75% 2026	13,218	0.08	
\$70,000,000 BNP Paribas 4.625% 2027	56,162	0.32	
€10,000,000 BNP Paribas 6.125% Perp.	9,043	0.05	
\$10,000,000 BNP Paribas Var. Rate Perp. (6.75%)	8,130	0.05	
\$10,000,000 BNP Paribas Var. Rate Perp. (7.625%)	8,532	0.05	
£7,000,000 Bouygues 5.5% 2026	8,814	0.05	
£27,000,000 BPCE 5.25% 2029	29,713	0.17	
\$48,000,000 British Telecommunications Var. Rate 2030 (9.875%)	57,280	0.33	
\$24,712,000 Capital One Financial 3.75% 2027	19,660	0.11	
\$10,500,000 CBS 4.85% 2042	8,461	0.05	
\$3,000,000 CBS 5.9% 2040	2,739	0.02	
\$7,500,000 Centrica 4% 2023	6,211	0.04	
€13,750,000 Channel Link Enterprises Finance FRN 2050	11,820	0.07	
\$2,696,000 Cimarex Energy 5.875% 2022	2,233	0.01	
\$31,667,000 Citigroup 3.5% 2023	25,463	0.15	
\$10,000,000 Citigroup 4% 2024	8,112	0.05	
\$35,000,000 Citigroup 4.3% 2026	28,244	0.16	
\$32,006,000 Citigroup 4.4% 2025	26,084	0.15	
\$25,000,000 Citigroup 4.45% 2027	20,301	0.12	
\$10,000,000 Citigroup 4.6% 2026	8,229	0.05	
\$14,955,000 Citigroup 5.5% 2025	13,090	0.08	
\$5,000,000 Citigroup 6.625% 2032	4,894	0.03	
€2,500,000 Commerzbank 4% 2026	2,268	0.01	
\$12,000,000 Commerzbank 8.125% 2023	11,258	0.06	
€20,000,000 Crédit Agricole 2.625% 2027	17,408	0.10	
\$20,000,000 Crédit Agricole 4.125% 2027	15,875	0.09	
\$5,000,000 Crédit Agricole 4.375% 2025	3,985	0.02	
€8,000,000 Credit Agricole Var. Rate 2048 (4.75%)	7,159	0.04	
£6,758,000 CRH Finance 4.125% 2029	7,875	0.05	
£6,000,000 CS Group Funding 2.750% 2025	5,996	0.03	
£10,000,000 Daily Mail & General Trust 6.375% 2027	12,148	0.07	
\$12,000,000 Delphi 4.15% 2024	10,057	0.06	
\$2,000,000 Demeter Investments Var. Rate 2050 (5.75%)	1,670	0.01	
\$40,000,000 Deutsche Telekom International Finance 3.6% 2027	31,859	0.18	

# M&G Optimal Income Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>'BBB' credit rated bonds (continued)</b>			
\$14,000,000 Deutsche Telekom International Finance 4.875% 2042	11,911	0.07	
\$49,000,000 Deutsche Telekom International Finance 8.75% 2030	57,357	0.33	
\$16,000,000 Deutsche Telekom International Finance 9.25% 2032	19,946	0.11	
€22,000,000 Deutsche Telekom International Finance FRN 2020	18,933	0.11	
\$7,500,000 E.ON International Finance 6.65% 2038	7,305	0.04	
\$7,000,000 El Paso Pipeline 4.30% 2024	5,698	0.03	
€10,000,000 Elenia Finance 2.875% 2020	9,231	0.05	
€3,091,000 ELM 3.375% 2047	2,674	0.02	
€8,800,000 ELM Var. Rate Perp. (4.75%)	7,949	0.05	
€2,000,000 Enel 5.75% 2037	2,642	0.02	
£2,000,000 Enel Finance International 5.625% 2024	2,436	0.01	
£44,500,000 Enel Finance International 5.75% 2040	59,246	0.34	
\$3,500,000 Enel Finance International 6% 2039	3,199	0.02	
\$2,000,000 Enel Finance International 6.8% 2037	1,986	0.01	
\$29,000,000 Energy Transfer Partners 4.05% 2025	22,940	0.13	
\$2,000,000 Energy Transfer Partners 4.9% 2035	1,521	0.01	
\$10,000,000 Energy Transfer Partners 5.15% 2045	7,520	0.04	
\$3,000,000 Energy Transfer Partners 6.125% 2045	2,556	0.01	
\$14,285,000 Energy Transfer Partners 6.5% 2042	12,453	0.07	
£16,000,000 ENGIE Var. Rate Perp. (4.625%)	16,562	0.10	
£3,143,000 Eversholt Funding 6.697% 2035	4,341	0.03	
€11,483,000 Fastighets AB Balder 1.875% 2025	9,853	0.06	
£3,000,000 Fidelity International 6.75% 2020	3,481	0.02	
£4,000,000 Fidelity International 7.125% 2024	5,107	0.03	
£583,704 First Flexible FRN 2034 (3.19188%)	587	0.00	
\$3,700,000 Ford Motor Company 9.215% 2021	3,683	0.02	
\$23,920,000 Ford Motor Credit 4.389% 2026	19,552	0.11	
£9,845,000 Gatwick Funding 2.625% 2048	9,166	0.05	
£3,000,000 Gatwick Funding 5.25% 2024	3,620	0.02	
£15,000,000 Gatwick Funding 6.125% 2028	19,605	0.11	
\$29,000,000 General Motors Financial 4% 2025	23,325	0.13	
\$10,000,000 General Motors Financial 4% 2026	7,902	0.05	
\$10,000,000 General Motors Financial 5% 2035	7,955	0.05	
\$6,846,000 General Motors Financial 6.6% 2036	6,307	0.04	
£20,000,000 GKN Holdings 5.375% 2022	23,105	0.13	
£5,000,000 GKN Holdings 6.75% 2019	5,651	0.03	
€5,349,000 Goldman Sachs Group 1.25% 2025	4,537	0.03	
£17,500,000 Goldman Sachs Group 4.25% 2026	19,734	0.11	
£34,000,000 Goldman Sachs Group 5.5% 2021	39,231	0.23	
£16,000,000 Goldman Sachs Group 6.875% 2038	22,426	0.13	
£9,300,000 Goldman Sachs Group 7.125% 2025	12,598	0.07	
£16,000,000 Goldman Sachs Group 7.25% 2028	22,569	0.13	
\$2,500,000 Goodman Hong Kong 4.375% 2024	2,080	0.01	
£4,515,000 Grainger 5% 2020	4,973	0.03	
£11,000,000 H.J. Heinz Finance 6.25% 2030	14,333	0.08	
\$30,000,000 HCA Holdings 4.5% 2027	23,959	0.14	
\$14,273,000 HCA Holdings 4.75% 2023	11,877	0.07	
\$25,727,000 HCA Holdings 5% 2024	21,590	0.12	
\$23,077,000 HCA Holdings 5.25% 2025	19,623	0.11	
\$10,000,000 HCA Holdings 5.25% 2026	8,437	0.05	

### Portfolio statement (continued)

as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>'BBB' credit rated bonds (continued)</b>			
\$12,500,000 HCA Holdings 5.875% 2022	11,007	0.06	
\$50,000,000 HCA Holdings 6.5% 2020	43,871	0.25	
\$15,000,000 HCP 3.4% 2025	11,633	0.07	
£10,000,000 Heathrow Funding 7.125% 2024	13,003	0.07	
£1,214,000 Hiscox Var. Rate 2045 (6.125%)	1,308	0.01	
\$20,000,000 HSBC Holdings 4.375% 2026	16,142	0.09	
£45,000,000 HSBC Holdings 6% 2040	55,786	0.32	
£33,000,000 HSBC Holdings 6.75% 2028	41,879	0.24	
£32,000,000 HSBC Holdings 7% 2038	43,822	0.25	
£10,000,000 Iberdrola Finanzas 6% 2022	12,191	0.07	
€7,118,000 Imperial Brands Finance 1.375% 2025	6,117	0.04	
£5,000,000 Imperial Tobacco Finance 5.5% 2026	6,299	0.04	
£19,500,000 Imperial Tobacco Finance 8.125% 2024	26,972	0.16	
£7,000,000 Imperial Tobacco Finance Var. Rate 2022 (9%)	9,406	0.05	
\$20,000,000 ING Bank Var. Rate 2023 (4.125%)	16,363	0.09	
£14,400,000 ING Bank Var. Rate 2023 (6.875%)	15,238	0.09	
£12,000,000 InterContinental Hotels 3.875% 2022	13,200	0.08	
\$18,000,000 International Paper 3% 2027	13,521	0.08	
\$20,000,000 International Paper 4.4% 2047	15,074	0.09	
\$10,000,000 Intesa Sanpaolo 5.25% 2024	8,428	0.05	
£16,861,000 INTU Finance 4.125% 2028	18,904	0.11	
£14,500,000 Italy (Republic of) 5.25% 2034	17,083	0.10	
£64,000,000 Italy (Republic of) 6% 2028	78,867	0.45	
€5,500,000 ITV 2% 2023	4,805	0.03	
\$14,000,000 JPMorgan Chase 3.375% 2023	11,207	0.06	
\$50,000,000 JPMorgan Chase 3.625% 2027	38,830	0.22	
\$110,000,000 JPMorgan Chase 3.875% 2024	89,277	0.51	
\$120,000,000 JPMorgan Chase 4.125% 2026	97,792	0.56	
\$50,000,000 JPMorgan Chase 4.25% 2027	41,057	0.24	
\$15,102,000 Kinder Morgan 4.3% 2025	12,318	0.07	
\$45,000,000 Kinder Morgan 5.05% 2046	34,823	0.20	
\$40,000,000 Kinder Morgan 5.55% 2045	32,735	0.19	
\$4,000,000 Kinder Morgan 5.625% 2023	3,501	0.02	
\$2,500,000 Kinder Morgan 7.75% 2032	2,489	0.01	
\$15,000,000 Kinder Morgan Energy Partners 4.15% 2024	12,169	0.07	
\$15,000,000 Kinder Morgan Energy Partners 4.25% 2024	12,198	0.07	
\$3,500,000 Kinder Morgan Energy Partners 5.8% 2035	2,922	0.02	
\$3,000,000 Kinder Morgan Energy Partners 6.95% 2038	2,772	0.02	
£4,500,000 KPN 5% 2026	5,342	0.03	
£3,000,000 KPN 5.75% 2029	3,850	0.02	
\$40,000,000 KPN 8.375% 2030	42,942	0.25	
€30,000,000 Kraft Heinz 2.25% 2028	25,798	0.15	
£10,000,000 Kraft Heinz 4.125% 2027	11,141	0.06	
£15,000,000 Lear 5.25% 2025	12,744	0.07	
£23,000,000 Legal & General Group 10% IL 2041	30,208	0.17	
£45,000,000 Legal & General Group 5.375% 2045	48,426	0.28	
£41,200,000 Legal & General Group 5.5% 2064	42,193	0.24	
\$30,000,000 Legal & General Group Var. Rate 2047 (5.25%)	24,126	0.14	
£5,670,000 Legal & General Group Var. Rate Perp. (5.875%)	6,003	0.03	
£16,500,000 Liberty Mutual Group 2.75% 2026	15,076	0.09	
£7,500,000 Liverpool Victoria Friendly Society Var. Rate 2043 (6.5%)	7,525	0.04	
£25,000,000 Lloyds Bank 7.625% 2025	33,015	0.19	
£4,500,000 Lloyds Bank Var. Rate 2025 (5.75%)	4,948	0.03	
£27,000,000 Lloyds Bank 9.625% 2023	36,840	0.21	

# M&G Optimal Income Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>'BBB' credit rated bonds (continued)</b>			
€1,500,000 Ludgate Funding FRN 2061	1,091	0.01	
\$6,000,000 LYB International Finance 4.875% 2044	4,995	0.03	
\$15,000,000 LyondellBasell Industries 4.625% 2055	11,270	0.06	
\$4,191,000 Marks & Spencer 7.125% 2037	3,850	0.02	
£750,000 Marston's Issuer Var. Rate 2027 (5.1576%)	751	0.00	
£2,000,000 Marston's Issuer Var. Rate 2032 (5.1774%)	2,234	0.01	
€5,000,000 McDonalds 1.125 2022	4,405	0.03	
£4,000,000 McDonalds 4.125% 2054	4,850	0.03	
£12,000,000 McDonalds 5.875% 2032	16,446	0.09	
\$5,500,000 McDonalds 6.3% 2037	5,478	0.03	
\$12,000,000 McDonalds 6.3% 2038	11,944	0.07	
€200,000 McDonalds FRN 2019	172	0.00	
£5,541,000 McKesson Corporation 3.125% 2029	5,715	0.03	
£72,250,000 Mexico (United Mexican States) 5.625% 2114	71,708	0.41	
\$10,000,000 Mexico (United Mexican States) 5.75% 2110	7,985	0.05	
\$12,000,000 Mizuho Finance (Cayman) 4.6% 2024	10,127	0.06	
£1,000,000 Mondelēz International 3.875% 2045	1,042	0.01	
£850,000 Mondelēz International 4.5% 2035	965	0.01	
\$23,400,000 Monsanto 4.4% 2044	18,222	0.11	
\$22,000,000 Monsanto 4.7% 2064	16,467	0.09	
£20,835,000 Morgan Stanley 2.625% 2027	20,818	0.12	
\$50,000,000 Morgan Stanley 3.625% 2027	39,684	0.23	
\$20,000,000 Morgan Stanley 3.7% 2024	16,290	0.09	
\$15,000,000 Morgan Stanley 3.875% 2024	12,383	0.07	
\$80,000,000 Morgan Stanley 3.95% 2027	63,466	0.37	
\$10,000,000 Morgan Stanley 4.1% 2023	8,290	0.05	
\$75,000,000 Morgan Stanley 4.35% 2026	61,298	0.35	
\$7,000,000 Morgan Stanley 4.875% 2022	6,074	0.04	
\$50,000,000 Morgan Stanley 5% 2025	42,949	0.25	
\$20,000,000 Motorola Solutions 4% 2024	16,000	0.09	
\$10,000,000 Mplx LP 4.875% 2025	8,388	0.05	
€20,000,000 MPT Operating Partnership 3.325% 2025	17,138	0.10	
€4,000,000 Mylan 3.125% 2028	3,592	0.02	
\$11,495,000 Mylan 4.2% 2023	9,458	0.05	
£26,911,000 National Grid 2.125% 2028	26,503	0.15	
\$12,147,000 Nationwide Building Society 4% 2026	9,407	0.05	
€15,000,000 Nationwide Building Society 6.75% 2020	15,374	0.09	
€1,300,294 Newgate Funding FRN 2050	915	0.01	
£25,000,000 Next 3.625% 2028	25,699	0.15	
£20,000,000 Next 4.375% 2026	22,087	0.13	
£38,750,000 NGG Finance Var. Rate 2073 (5.625%)	42,820	0.25	
€1,000,000 NGG Finance Var. Rate 2076 (4.25%)	927	0.01	
€15,000,000 Nielsen Norman Group Var. Rate 2044 (4.625%)	13,781	0.08	
€3,333,000 NN Group Var. Rate 2048 (4.625%)	2,948	0.02	
£20,000,000 Orange 5.625% 2034	26,656	0.15	
\$30,000,000 Orange 8.5% 2031	35,671	0.21	
£70,833,000 Orange Var. Rate Perp. (5%)	65,142	0.38	
€25,000,000 Orange Var. Rate Perp. (5.25%)	23,587	0.14	
£30,000,000 Orange Var. Rate Perp. (5.75%)	32,231	0.19	
£12,000,000 Orange Var. Rate Perp. (5.875%)	13,023	0.08	

### Portfolio statement (continued)

as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>'BBB' credit rated bonds (continued)</b>			
\$3,975,000 PCA 4.5% 2023	3,391	0.02	
\$1,750,000 Pearson Funding Five 3.25% 2023	1,326	0.01	
\$17,000,000 Pearson Funding Four 3.75% 2022	13,191	0.08	
\$38,000,000 Pernod-Ricard 4.25% 2022	32,088	0.18	
\$22,000,000 Pernod-Ricard 4.45% 2022	18,730	0.11	
€10,000,000 Petróleos Mexicanos 2.75% 2027	7,590	0.04	
€4,634,000 Prologis International Funding II 2.875% 2022	4,368	0.03	
\$8,400,000 Qwest 6.75% 2021	7,355	0.04	
\$8,500,000 Qwest 6.875% 2033	6,699	0.04	
\$13,600,000 Rabobank 4% 2029	10,839	0.06	
£16,000,000 Rabobank Nederland 4.625% 2029	17,712	0.10	
£12,000,000 Rabobank Nederland 5.25% 2027	13,915	0.08	
\$12,000,000 Reed Elsevier Capital 7.5% 2025	11,596	0.07	
\$24,000,000 Reynolds American 4.45% 2025	20,183	0.12	
\$6,000,000 Reynolds American 6.15% 2043	5,785	0.03	
\$9,750,000 Reynolds American 7.25% 2037 B	10,347	0.06	
£4,772,000 RL Finance Bonds 6.125% 2043	5,144	0.03	
€13,687,000 Royal Bank of Scotland 2.5% 2023	12,140	0.07	
€12,553,000 Royal Bank of Scotland Var. Rate 2023 (2%)	10,838	0.06	
€18,400,000 Santander Issuances 3.125% 2027	16,193	0.09	
£4,500,000 Santander Var. Rate 2023 (9.625%)	5,042	0.03	
£10,000,000 Scottish Widows 5.5% 2023	10,926	0.06	
£10,000,000 Severn Trent Utilities Finance 6.25% 2029	14,295	0.08	
€3,734,000 Smiths Group 2% 2027	3,254	0.02	
\$25,000,000 Société Générale 4% 2027	19,499	0.11	
\$50,000,000 Société Générale 5% 2024 144A	41,379	0.24	
€16,600,000 Sogecap Var. Rate Perp. (4.125%)	14,223	0.08	
£6,600,000 Southern Water Services Finance Var. Rate 2038 (4.5%)	7,290	0.04	
£19,000,000 Spain (Kingdom of) 5.25% 2029	22,430	0.13	
€7,500,000 Standard Chartered 4% 2025	6,822	0.04	
£15,000,000 Standard Life Var. Rate 2042 (5.5%)	16,306	0.09	
€2,000,000 Storebrand Livsforsikring Var. Rate 2043 (6.875%)	2,012	0.01	
£4,816,000 Student Finance 2.6663% 2024	4,867	0.03	
€10,000,000 Telefónica (Europe) 5.875% 2033	12,126	0.07	
\$9,800,000 Telefónica (Europe) 8.25% 2030	10,665	0.06	
€3,000,000 Telefónica Emisiones 1.93% 2031	2,407	0.01	
€5,600,000 Telefónica Emisiones 5.375% 2026	6,745	0.04	
\$27,400,000 Telefónica Emisiones 7.045% 2036	27,091	0.16	
\$10,000,000 Tengizchevroil 4% 2026	7,684	0.04	
\$5,000,000 Teva Pharmaceutical Industries 3.15% 2026	3,684	0.02	
£35,000,000 Thames Water Utilities Cayman Var. Rate 2025 (5.375%)	35,428	0.20	
£29,000,000 Thames Water Utilities Cayman Var. Rate 2030 (5.75%)	33,975	0.19	
€4,000,000 Thermo Fisher Scientific 1.45% 2027	3,429	0.02	
\$2,000,000 Time Warner 6.2% 2040	1,828	0.01	
\$5,000,000 Time Warner 6.25% 2041	4,621	0.03	
£35,100,000 Time Warner Cable 5.25% 2042	41,502	0.24	
£32,400,000 Time Warner Cable 5.75% 2031	39,689	0.23	
\$8,136,000 Transportadora de Gas del Perú 4.25% 2028	6,561	0.04	
\$8,000,000 United Business Media 5.75% 2020	6,744	0.04	
\$5,000,000 UPM-Kymmene 7.45% 2027	5,019	0.03	
\$5,000,000 Uruguay (Republic of) 5.1% 2050	3,881	0.02	
\$132,500,000 Verizon Communications 4.272% 2036	98,295	0.57	
\$15,000,000 Verizon Communications 4.4% 2034	11,365	0.07	
\$40,000,000 Verizon Communications 4.522% 2048	29,165	0.17	
\$285,000,000 Verizon Communications 4.672% 2022	204,294	1.18	

# M&G Optimal Income Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>'BBB' credit rated bonds (continued)</b>			
\$50,000,000 Verizon Communications 5.012% 2049	38,982	0.22	
\$270,000,000 Verizon Communications 5.012% 2054	205,120	1.18	
\$30,000,000 Verizon Communications 5.05% 2034	24,362	0.14	
\$50,000,000 Verizon Communications 5.15% 2023	44,124	0.25	
\$67,416,000 Verizon Communications 5.25% 2037	55,889	0.32	
\$20,000,000 Viacom 3.875% 2024	15,931	0.09	
\$10,000,000 Viacom 4.25% 2023	8,211	0.05	
\$10,000,000 Viacom 4.375% 2043	6,919	0.04	
\$22,000,000 Viacom 4.875% 2043	15,994	0.09	
\$10,000,000 Viacom 5.85% 2043	8,380	0.05	
€1,300,000 Vonovia Finance 4.625% 2074	1,175	0.01	
€8,800,000 Vonovia Finance Var. Rate Perp. (4%)	7,938	0.05	
€10,000,000 W.P. Carey 2% 2023	8,709	0.05	
\$10,000,000 W.P. Carey 4% 2025	7,904	0.04	
€20,000,000 W.P. Carey Eurobond 2.25% 2024	17,496	0.10	
£7,500,000 Wales & West Utilities Finance Var. Rate 2036 (6.75%)	8,132	0.05	
£16,666,000 Walgreens Boots Alliance 3.6% 2025	18,279	0.10	
£12,500,000 Welltower 4.5% 2034	14,493	0.08	
£3,022,000 Welltower 4.8% 2028	3,582	0.02	
£16,869,000 Westfield America 2.125% 2025	16,843	0.10	
\$4,750,000 Weyerhaeuser 7.375% 2032	4,967	0.03	
\$7,000,000 Williams Partners 4.875% 2023	5,801	0.03	
\$16,128,000 Williams Partners 4.875% 2024	13,284	0.08	
\$15,000,000 WPP Finance 3.75% 2024	12,173	0.07	
\$10,000,000 WPP Finance 5.625% 2043	8,561	0.05	
£4,165,000 Yorkshire Water Services Var. Rate 2025 (6%)	4,176	0.02	
€15,000,000 Zimmer Biomet 2.425% 2026	13,364	0.08	
<b>'BB' credit rated bonds</b>	<b>1,966,583</b>	<b>11.34</b>	<b>10.82</b>
€6,701,000 Adient Global Holdings 3.5% 2024	5,779	0.03	
\$1,600,000 AES 6% 2026	1,323	0.01	
\$5,000,000 AES 7.375% 2021	4,546	0.03	
€5,079,000 Aramark International Finance 3.125% 2025	4,401	0.03	
€20,000,000 Ardagh Packaging Finance 2.75% 2024	16,898	0.10	
€21,389,610 Ardagh Packaging Finance 4.25% 2022	18,873	0.11	
€13,900,000 Arkema Var. Rate Perp. (4.75%)	12,663	0.07	
€2,000,000 Arrow Global Finance FRN 2023	1,787	0.01	
€8,000,000 Arrow Global Finance FRN 2025	6,836	0.04	
\$10,000,000 Ashland 4.75% 2022	8,319	0.05	
\$16,000,000 Avis Budget Finance 5.25% 2025	11,917	0.07	
€10,851,000 Axalta Coating System 3.75% 2025	9,765	0.06	
€4,042,000 Axalta Coating System 4.25% 2024	3,686	0.02	
£1,933,000 B&M European Value 4.125% 2022	2,007	0.01	
\$482,000 Bank of America 6.3% Perp.	420	0.00	
\$4,518,000 Bank of America Var. Rate Perp. (8.125%)	3,765	0.02	
£3,000,000 Bank of Scotland Var. Rate Perp. (7.281%)	3,619	0.02	
€5,714,000 Barclays 2.625% 2025	4,940	0.03	
\$10,000,000 Barry Callebaut Services 5.5% 2023	8,583	0.05	
€11,500,000 Belden 5.5% 2023	10,367	0.06	
\$6,667,000 Cascades 5.5% 2022	5,341	0.03	
€4,746,000 Catalent Pharma Solutions 4.75% 2024	4,298	0.02	
\$6,909,000 CCO Holdings Capital 5.125% 2023	5,639	0.03	
\$6,000,000 CCO Holdings Capital 5.125% 2023 144A	4,957	0.03	

### Portfolio statement (continued)

as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>'BB' credit rated bonds (continued)</b>			
\$20,000,000 CCO Holdings Capital 5.125% 2027	16,154	0.09	
€15,000,000 Cemex 4.375% 2023	13,477	0.08	
€15,000,000 Cemex 4.75% 2022	13,361	0.08	
\$4,545,000 Cemex 5.7% 2025	3,774	0.02	
\$16,000,000 Cemex 5.7% 2025 1A	13,266	0.08	
\$12,000,000 Cemex 6.125% 2025	10,218	0.06	
€15,000,000 Cemex Finance 4.625% 2024	13,587	0.08	
€17,094,000 Cemex Finance 5.25% 2021	15,072	0.09	
\$4,667,000 Centene Corporation 6.125% 2024	4,014	0.02	
\$13,500,000 CenturyLink 5.8% 2022	11,088	0.06	
\$567,000 CenturyLink 6.15% 2019	484	0.00	
\$5,000,000 CenturyLink 6.45% 2021	4,244	0.02	
\$4,000,000 CenturyLink 6.75% 2023	3,312	0.02	
\$4,286,000 CenturyLink 7.5% 2024	3,617	0.02	
\$17,000,000 CenturyLink 7.6% 2039	12,020	0.07	
\$5,000,000 CenturyLink 7.65% 2042	3,536	0.02	
\$6,000,000 Cetene 4.75% 2025	4,848	0.03	
\$4,000,000 Churchill Downs 5.375% 2021	3,341	0.02	
\$5,000,000 Citigroup Var. Rate Perp. (5.95%)	4,181	0.02	
€2,900,000 CNH Industrial Finance 6.25% 2018	2,621	0.02	
\$9,742,000 Columbus International 7.375% 2021	8,319	0.05	
\$6,500,000 Community Health Systems 5.125% 2021	5,151	0.03	
\$12,000,000 Credit Agricole Var. Rate PerpSa (7.875%)	9,799	0.06	
\$3,000,000 Credit Suisse 7% 2020	2,447	0.01	
\$3,000,000 Credit Suisse Group Var. Rate Perp. (7.125%)	2,505	0.01	
€5,000,000 Crown European Holdings 2.625% 2024	4,198	0.02	
€9,400,000 Crown European Holdings 3.375% 2025	8,164	0.05	
\$7,895,000 CSC Holdings 5.5% 2047	6,451	0.04	
£24,873,931 Delamare Finance 5.5457% 2029	26,561	0.15	
€1,500,000 Dufry Finance 4.5% 2022	1,339	0.01	
€4,708,000 Dufry Finance 4.5% 2023	4,321	0.02	
\$4,667,000 EDP Finance 5.25% 2021	3,991	0.02	
\$4,750,000 Enel Var. Rate 2073 (8.75%)	4,374	0.03	
€4,000,000 Enel Var. Rate 2074 (6.5%)	3,700	0.02	
€9,000,000 Enel Var. Rate 2075 (7.75%)	9,994	0.06	
€2,500,000 Enel Var. Rate 2076 (6.625%)	2,696	0.02	
\$10,000,000 Energy Transfer Partners FRN 2066	6,756	0.04	
£11,884,000 Enterprise Inns 6% 2023	12,697	0.07	
£17,500,000 Enterprise Inns 6.375% 2031	18,813	0.11	
€6,680,000 Enterprise Inns 6.875% 2021	7,349	0.04	
€4,500,000 Enterprise Inns 6.875% 2025	4,873	0.03	
€7,000,000 Fiat Finance & Trade 7.375% 2018	6,504	0.04	
€5,000,000 FMC Finance 5.25% 2021	4,996	0.03	
\$20,000,000 Fresenius Medical Care 5.75% 2021	17,366	0.10	
\$4,395,000 Fresenius US Finance 4.25% 2021	3,679	0.02	
\$2,000,000 Gannett 4.875% 2021	1,636	0.01	
\$2,000,000 Gannett 5.5% 2024	1,648	0.01	
€14,600,000 Gas Natural Fenosa Var. Rate Perp. (4.125%)	12,990	0.07	
€5,388,000 Gestamp Funding Luxembourg 3.5% 2023	4,809	0.03	
\$12,500,000 Goodyear Tire & Rubber 5.0% 2026	10,214	0.06	
\$2,308,000 Goodyear Tire & Rubber 5.125% 2023	1,927	0.01	
\$3,400,000 Grupo Unicomer 7.875% 2024	2,840	0.02	
\$1,000,000 GTE Southwest 8.5% 2031	827	0.00	
\$4,838,000 Hanesbrands 4.625% 2024	3,846	0.02	
\$3,529,000 Hanesbrands 4.875% 2026	2,771	0.02	
\$6,667,000 Hilton Worldwide Finance 4.625% 2025	5,414	0.03	

# M&G Optimal Income Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)				
as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %	
<b>'BB' credit rated bonds (continued)</b>				
€2,000,000 Ineos Finance 4% 2023	1,761	0.01		
€3,859,000 International Game Technology 4.125% 2020	3,512	0.02		
\$1,600,000 International Game Technology 5.625% 2020	1,339	0.01		
\$8,000,000 International Game Technology 6.25% 2022	6,733	0.04		
\$5,000,000 Intesa Sanpaolo 5.017% 2024	3,753	0.02		
€15,000,000 Intesa Sanpaolo 6.625% 2023	15,204	0.09		
€2,000,000 Iron Mountain 6.125% 2022	2,118	0.01		
€6,329,000 Jaguar Land Rover 2.26% 2024	5,366	0.03		
€15,000,000 KPN Var. Rate 2073 (8.875%)	16,427	0.09		
€10,607,000 Lincoln Finance 6.875% 2021	9,716	0.06		
\$8,000,000 Lloyds Bank Var. Rate 2024 (12.00%)	8,613	0.05		
€25,000,000 Lloyds Bank Var. Rate Perp. (6.375%)	22,477	0.13		
€40,000,000 Lloyds Bank Var. Rate Perp. (7%)	40,873	0.24		
€36,000,000 Lloyds Bank Var. Rate Perp. (7.625%)	39,142	0.23		
€37,676,000 Lloyds Banking Group Var. Rate Perp (7.875%)	41,710	0.24		
€18,433,000 Lock 7% 2021	16,640	0.10		
€1,500,000 Ludgate Funding FRN 2061 (CB)	1,046	0.01		
€1,110,126 Magellan Mortgages No.4 FRN 2059 4B	731	0.00		
\$12,000,000 Methanex 4.25% 2024	9,424	0.05		
\$6,000,000 Methanex 5.25% 2022	5,024	0.03		
€4,551,000 Nassa Topco 2.875% 2024	3,944	0.02		
€7,000,000 National Westminster Bank 6.5% 2021	8,041	0.05		
€25,000,000 Nationwide Building Society Var. Rate Perp. (6.875%)	25,362	0.15		
\$5,750,000 Neptune Finco 6.625% 2025	5,022	0.03		
€9,487,000 OI European Group 3.125% 2024	8,111	0.05		
€1,400,000 OI European Group 4.875% 2021	1,362	0.01		
\$3,888,000 Owens Brockway 5% 2022	3,208	0.02		
\$2,000,000 Paraguay (Republic of) 4.625% 2023	1,668	0.01		
\$6,364,000 Paraguay (Republic of) 6.1% 2044	5,445	0.03		
\$7,000,000 Pertamina Persero 6.45% 2044	6,346	0.04		
\$1,000,000 Pilgrims Pride 5.75% 2025	809	0.00		
\$20,000,000 Portugal (Republic of) 5.125% 2024	15,559	0.09		
€4,127,000 Promontoria MCS FRN 2021	3,630	0.02		
€18,410,000 QuintilesIMS 3.25% 2025	15,644	0.09		
\$7,000,000 QuintilesIMS 5% 2026	5,628	0.03		
€14,286,000 Royal Bank of Scotland 3.625% 2024	12,518	0.07		
\$19,900,000 Royal Bank of Scotland 5.125% 2024	16,107	0.09		
\$35,294,000 Royal Bank of Scotland 6.1% 2023	29,895	0.17		
\$21,000,000 Royal Bank of Scotland 6.125% 2022	17,813	0.10		
€9,000,000 Royal Bank of Scotland FRN 2017	7,565	0.04		
€16,000,000 Samvardhana Motherson 4.125% 2021	14,016	0.08		
€11,963,000 Schaeffler Verwaltung Zwei 2.75% Pik 2021	10,509	0.06		
€2,783,000 Sealed Air 4.5% 2023	2,643	0.02		
\$3,000,000 Service Corporation International 5.375% 2024	2,503	0.01		
\$1,091,000 Shea Homes Funding 6.125% 2025	881	0.01		
€13,822,000 Silgan Holdings 3.25% 2025	11,802	0.07		
\$6,000,000 Sirius XM Radio 5.75% 2021	4,999	0.03		
\$2,000,000 Sirius XM Radio 6% 2024	1,720	0.01		
€4,951,000 Smurfit Kappa Acquisitions 2.375% 2024	4,275	0.02		

### Portfolio statement (continued)

as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>'BB' credit rated bonds (continued)</b>			
€5,993,000 Smurfit Kappa Acquisitions 2.75% 2025	5,245	0.03	
\$20,461,000 Société Générale Var. Rate Perp. (7.875%)	16,541	0.10	
\$1,789,000 Société Générale Var. Rate Perp. (7.875%) (Regd.)	1,446	0.01	
€3,750,000 Société Générale Var. Rate Perp. (8.875%)	3,986	0.02	
€2,500,000 Solvay Finance Var. Rate Perp. (4.199%)	2,243	0.01	
€10,000,000 Solvay Finance Var. Rate Perp. (5.110%)	9,366	0.05	
€12,000,000 Solvay Finance Var. Rate Perp. (5.425%)	11,426	0.07	
€10,000,000 Solvay Finance Var. Rate Perp. (5.869%)	9,715	0.06	
€5,300,000 Southern Water (Greensands) Financing 8.5% 2019	6,029	0.03	
€1,614,000 Spirit Issuer 5.86% 2021	1,574	0.01	
€4,186,000 Spirit Issuer FRN 2031 A2	4,003	0.02	
\$13,000,000 Stora Enso 7.25% 2036	11,951	0.07	
€4,795,000 TA Manufacturing 3.625% 2023	4,164	0.02	
€20,000,000 Telecom Italia 2.5% 2023	17,331	0.10	
€10,000,000 Telecom Italia 5.25% 2055	8,569	0.05	
\$2,500,000 Telecom Italia 5.303% 2024	2,023	0.01	
€16,000,000 Telecom Italia 5.875% 2023	17,974	0.10	
€5,500,000 Telecom Italia 7.75% 2033	6,207	0.04	
€20,000,000 Telefónica (Europe) Var. Rate 2020 (5.875%)	18,750	0.11	
€18,800,000 Telefónica (Europe) Var. Rate Perp. (4.2%)	16,852	0.10	
€5,000,000 Telefónica (Europe) Var. Rate Perp. (5%)	4,529	0.03	
€14,300,000 Telefónica (Europe) Var. Rate Perp. (6.75%)	15,349	0.09	
€15,000,000 Telenet Finance V 6.25% 2022	13,494	0.08	
\$5,000,000 Tenet Healthcare 4.375% 2021	4,017	0.02	
\$2,500,000 Tenet Healthcare 4.5% 2021	2,015	0.01	
\$2,000,000 Tenet Healthcare 4.75% 2020	1,634	0.01	
\$10,000,000 Tenet Healthcare 6% 2020	8,447	0.05	
€9,221,527 Tesco Property Finance 2 6.0517% 2039	10,135	0.06	
€24,460,740 Tesco Property Finance 3 5.744% 2040	25,549	0.15	
€47,220,347 Tesco Property Finance 4 5.8006% 2040	49,312	0.28	
€26,669,302 Tesco Property Finance 5 5.6611% 2041	27,357	0.16	
€22,612,576 Tesco Property Finance 6 5.411% 2044	22,858	0.13	
\$3,333,000 T-Mobile USA 1.25% 2025	2,747	0.01	
\$7,933,000 T-Mobile USA 4% 2022	6,464	0.04	
\$5,000,000 T-Mobile USA 6% 2024	4,265	0.02	
\$3,500,000 T-Mobile USA 6.25% 2021	2,898	0.02	
\$6,000,000 T-Mobile USA 6.375% 2025	5,145	0.03	
\$6,000,000 T-Mobile USA 6.464% 2019	4,827	0.03	
\$30,233,000 T-Mobile USA 6.633% 2021	25,136	0.14	
\$10,000,000 T-Mobile USA 6.731% 2022	8,313	0.05	
€25,000,000 UBS Var. Rate Perp. (5.75%)	23,159	0.13	
\$30,000,000 UBS Var. Rate Perp. (7.125%)	25,120	0.14	
\$8,000,000 United Rentals North America 5.5% 2025	6,573	0.04	
€36,292,000 Unitymedia Hessen 3.5% 2027	31,512	0.18	
€50,833,000 Unitymedia Hessen 4% 2025	45,277	0.26	
€1,000,000 Unitymedia Hessen 4.625% 2026	916	0.01	
\$11,251,000 Unitymedia Hessen 5% 2025	9,210	0.05	
€19,035,000 Unitymedia Hessen 5.125% 2023	17,046	0.10	
€7,695,000 Unitymedia Hessen 5.5% 2022	6,872	0.04	

# M&G Optimal Income Fund

## Authorised Corporate Director's Report

### Investments

#### Portfolio statement (continued)

as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>'BB' credit rated bonds (continued)</b>			
\$12,000,000 Unitymedia Hessen 5.5% 2023	9,973	0.06	
€17,320,230 Unitymedia Hessen 5.75% 2023	15,656	0.09	
€44,000,000 Unitymedia Hessen 6.25% 2029	42,707	0.25	
€30,000,000 Veolia Environnement Var. Rate Perp. (4.85%)	30,860	0.18	
\$13,333,000 VideoTron 5.375% 2024	11,202	0.06	
€35,000,000 Virgin Media Secured Finance 4.875% 2027	35,209	0.20	
£7,500,000 Virgin Media Secured Finance 5% 2027	7,559	0.04	
£18,000,000 Virgin Media Secured Finance 5.125% 2025	18,944	0.11	
£32,940,000 Virgin Media Secured Finance 5.5% 2025	34,538	0.20	
\$30,000,000 Virgin Media Secured Finance 5.5% 2025	24,623	0.14	
£10,000,000 Virgin Media Secured Finance 6% 2025	11,575	0.07	
£30,248,000 Virgin Media Secured Finance 6.25% 2029	32,721	0.19	
€20,000,000 Wind Acquisition Finance 4% 2020	17,425	0.10	
€7,000,000 Wind Acquisition Finance FRN 2020 (Regd.)	6,005	0.03	
€4,210,000 Worldpay Finance 3.75% 2022	3,872	0.02	
\$7,500,000 Wynn Las Vegas 5.375% 2022	6,156	0.04	
€15,200,000 ZF North American Capital 2.75% 2023	13,843	0.08	
\$8,000,000 ZF North American Capital 4.75% 2025	6,601	0.04	
	<b>613,381</b>	<b>3.54</b>	<b>5.29</b>
<b>'B' credit rated bonds</b>			
\$12,000,000 1011778 BC ULC / New Red Finance 6% 2022	10,022	0.06	
\$6,667,000 Ahern Rentals 7.375% 2023	4,604	0.03	
€25,000,000 Alice Financing 7.25% 2022	22,672	0.13	
£4,085,000 AMC Entertainment 6.375% 2024	4,326	0.03	
\$2,667,000 AmSurg Corporation 5.625% 2022	2,187	0.01	
€20,000,000 Argentina (Republic of) 5% 2027	16,011	0.09	
€3,012,000 Bisoho SAS 5.875% 2023	2,764	0.02	
\$5,000,000 Bombardier 6% 2022	3,945	0.02	
€10,000,000 Bombardier 6.125% 2021	9,099	0.05	
\$5,000,000 Bombardier 7.75% 2020	4,286	0.02	
\$11,310,000 Buenos Aires (Province of) 7.875% 2027	9,167	0.05	
£10,267,000 Cabot Financial 7.5% 2023	10,733	0.06	
€5,000,000 Cabot Financial FRN 2021	4,446	0.03	
€3,500,000 Cabot Financial Luxembourg 6.5% 2021	3,607	0.02	
€5,000,000 Cabot Financial Luxembourg 8.375% 2019	5,294	0.03	
€3,119,000 Carlson Travel FRN 2023	2,673	0.02	
£2,178,000 Cognita Financing 7.75% 2021	2,296	0.01	
£1,000,000 CPUK Finance 7% 2042	1,052	0.01	
\$3,500,000 Crown Americas 4.25% 2026	2,681	0.02	
€1,871,000 Crystal Almond 10% 2021	1,656	0.01	
\$5,000,000 Davita Healthcare 5.125% 2024	4,041	0.02	
€2,857,000 eircom Finance 4.25% 2022	2,542	0.01	
£2,500,000 Entertainment One 6.875% 2022	2,725	0.02	
\$1,500,000 Frontier Communications 6.25% 2021	1,098	0.01	
\$1,500,000 Frontier Communications 7.125% 2023	1,028	0.01	
\$4,000,000 Frontier Communications 8.5% 2020	3,376	0.02	
\$5,000,000 Frontier Communications 8.75% 2022	3,777	0.02	

#### Portfolio statement (continued)

as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>'B' credit rated bonds (continued)</b>			
\$2,500,000 Frontier Communications 9.25% 2021	2,015	0.01	
\$2,000,000 Gray Television 5.125% 2024	1,578	0.01	
\$3,639,000 Halcon Resources 12% 2022	3,419	0.02	
\$4,000,000 HCA Holdings 7.75% 2022	3,672	0.02	
£5,000,000 House of Fraser Funding FRN 2020	4,378	0.03	
€7,177,000 HP Pelzer Holding 4.125% 2024	6,190	0.04	
€8,125,000 HP Pelzer Holding 7.5% 2021	7,362	0.04	
€9,211,000 Huntsman International 5.125% 2021	8,670	0.05	
£10,655,000 Intergen 7.5% 2021	9,829	0.06	
€6,332,000 Intesa Sanpaolo Var. Rate Perp. (7.75%)	5,588	0.03	
\$2,273,000 Kenya (Republic of) 6.875% 2024	1,821	0.01	
\$9,333,000 Kindred Healthcare 8% 2020	7,617	0.04	
\$16,667,000 Kindred Healthcare 8.75% 2023	13,334	0.08	
€1,458,000 Marcolin FRN 2023	1,269	0.01	
€28,000,000 Matterhorn Telecom 3.875% 2022	24,288	0.14	
\$9,143,000 Neptune Finco 10.875% 2025	8,829	0.05	
€9,102,000 Numericable Group 5.375% 2022	8,136	0.05	
€31,000,000 Numericable Group 5.625% 2024	28,204	0.16	
\$30,000,000 Numericable Group 6% 2022	24,531	0.14	
\$5,000,000 Numericable Group 6.25% 2024	4,023	0.02	
€1,849,000 Paprec Holding 7.375% 2023	1,682	0.01	
\$2,500,000 Platform Specialty 6.5% 2022	2,080	0.01	
\$5,000,000 R.R. Donnelley & Sons 6.5% 2023	3,900	0.02	
\$5,000,000 Reynolds Group 5.75% 2020	4,106	0.02	
€7,000,000 Royal Bank of Scotland 5.5% Perp.	5,888	0.03	
\$5,357,000 Royal Bank of Scotland Var. Rate Perp. (7.5%)	4,235	0.02	
\$5,600,000 Royal Bank of Scotland Var. Rate Perp. (8%)	4,472	0.03	
\$8,000,000 Royal Bank of Scotland Var. Rate Perp. (8.625%)	6,695	0.04	
€4,660,000 Schumann 7% 20233	4,052	0.02	
\$16,000,000 Sprint Capital 6.875% 2028	13,466	0.08	
\$15,000,000 Sprint Corporation 7.125% 2024	12,719	0.07	
\$3,000,000 Sprint Corporation 7.25% 2021	2,595	0.01	
\$45,000,000 Sprint Corporation 7.625% 2025	39,195	0.23	
\$40,000,000 Sprint Corporation 7.875% 2023	35,234	0.20	
\$31,500,000 Sprint Nextel 6% 2022	25,534	0.15	
£5,161,000 Stonegate Pub Company 4.875% 2022	5,176	0.03	
€1,656,000 The Chemours Company 6.125% 2023	1,517	0.01	
€6,000,000 UPC Holding 6.375% 2022	5,405	0.03	
CHF6,000,000 UPC Holding 6.75% 2023	5,182	0.03	
€1,000,000 Veritas 7.5% 2023	884	0.01	
€7,500,000 Virgin Media Finance 4.5% 2025	6,635	0.04	
£21,000,000 Virgin Media Finance 5.125% 2022	20,956	0.12	
£8,500,000 Virgin Media Secured Finance 6.375% 2024	9,078	0.05	
\$14,026,000 VTR Finance 6.875% 2024	11,725	0.07	
€40,000,000 Wind Acquisition Finance 7% 2021	35,543	0.21	
\$5,000,000 Windstream 6.375% 2023	3,512	0.02	
\$7,330,000 Windstream 7.5% 2023	5,511	0.03	
\$1,000,000 Windstream 7.75% 2020	805	0.00	
\$8,500,000 WPX Energy 5.25% 2024	6,527	0.04	
\$8,000,000 Yum! Brands 6.875% 2037	6,609	0.04	
\$3,964,000 Ziggo Bond Finance 4.625% 2025	3,527	0.02	
\$2,571,000 Ziggo Bond Finance 5.875% 2025	2,075	0.01	
	<b>35,226</b>	<b>0.20</b>	<b>0.22</b>
<b>'CCC' credit rated bonds</b>			
\$14,000,000 Caesars Entertainment Resort Properties 8% 2020	11,721	0.07	
\$5,000,000 Calumet Specialty Products 6.5% 2021	3,413	0.02	
\$2,823,000 Carlson Travel 9.5 2024	2,372	0.01	
\$1,500,000 Community Health Systems 6.875% 2022	1,031	0.01	

# M&G Optimal Income Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>'CCC' credit rated bonds (continued)</b>			
\$10,000,000 Crimson Merger 6.625% 2022	7,428	0.04	
\$3,000,000 Denbury Resources 4.625% 2023	1,741	0.01	
\$5,000,000 Denbury Resources 5.5% 2022	3,107	0.02	
£4,500,000 Elli Finance UK 8.75% 2019	4,413	0.02	
<b>'D' credit rated bonds</b>			
	<b>0</b>	<b>0.00</b>	<b>0.00</b>
<b>Bonds with no credit rating</b>			
	<b>751,710</b>	<b>4.33</b>	<b>4.34</b>
€7,500,000 ALME Loan Funding II FRN 2033	6,487	0.04	
£7,407,000 AMC Entertainment 6.375% 2024	7,846	0.04	
\$5,715,000 Aquarius Plus Investments 8.25% IL Perp.	4,917	0.03	
€6,208,000 Arbour Cio FRN 2030 A-2	5,378	0.03	
€7,213,000 ASML 1.625% 2027	6,207	0.04	
€4,500,000 Assicurazioni Generali 4.125% 2026	4,086	0.02	
€4,000,000 Assicurazioni Generali Var. Rate 2042 (7.75%)	4,140	0.02	
€20,000,000 Assicurazioni Generali Var. Rate 2047 (5.5%)	18,183	0.10	
£18,750,000 Assicurazioni Generali Var. Rate Perp. (6.269%)	18,773	0.11	
€4,762,000 ATON 3.875% 2018	4,192	0.02	
€10,000,000 Banco Bilbao Vizcaya Argentina Var. Rate Perp. (7%)	8,575	0.05	
£500,000 Birmingham Airport 6.25% 2021	586	0.00	
£2,000,000 British Land 0% 2020 (British Land)	1,878	0.01	
£550,000 British Land 5.264% 2035	684	0.00	
£1,800,000 British Land 5.357% 2028	2,187	0.01	
£12,331,000 BUPA Finance 5% 2026	13,390	0.08	
€4,500,000 Bureau Veritas 1.125% 2023	3,835	0.02	
£20,000,000 Canadian Imperial Bank of Commerce FRN 2022	20,029	0.12	
\$4,500,000 Chaparral Energy 7.625% 2022	3,578	0.02	
£1,000,000 Cheltenham & Gloucester 11.75% Perp.	1,887	0.01	
€41,519,167 Codere 8.25% 2015	9,971	0.06	
\$4,167,000 Côte d'Ivoire (Republic of) 5.375% 2024	3,178	0.02	
\$3,333,000 Côte d'Ivoire (Republic of) 6.375% 2028	2,613	0.02	
£10,000,000 Credit Agricole Var. Rate Perp. (7.5%)	10,174	0.06	
€866,540 Deco 14 Gondola FRN 2026	744	0.00	
£930,000 Delamare Finance 6.067% 2029	943	0.01	
£6,653,271 Duncan Funding FRN 2063	6,702	0.04	
€20,000,000 Eirles Two FRN 2020	0	0.00	
€4,000,000 Eurofins Scientific 4.875% Perp.	3,610	0.02	
£5,068,709 Feldspar 2016-1 FRN 2046	5,101	0.03	
£6,093,000 Finsbury Square Mortgage FRN 2059	6,098	0.04	
£1,329,760 Gemgarto 2015-1 FRN 2047	1,332	0.01	
£15,000,000 Gosforth Funding FRN 2056 A2	15,090	0.09	
€15,000,000 Hammerson 1.75% 2023	13,154	0.08	
€32,500,000 Hammerson 2% 2022	29,232	0.17	
£500,000 Hammerson 6% 2026	634	0.00	
£9,000,000 Heathrow Finance 5.75% 2025	10,060	0.06	
£3,000,000 Holmes Master Issuer FRN 2054 12-3 B2	3,022	0.02	
\$4,046,477 Home Partners of America FRN 2033	3,242	0.02	
€20,000,000 HSBC Holdings Var. Rate Perp. (5.25%)	17,379	0.10	
€7,000,000 Intesa Sanpaolo Var. Rate Perp. (4.75%)	6,155	0.03	
€17,000,000 Italgas 1.625% 2027	14,643	0.08	

### Portfolio statement (continued)

as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>Bonds with no credit rating (continued)</b>			
€1,000,000 Jubilee CLO 0% 2014-XI 2030	858	0.00	
\$914,992 K2016470219 3% 2022	75	0.00	
€17,000,000 Lagardère 2% 2019	14,943	0.09	
£7,453,000 LaSer ABS FRN 2030	7,455	0.04	
£12,744,000 Lend Lease Europe 6.125% 2021	14,881	0.09	
£50,000,000 Lloyds Bank 5.125% 2025	63,345	0.37	
£8,000,000 Lloyds Bank 6% 2029	11,455	0.07	
€3,794,000 MAHLE 2.375% 2022	3,461	0.02	
£3,478,000 Midland Heart Capital 5.087% 2044	4,855	0.03	
€6,567,000 Oak Hill FRN 2030	5,666	0.03	
£13,755,000 Old Mutual 7.875% 2025	16,172	0.09	
£34,000,000 Old Mutual 8% 2021	39,524	0.23	
£2,622,000 Orbita Funding FRN 2023	2,633	0.02	
£17,000,000 Pennon Group Var. Rate Perp. (6.75%)	17,649	0.10	
\$4,982,074 Progress Residential Trust FRN 2033 144	4,052	0.02	
€10,000,000 Progroup FRN 2024	8,571	0.05	
€5,000,000 Rabobank Var. Rate Perp. (6.625%)	4,654	0.03	
€4,849,000 SELP Finance 1.25% 2023	4,048	0.02	
\$2,000,000 Seventy Seven Energy 6.5% 2022	0	0.00	
€35,000,000 Société Générale 2.625% 2025	30,748	0.18	
\$10,000,000 Société Générale Var. Rate Perp. (6%)	7,654	0.04	
\$3,145,391 SoFi Consumer Loan 3.05% 2025	2,527	0.01	
\$3,036,534 SoFi Consumer Loan 3.09% 2025	2,440	0.01	
€655,530 TDA-14 Mixto FRN 2030 A3	561	0.00	
€621,143 TDA-18 Mixto FRN 2045 A1	526	0.00	
£5,347,000 TSB Bank Var. Rate 2026 (5.75%)	5,674	0.03	
€6,400,000 Vilmorin & Cie 2.375% 2021	5,707	0.03	
£64,000,000 Vodafone Group 3% 2056	53,679	0.31	
£39,530,000 Vodafone Group 3.375% 2049	36,136	0.21	
£8,000,000 Westfield Stratford FRN 2024	7,961	0.05	
£14,000,000 WM Morrison Supermarkets 3.5% 2026	14,918	0.09	
£15,000,000 WM Morrison Supermarkets 4.625% 2023	17,211	0.10	
£25,000,000 WM Morrison Supermarkets 4.75% 2029	29,196	0.17	
£5,050,000 Yorkshire Building Society 3.5% 21/04/2026	5,376	0.03	
£7,000,000 Yorkshire Building Society Var. Rate 2024 (4.125%)	7,184	0.04	
<b>Credit default swaps</b>			
€(10,000,000) BNP Paribas Dec 2021	(350)	0.00	
€3,000,000 Daimler Jun 2018	(21)	0.00	
€15,000,000 EDF Dec 2021	(79)	0.00	
€(5,000,000) Heathrow Funding Dec 2022	(14)	0.00	
\$(200,000,000) Italy (Republic of) Jun 2021	(3,376)	(0.01)	
€5,000,000 Louis Dreyfus Dec 2021	(409)	0.00	
\$(297,000,000) Markit CDX North American High Yield Series 27 5 Year Dec 2021	18,836	0.11	
€(150,000,000) Markit iTraxx Europe Snr Fin Series 26 5 Year Dec 2021	1,110	0.01	
€(350,000,000) Markit iTraxx Europe Sub Fin Series 26 5 Year Dec 2021	(10,572)	(0.07)	
\$(50,000,000) Markit iTraxx Europe Sub Fin Series 27 5 Year Jun 2022	(1,976)	(0.01)	
€(200,000,000) Markit iTraxx Europe Xover Series 26 5 Year Dec 2021	17,363	0.09	
€10,000,000 Marks and Spencer Dec 2021	207	0.00	
€2,000,000 Mediobanca Jun 2018	6	0.00	
€30,000,000 RWE Jun 2020	(541)	0.00	
€(10,000,000) Telecom Italia Dec 2021	(425)	0.00	
€10,000,000 Turkey (Republic of) Jun 2017	(14)	0.00	
	<b>19,745</b>	<b>0.12</b>	<b>0.79</b>



# M&G Optimal Income Fund

## Authorised Corporate Director's Report

### Investments

Portfolio statement (continued)			
as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>Forward currency contracts</b>	<b>82,240</b>	<b>0.47</b>	<b>(0.78)</b>
€53,614,267 Bought for £46,757,806 (expires 05.04.17)	(772)	0.00	
€(6,640,284,062) Sold for £5,736,518,501 (expires 03.05.17)	37,684	0.21	
€(6,775,634,907) Sold for £5,802,344,297 (expires 05.04.17)	(9,222)	(0.05)	
¥208,217,974 Bought for £1,495,695 (expires 05.04.17)	(1)	0.00	
¥(15,867,788,338) Sold for £113,942,473 (expires 05.04.17)	0	0.00	
CHF5,378,708 Bought for £4,359,171 (expires 05.04.17)	(43)	0.00	
CHF(127,652,276) Sold for £102,382,685 (expires 05.04.17)	(50)	0.00	
\$95,359,386 Bought for £77,898,322 (expires 05.04.17)	(1,322)	(0.01)	
\$(2,044,109,536) Sold for £1,677,310,612 (expires 05.04.17)	35,823	0.20	
\$(2,475,185,309) Sold for £1,981,347,536 (expires 03.05.17)	(5,014)	(0.03)	
\$(2,866,334,542) Sold for £2,323,964,745 (expires 31.05.17)	25,157	0.15	
<b>Interest rate futures contracts</b>	<b>(28,705)</b>	<b>(0.16)</b>	<b>0.03</b>
(116) 10 Year Japan Treasury Note Jun 2017	(356)	0.00	
(13,060) UK Long Gilt Bond Jun 2017	(28,349)	(0.16)	
<b>Interest rate swaps</b>	<b>(40,289)</b>	<b>(0.23)</b>	<b>(1.08)</b>
£90,000,000 Pay 1.457% Receive VAR Feb 2047	(986)	(0.01)	
£50,000,000 Pay 1.478% Receive VAR Mar 2047	(805)	(0.01)	
£100,000,000 Pay 1.5075% Receive VAR Jan 2047	(2,447)	(0.02)	
£80,000,000 Pay 1.515% Receive VAR Feb 2047	(2,038)	(0.01)	
£50,000,000 Pay 1.524% Receive VAR Jan 2047	(1,430)	(0.01)	
£100,000,000 Pay 1.5325% Receive VAR Mar 2047	(2,927)	(0.02)	
£100,000,000 Pay 1.537% Receive VAR Jan 2047	(3,172)	(0.02)	
£50,000,000 Pay 1.5425% Receive VAR Mar 2047	(1,600)	(0.01)	
£25,000,000 Pay 1.569% Receive VAR Feb 2046	(1,922)	0.00	
£50,000,000 Pay 1.606% Receive VAR Dec 2046	(2,496)	(0.02)	
£50,000,000 Pay 1.61% Receive VAR Feb 2046	(2,476)	(0.02)	
£25,000,000 Pay 1.6105% Receive VAR Feb 2046	(1,241)	0.00	
£25,000,000 Pay 1.613% Receive VAR Feb 2046	(1,257)	0.00	
£50,000,000 Pay 1.659% Receive VAR Mar 2046	(3,050)	(0.02)	
£50,000,000 Pay 1.686% Receive VAR Apr 2046	(3,620)	(0.02)	
£25,000,000 Pay 1.687% Receive VAR Feb 2046	(1,707)	(0.01)	
£50,000,000 Pay 1.69% Receive VAR Apr 2046	(4,042)	(0.03)	
£25,000,000 Pay 1.693% Receive VAR Feb 2046	(1,743)	(0.01)	
£50,000,000 Pay 1.696% Receive VAR Apr 2046	(3,747)	(0.02)	
£25,000,000 Pay 1.697% Receive VAR Feb 2046	(1,768)	(0.01)	
£50,000,000 Pay 1.715% Receive VAR Mar 2046	(3,727)	(0.02)	
£50,000,000 Pay 1.72% Receive VAR Apr 2046	(3,669)	(0.02)	
£50,000,000 Pay 1.72% Receive VAR Mar 2046	(3,788)	(0.02)	
\$25,000,000 Pay 1.833% Receive VAR Sep 2046	3,606	0.02	
\$50,000,000 Pay 1.927% Receive VAR Oct 2046	6,144	0.04	
\$50,000,000 Pay 2.2515% Receive VAR Mar 2046	3,271	0.02	
\$50,000,000 Pay 2.257% Receive VAR Mar 2046	3,226	0.02	
\$50,000,000 Pay 2.401% Receive VAR Nov 2046	2,014	0.01	
\$100,000,000 Pay 2.5475% Receive VAR Feb 2047	1,705	0.01	
\$200,000,000 Pay 2.569% Receive VAR Jan 2047	2,651	0.02	
\$150,000,000 Pay 2.628% Receive VAR Feb 2047	551	0.01	
\$200,000,000 Pay 2.668% Receive VAR Feb 2047	(599)	(0.01)	

### Portfolio statement (continued)

as at Holding	31.03.17 £'000	31.03.17 %	30.09.16 %
<b>Interest rate swaps (continued)</b>			
\$50,000,000 Pay 2.668% Receive VAR Jan 2047	(155)	0.00	
\$200,000,000 Pay 2.716% Receive VAR Jan 2047	(3,502)	(0.02)	
\$200,000,000 Pay 2.717% Receive VAR Jan 2047	(3,543)	(0.02)	
<b>Portfolio of investments</b>	<b>16,631,232</b>	<b>95.89</b>	<b>94.98</b>
<b>'AAA' rated money market funds <sup>[b]</sup></b>			
300,667 Northern Trust Global Fund - Sterling	300,667	1.73	1.84
<b>Forward currency contracts for share class hedging</b>			
€1,517,120,874 Bought for £1,318,260,231 (expires 19.04.17)	(16,631)	(0.09)	
€2,715,120,558 Bought for £2,346,612,181 (expires 26.04.17)	(16,793)	(0.10)	
€2,808,923,117 Bought for £2,452,341,941 (expires 12.04.17)	(42,765)	(0.25)	
€6,601,954,556 Bought for £5,703,480,515 (expires 03.05.17)	(37,541)	(0.22)	
€(48,036) Sold for £41,453 (expires 03.05.17)	0	0.00	
SGD26,510,307 Bought for £15,234,742 (expires 03.05.17)	(5)	0.00	
SGD(70,930) Sold for £40,889 (expires 03.05.17)	0	0.00	
CHF198,213,493 Bought for £159,794,130 (expires 03.05.17)	(592)	0.00	
\$2,118,737,210 Bought for £1,717,859,151 (expires 31.05.17)	(18,626)	(0.11)	
\$(17,638,235) Sold for £14,300,535 (expires 31.05.17)	155	0.00	
<b>Total portfolio</b>	<b>16,799,101</b>	<b>96.85</b>	<b>97.68</b>
<b>Net other assets / (liabilities)</b>	<b>546,331</b>	<b>3.15</b>	<b>2.32</b>
<b>Net assets attributable to shareholders</b>	<b>17,345,432</b>	<b>100.00</b>	<b>100.00</b>

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

[a] Suspended on 4 May 2016.

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

### Portfolio transactions

for the six months to 31 March	2017 £'000	2016 £'000
<b>Portfolio transactions</b>		
Total purchases	5,090,534	2,650,777
Total sales	3,278,988	6,558,935

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

# M&G Optimal Income 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 Optimal Income Fund, 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	31.03.17 £'000	30.09.16 £'000	30.09.15 £'000
Fund net asset value (NAV)	17,345,432	15,426,945	18,235,013

### 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.



# M&G Optimal Income Fund

## Financial highlights

### Fund performance

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 <sup>[a]</sup>				
	Six months 03.10.16 % <sup>[b]</sup>	Three years 03.04.14 % p.a.	Five years 03.04.12 % p.a.	Since launch % p.a.
<b>Euro <sup>[c]</sup></b>				
Class 'A-H'	+2.7	+2.9	+4.9	+7.0 <sup>[d]</sup>
Class 'B-H'	+2.4	n/a	n/a	+4.1 <sup>[e]</sup>
Class 'C-H'	+2.9	+3.3	+5.4	+7.6 <sup>[d]</sup>
<b>Singapore dollar <sup>[c]</sup></b>				
Class 'A-H'	+3.5	n/a	n/a	+4.0 <sup>[f]</sup>
Class 'A-H M'	+3.4	n/a	n/a	+4.0 <sup>[f]</sup>
Class 'C-H'	+3.7	n/a	n/a	+4.5 <sup>[f]</sup>
<b>Sterling <sup>[g]</sup></b>				
Class 'A'	+3.2	+3.3	+5.2	+7.1 <sup>[h]</sup>
Class 'I'	+3.4	+3.8	+5.7	+7.5 <sup>[h]</sup>
Class 'R'	+3.3	+3.6	n/a	+5.4 <sup>[i]</sup>
Class 'X'	+3.1	+3.2	+5.0	+6.9 <sup>[h]</sup>
<b>Swiss franc <sup>[c]</sup></b>				
Class 'A-H'	+2.5	+2.3	n/a	+4.2 <sup>[j]</sup>
Class 'C-H'	+2.7	+2.8	n/a	+4.7 <sup>[j]</sup>
<b>US dollar <sup>[c]</sup></b>				
Class 'A-H'	+3.5	+3.5	+5.4	+6.1 <sup>[k]</sup>
Class 'A-H M'	+3.6	n/a	n/a	+3.5 <sup>[f]</sup>
Class 'C-H'	+3.7	+4.0	+6.0	+6.6 <sup>[k]</sup>

<sup>[a]</sup> On 2 December 2008 the M&G Optimal Income Fund de-merged from M&G Investment Funds (6) to become the M&G Optimal Income Fund.

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

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

<sup>[d]</sup> 20 April 2007, the launch date of the share class.

<sup>[e]</sup> 11 September 2015, the launch date of the share class.

<sup>[f]</sup> 16 January 2015, the launch date of the share class.

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

<sup>[h]</sup> 8 December 2006, the launch date of the predecessor OEIC sub-fund.

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

<sup>[j]</sup> 28 September 2012, the launch date of the share class.

<sup>[k]</sup> 1 October 2010, the launch date of the share class.

### Operating charges and portfolio transaction costs

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

#### Operating charges

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

- **Investment management:** Charge paid to M&G for investment management of the fund (also known as Annual Management Charge).
- **Administration:** Charge paid to M&G for administration services in addition to investment management – any surplus from this charge will be retained by M&G.
- **Share class hedging:** Charge paid to M&G for currency hedging services to minimise exchange rate risk for the share class.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depositary, custody and audit.

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 Optimal Income 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 31.03.17	Year to 30.09.16	Year to 30.09.15	Average <sup>[a]</sup>
Direct portfolio transaction costs <sup>[b]</sup>	%	%	%	%
Broker commission	0.01	0.01	0.00	0.01
Taxes	0.00	0.00	0.00	0.00
Costs before dilution adjustments	0.01	0.01	0.00	0.01
Dilution adjustments <sup>[c]</sup>	0.00	(0.01)	0.00	(0.00)
Total direct portfolio transaction costs	0.01	0.00	0.00	0.01

as at	31.03.17	30.09.16	30.09.15	Average <sup>[a]</sup>
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.62	0.72	0.67	0.67

<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.

### 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 'A-H' Income share performance

The share class was launched on 12 July 2013.

	Six months to 31.03.17	Year to 30.09.16	Year to 30.09.15
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	1,759.17	1,707.94	1,759.48
Return before operating charges and after direct portfolio transaction costs	49.38	121.87	9.66
Operating charges	(12.66)	(24.75)	(25.29)
Return after operating charges	36.72	97.12	(15.63)
Distributions	(32.25)	(45.89)	(35.91)
Closing NAV	1,763.64	1,759.17	1,707.94

Direct portfolio transaction costs <sup>[a]</sup>	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.06	0.18	0.09
Dilution adjustments <sup>[b]</sup>	(0.01)	(0.12)	(0.01)
Total direct portfolio transaction costs	0.05	0.06	0.08

Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	1.43	1.42	1.43
Return after operating charges	+2.09	+5.69	-0.89
Distribution yield <sup>[c]</sup>	3.26	3.46	1.85
Effect on yield of charges offset against capital	1.42	1.40	0.00

Other information			
Closing NAV (£'000)	760,429	632,664	663,419
Closing NAV percentage of total fund NAV (%)	4.38	4.10	3.64
Number of shares	50,270,730	41,757,012	52,639,574
Highest share price (Euro ¢)	1,813.27	1,804.07	1,807.63
Lowest share price (Euro ¢)	1,748.54	1,659.55	1,723.22

# M&G Optimal Income Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 20 April 2007.

	Six months to 31.03.17 Euro ¢	Year to 30.09.16 Euro ¢	Year to 30.09.15 Euro ¢
<b>Change in NAV per share</b>			
Opening NAV	1,911.10	1,806.43	1,824.69
Return before operating charges and after direct portfolio transaction costs	52.31	130.95	8.30
Operating charges	(13.75)	(26.28)	(26.56)
Return after operating charges	38.56	104.67	(18.26)
Distributions	(21.53)	(44.64)	(37.30)
Retained distributions	21.53	44.64	37.30
Closing NAV	1,949.66	1,911.10	1,806.43
<b>Direct portfolio transaction costs [a]</b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.07	0.19	0.09
Dilution adjustments [b]	(0.01)	(0.13)	(0.01)
Total direct portfolio transaction costs	0.06	0.06	0.08
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	1.43	1.43	1.43
Return after operating charges	+2.02	+5.79	-1.00
Distribution yield	1.82	2.06	1.86
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	8,755,341	7,574,320	8,807,296
Closing NAV percentage of total fund NAV (%)	50.48	49.10	48.30
Number of shares	523,574,599	460,177,565	660,721,600
Highest share price (Euro ¢)	1,968.40	1,930.16	1,873.77
Lowest share price (Euro ¢)	1,898.80	1,754.78	1,806.03

#### Euro Class 'B-H' Income share performance

The share class was launched on 11 September 2015.

	Six months to 31.03.17 Euro ¢	Year to 30.09.16 Euro ¢	Year to 30.09.15 Euro ¢
<b>Change in NAV per share</b>			
Opening NAV	1,007.55	978.76	1,000.00
Return before operating charges and after direct portfolio transaction costs	28.38	71.18	(11.35)
Operating charges	(9.74)	(19.81)	(0.92)
Return after operating charges	18.64	51.37	(12.27)
Distributions	(18.42)	(22.58)	(8.97)
Closing NAV	1,007.77	1,007.55	978.76
<b>Direct portfolio transaction costs [a]</b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.04	0.11	0.00
Dilution adjustments [b]	(0.01)	(0.07)	0.00
Total direct portfolio transaction costs	0.03	0.04	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	1.94	1.92	1.93
Return after operating charges	+1.85	+5.25	-1.23
Distribution yield [c]	3.26	3.46	1.35
Effect on yield of charges offset against capital	1.92	1.90	0.00
<b>Other information</b>			
Closing NAV (£'000)	22,292	7,814	22
Closing NAV percentage of total fund NAV (%)	0.13	0.05	0.00
Number of shares	2,579,059	900,419	3,001
Highest share price (Euro ¢)	1,036.45	1,031.89	1,000.00
Lowest share price (Euro ¢)	1,000.81	949.77	987.52

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

The share class was launched on 11 September 2015.

	Six months to 31.03.17 Euro ¢	Year to 30.09.16 Euro ¢	Year to 30.09.15 Euro ¢
<b>Change in NAV per share</b>			
Opening NAV	1,039.47	987.73	1,000.00
Return before operating charges and after direct portfolio transaction costs	28.15	72.13	(11.35)
Operating charges	(10.02)	(20.39)	(0.92)
Return after operating charges	18.13	51.74	(12.27)
Distributions	(9.17)	(19.71)	(8.97)
Retained distributions	9.17	19.71	8.97
Closing NAV	1,057.60	1,039.47	987.73
<b>Direct portfolio transaction costs [a]</b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.04	0.11	0.00
Dilution adjustments [b]	(0.01)	(0.07)	0.00
Total direct portfolio transaction costs	0.03	0.04	0.00
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	1.94	1.92	1.93
Return after operating charges	+1.74	+5.24	-1.23
Distribution yield	1.32	1.59	1.35
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	64,952	19,007	22
Closing NAV percentage of total fund NAV (%)	0.37	0.12	0.00
Number of shares	7,160,330	2,123,070	3,000
Highest share price (Euro ¢)	1,068.19	1,050.39	1,000.00
Lowest share price (Euro ¢)	1,031.55	958.51	987.52

# M&G Optimal Income Fund

## Financial highlights

### Specific share class performance

#### Euro Class 'C-H' Income share performance

The share class was launched on 8 August 2014.

	Six months to 31.03.17 Euro ¢	Year to 30.09.16 Euro ¢	Year to 30.09.15 Euro ¢
<b>Change in NAV per share</b>			
Opening NAV	1,873.49	1,818.35	1,875.44
Return before operating charges and after direct portfolio transaction costs	51.96	128.75	8.00
Operating charges	(8.79)	(17.13)	(17.14)
Return after operating charges	43.17	111.62	(9.14)
Distributions	(34.42)	(56.48)	(47.95)
Closing NAV	1,882.24	1,873.49	1,818.35
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.07	0.19	0.09
Dilution adjustments <sup>[b]</sup>	(0.01)	(0.13)	(0.01)
Total direct portfolio transaction costs	0.06	0.06	0.08
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	0.93	0.92	0.93
Return after operating charges	+2.30	+6.14	-0.49
Distribution yield <sup>[c]</sup>	3.26	3.47	2.36
Effect on yield of charges offset against capital	0.92	0.90	0.00
<b>Other information</b>			
Closing NAV (£'000)	48,256	46,043	44,900
Closing NAV percentage of total fund NAV (%)	0.28	0.30	0.25
Number of shares	2,989,074	2,853,464	3,346,323
Highest share price (Euro ¢)	1,934.53	1,923.83	1,929.65
Lowest share price (Euro ¢)	1,863.02	1,770.37	1,839.49

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

The share class was launched on 20 April 2007.

	Six months to 31.03.17 Euro ¢	Year to 30.09.16 Euro ¢	Year to 30.09.15 Euro ¢
<b>Change in NAV per share</b>			
Opening NAV	2,009.92	1,893.03	1,903.47
Return before operating charges and after direct portfolio transaction costs	54.00	134.79	7.57
Operating charges	(9.40)	(17.90)	(18.01)
Return after operating charges	44.60	116.89	(10.44)
Distributions	(27.75)	(56.11)	(48.89)
Retained distributions	27.75	56.11	48.89
Closing NAV	2,054.52	2,009.92	1,893.03
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>Euro ¢</b>	<b>Euro ¢</b>	<b>Euro ¢</b>
Costs before dilution adjustments	0.07	0.20	0.09
Dilution adjustments <sup>[b]</sup>	(0.01)	(0.13)	(0.01)
Total direct portfolio transaction costs	0.06	0.07	0.08
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	0.93	0.93	0.93
Return after operating charges	+2.22	+6.17	-0.55
Distribution yield	2.32	2.56	2.36
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	2,072,212	1,785,131	2,196,738
Closing NAV percentage of total fund NAV (%)	11.95	11.57	12.05
Number of shares	117,595,247	103,122,734	157,259,592
Highest share price (Euro ¢)	2,073.72	2,029.79	1,958.00
Lowest share price (Euro ¢)	1,997.26	1,842.59	1,892.63

#### Singapore dollar Class 'A-H' Accumulation share performance

The share class was launched on 16 January 2015.

	Six months to 31.03.17 Singapore ¢	Year to 30.09.16 Singapore ¢	Year to 30.09.15 Singapore ¢
<b>Change in NAV per share</b>			
Opening NAV	1,053.49	981.11	1,000.00
Return before operating charges and after direct portfolio transaction costs	36.99	86.66	(8.84)
Operating charges	(7.60)	(14.28)	(10.05)
Return after operating charges	29.39	72.38	(18.89)
Distributions	(11.88)	(24.18)	(13.55)
Retained distributions	11.88	24.18	13.55
Closing NAV	1,082.88	1,053.49	981.11
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>Singapore ¢</b>	<b>Singapore ¢</b>	<b>Singapore ¢</b>
Costs before dilution adjustments	0.04	0.10	0.03
Dilution adjustments <sup>[b]</sup>	(0.01)	(0.07)	0.00
Total direct portfolio transaction costs	0.03	0.03	0.03
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	1.43	1.42	1.42
Return after operating charges	+2.79	+7.38	-1.89
Distribution yield	1.81	2.05	1.89
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	4,993	4,220	6,179
Closing NAV percentage of total fund NAV (%)	0.03	0.03	0.03
Number of shares	802,321	708,563	1,362,388
Highest share price (Singapore ¢)	1,092.13	1,063.33	1,009.68
Lowest share price (Singapore ¢)	1,048.47	959.86	980.91

# M&G Optimal Income Fund

## Financial highlights

### Specific share class performance

#### Singapore dollar Class 'A-H M' Income share performance

The share class was launched on 16 January 2015.

Change in NAV per share	Six months to 31.03.17 Singapore ¢	Year to 30.09.16 Singapore ¢	Year to 30.09.15 Singapore ¢
Opening NAV	1,012.82	967.62	1,000.00
Return before operating charges and after direct portfolio transaction costs	34.81	85.35	(9.20)
Operating charges	(7.25)	(14.08)	(9.96)
Return after operating charges	27.56	71.27	(19.16)
Distributions	(18.61)	(26.07)	(13.22)
Closing NAV	1,021.77	1,012.82	967.62
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>Singapore ¢</b>	<b>Singapore ¢</b>	<b>Singapore ¢</b>
Costs before dilution adjustments	0.04	0.10	0.03
Dilution adjustments <sup>[b]</sup>	(0.01)	(0.07)	0.00
Total direct portfolio transaction costs	0.03	0.03	0.03
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	1.43	1.42	1.42
Return after operating charges	+2.72	+7.37	-1.92
Distribution yield <sup>[c]</sup>	3.23	3.44	1.89
Effect on yield of charges offset against capital	1.42	1.40	0.00
<b>Other information</b>			
Closing NAV (£'000)	10,403	8,506	13,512
Closing NAV percentage of total fund NAV (%)	0.06	0.05	0.07
Number of shares	1,771,506	1,485,519	3,020,993
Highest share price (Singapore ¢)	1,033.78	1,025.91	1,008.39
Lowest share price (Singapore ¢)	1,003.37	939.62	968.90

#### Singapore dollar Class 'C-H' Accumulation share performance

The share class was launched on 16 January 2015.

Change in NAV per share	Six months to 31.03.17 Singapore ¢	Year to 30.09.16 Singapore ¢	Year to 30.09.15 Singapore ¢
Opening NAV	1,062.74	984.33	1,000.00
Return before operating charges and after direct portfolio transaction costs	36.58	87.45	(9.20)
Operating charges	(4.96)	(9.04)	(6.47)
Return after operating charges	31.62	78.41	(15.67)
Distributions	(14.67)	(29.41)	(16.99)
Retained distributions	14.67	29.41	16.99
Closing NAV	1,094.36	1,062.74	984.33
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>Singapore ¢</b>	<b>Singapore ¢</b>	<b>Singapore ¢</b>
Costs before dilution adjustments	0.04	0.10	0.03
Dilution adjustments <sup>[b]</sup>	(0.01)	(0.07)	0.00
Total direct portfolio transaction costs	0.03	0.03	0.03
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	0.92	0.93	0.92
Return after operating charges	+2.98	+7.97	-1.57
Distribution yield	2.30	2.54	2.39
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	41	40	182
Closing NAV percentage of total fund NAV (%)	0.00	0.00	0.00
Number of shares	6,597	6,597	40,029
Highest share price (Singapore ¢)	1,103.41	1,072.38	1,010.54
Lowest share price (Singapore ¢)	1,058.06	964.72	984.06

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

The share class was launched on 8 December 2006.

Change in NAV per share	Six months to 31.03.17 UK p	Year to 30.09.16 UK p	Year to 30.09.15 UK p
Opening NAV	145.75	140.09	143.29
Return before operating charges and after direct portfolio transaction costs	4.69	11.56	1.71
Operating charges	(1.04)	(2.01)	(2.04)
Return after operating charges	3.65	9.55	(0.33)
Distributions	(2.66)	(3.89)	(2.87)
Closing NAV	146.74	145.75	140.09
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments <sup>[b]</sup>	0.00	(0.01)	0.00
Total direct portfolio transaction costs	0.01	0.00	0.01
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	1.41	1.41	1.41
Return after operating charges	+2.50	+6.82	-0.23
Distribution yield <sup>[c]</sup>	3.21	3.51	1.89
Effect on yield of charges offset against capital	1.40	1.40	0.00
<b>Other information</b>			
Closing NAV (£'000)	243,081	226,156	539,892
Closing NAV percentage of total fund NAV (%)	1.40	1.47	2.96
Number of shares	165,655,934	155,166,606	385,395,778
Highest share price (UK p)	150.75	149.02	147.24
Lowest share price (UK p)	145.05	136.13	141.13

# M&G Optimal Income Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 8 December 2006.

Change in NAV per share	Six months to 31.03.17 UK p	Year to 30.09.16 UK p	Year to 30.09.15 UK p
Opening NAV	196.82	185.07	186.31
Return before operating charges and after direct portfolio transaction costs	6.31	15.36	2.17
Operating charges	(1.40)	(2.67)	(2.66)
Return after operating charges	4.91	12.69	(0.49)
Distributions	(2.23)	(4.70)	(3.74)
Retained distributions	2.23	3.76	2.99
Closing NAV	201.73	196.82	185.07
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.01	0.02	0.01
Dilution adjustments <sup>[b]</sup>	0.00	(0.01)	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	1.41	1.41	1.41
Return after operating charges	+2.49	+6.86	-0.26
Distribution yield	1.81	2.10	1.89
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	630,800	650,497	1,045,476
Closing NAV percentage of total fund NAV (%)	3.64	4.22	5.73
Number of shares	312,698,288	330,507,238	564,919,157
Highest share price (UK p)	203.56	198.72	191.43
Lowest share price (UK p)	195.86	179.84	185.03

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

The share class was launched on 8 December 2006.

Change in NAV per share	Six months to 31.03.17 UK p	Year to 30.09.16 UK p	Year to 30.09.15 UK p
Opening NAV	145.86	140.07	143.28
Return before operating charges and after direct portfolio transaction costs	4.69	11.57	1.71
Operating charges	(0.67)	(1.30)	(1.32)
Return after operating charges	4.02	10.27	0.39
Distributions	(2.66)	(4.48)	(3.60)
Closing NAV	147.22	145.86	140.07
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments <sup>[b]</sup>	0.00	(0.01)	0.00
Total direct portfolio transaction costs	0.01	0.00	0.01
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	0.91	0.91	0.91
Return after operating charges	+2.76	+7.33	+0.27
Distribution yield <sup>[c]</sup>	3.21	3.50	2.40
Effect on yield of charges offset against capital	0.90	0.90	0.00
<b>Other information</b>			
Closing NAV (£'000)	1,358,971	1,366,215	1,534,306
Closing NAV percentage of total fund NAV (%)	7.83	8.86	8.41
Number of shares	923,061,485	936,630,031	1,095,418,033
Highest share price (UK p)	151.19	149.29	147.47
Lowest share price (UK p)	145.27	136.31	141.40

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

The share class was launched on 8 December 2006.

Change in NAV per share	Six months to 31.03.17 UK p	Year to 30.09.16 UK p	Year to 30.09.15 UK p
Opening NAV	204.22	191.26	191.79
Return before operating charges and after direct portfolio transaction costs	6.56	15.92	2.20
Operating charges	(0.94)	(1.79)	(1.77)
Return after operating charges	5.62	14.13	0.43
Distributions	(2.82)	(5.84)	(4.82)
Retained distributions	2.82	4.67	3.86
Closing NAV	209.84	204.22	191.26
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.01	0.02	0.01
Dilution adjustments <sup>[b]</sup>	0.00	(0.01)	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	0.91	0.91	0.91
Return after operating charges	+2.75	+7.39	+0.22
Distribution yield	2.31	2.60	2.40
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	1,365,542	1,400,480	1,346,596
Closing NAV percentage of total fund NAV (%)	7.87	9.08	7.39
Number of shares	650,761,066	685,772,367	704,071,961
Highest share price (UK p)	211.67	206.15	197.39
Lowest share price (UK p)	203.38	186.13	191.22



# M&G Optimal Income Fund

## Financial highlights

### Specific share class performance

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

The share class was launched on 3 August 2012.

	Six months to 31.03.17 UK p	Year to 30.09.16 UK p	Year to 30.09.15 UK p
<b>Change in NAV per share</b>			
Opening NAV	113.32	108.87	111.37
Return before operating charges and after direct portfolio transaction costs	3.65	8.99	1.32
Operating charges	(0.66)	(1.29)	(1.30)
Return after operating charges	2.99	7.70	0.02
Distributions	(2.07)	(3.25)	(2.52)
Closing NAV	114.24	113.32	108.87
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.01	0.01
Dilution adjustments <sup>[b]</sup>	0.00	(0.01)	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	0.01	0.00	0.00
Operating charges	1.16	1.16	1.16
Return after operating charges	+2.64	+7.07	+0.02
Distribution yield <sup>[c]</sup>	3.21	3.50	2.15
Effect on yield of charges offset against capital	1.15	1.15	0.00
<b>Other information</b>			
Closing NAV (£'000)	3,349	3,697	3,896
Closing NAV percentage of total fund NAV (%)	0.02	0.02	0.02
Number of shares	2,931,291	3,262,632	3,578,994
Highest share price (UK p)	117.34	115.92	114.53
Lowest share price (UK p)	112.82	105.88	109.79

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

The share class was launched on 3 August 2012.

	Six months to 31.03.17 UK p	Year to 30.09.16 UK p	Year to 30.09.15 UK p
<b>Change in NAV per share</b>			
Opening NAV	123.83	116.20	116.76
Return before operating charges and after direct portfolio transaction costs	3.98	9.66	1.34
Operating charges	(0.73)	(1.38)	(1.37)
Return after operating charges	3.25	8.28	(0.03)
Distributions	(1.55)	(3.25)	(2.65)
Retained distributions	1.55	2.60	2.12
Closing NAV	127.08	123.83	116.20
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.00	0.01	0.01
Dilution adjustments <sup>[b]</sup>	0.00	(0.01)	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	0.01	0.00	0.00
Operating charges	1.16	1.16	1.16
Return after operating charges	+2.62	+7.13	-0.03
Distribution yield	2.06	2.35	2.15
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	6,981	6,994	8,194
Closing NAV percentage of total fund NAV (%)	0.04	0.04	0.04
Number of shares	5,493,038	5,647,628	7,051,647
Highest share price (UK p)	128.21	125.02	120.06
Lowest share price (UK p)	123.28	113.00	116.18

#### Sterling Class 'X' Income share performance

The share class was launched on 8 December 2006.

	Six months to 31.03.17 UK p	Year to 30.09.16 UK p	Year to 30.09.15 UK p
<b>Change in NAV per share</b>			
Opening NAV	145.60	140.00	143.21
Return before operating charges and after direct portfolio transaction costs	4.67	11.56	1.70
Operating charges	(1.11)	(2.37)	(2.40)
Return after operating charges	3.56	9.19	(0.70)
Distributions	(2.65)	(3.59)	(2.51)
Closing NAV	146.51	145.60	140.00
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments <sup>[b]</sup>	0.00	(0.01)	0.00
Total direct portfolio transaction costs	0.01	0.00	0.01
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	1.51*	1.66	1.66
Return after operating charges	+2.45	+6.56	-0.49
Distribution yield <sup>[c]</sup>	3.21	3.50	1.64
Effect on yield of charges offset against capital	1.40	1.65	0.00
<b>Other information</b>			
Closing NAV (£'000)	73,262	78,484	88,563
Closing NAV percentage of total fund NAV (%)	0.42	0.51	0.49
Number of shares	50,005,878	53,905,220	63,257,225
Highest share price (UK p)	150.51	148.78	147.02
Lowest share price (UK p)	144.85	135.95	140.90

\* As the annual management charge has been discounted during the period, 1.41% is a more reliable estimate of the period to 31.03.17 ongoing charges.

# M&G Optimal Income Fund

## Financial highlights

### Specific share class performance

#### Sterling Class 'X' Accumulation share performance

The share class was launched on 8 December 2006.

	Six months to 31.03.17 UK p	Year to 30.09.16 UK p	Year to 30.09.15 UK p
<b>Change in NAV per share</b>			
Opening NAV	192.88	181.72	183.28
Return before operating charges and after direct portfolio transaction costs	6.19	15.08	2.16
Operating charges	(1.48)	(3.09)	(3.08)
Return after operating charges	4.71	11.99	(0.92)
Distributions	(2.08)	(4.14)	(3.22)
Retained distributions	2.08	3.31	2.58
Closing NAV	197.59	192.88	181.72
<b>Direct portfolio transaction costs [a]</b>	<b>UK p</b>	<b>UK p</b>	<b>UK p</b>
Costs before dilution adjustments	0.01	0.02	0.01
Dilution adjustments [b]	0.00	(0.01)	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	1.51*	1.66	1.66
Return after operating charges	+2.44	+6.60	-0.50
Distribution yield	1.56	1.86	1.64
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	70,079	75,557	84,803
Closing NAV percentage of total fund NAV (%)	0.40	0.49	0.47
Number of shares	35,467,237	39,173,748	46,665,649
Highest share price (UK p)	199.38	194.77	188.19
Lowest share price (UK p)	191.88	176.46	181.68

\* As the annual management charge has been discounted during the period, 1.41% is a more reliable estimate of the period to 31.03.17 ongoing charges.

#### Swiss franc Class 'A-H' Income share performance

The share class was launched on 16 January 2015.

	Six months to 31.03.17 Swiss ¢	Year to 30.09.16 Swiss ¢	Year to 30.09.15 Swiss ¢
<b>Change in NAV per share</b>			
Opening NAV	1,121.90	1,096.99	1,156.86
Return before operating charges and after direct portfolio transaction costs	28.03	69.69	(26.04)
Operating charges	(8.04)	(15.58)	(10.98)
Return after operating charges	19.99	54.11	(37.02)
Distributions	(20.41)	(29.20)	(22.85)
Closing NAV	1,121.48	1,121.90	1,096.99
<b>Direct portfolio transaction costs [a]</b>	<b>Swiss ¢</b>	<b>Swiss ¢</b>	<b>Swiss ¢</b>
Costs before dilution adjustments	0.04	0.11	0.04
Dilution adjustments [b]	(0.01)	(0.08)	0.00
Total direct portfolio transaction costs	0.03	0.03	0.04
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	1.43	1.43	1.43
Return after operating charges	+1.78	+4.93	-3.20
Distribution yield [c]	3.25	3.44	1.87
Effect on yield of charges offset against capital	1.42	1.40	0.00
<b>Other information</b>			
Closing NAV (£'000)	1,766	893	1,461
Closing NAV percentage of total fund NAV (%)	0.01	0.01	0.01
Number of shares	196,272	100,508	196,988
Highest share price (Swiss ¢)	1,153.36	1,150.71	1,166.36
Lowest share price (Swiss ¢)	1,114.32	1,062.38	1,107.42

#### Swiss franc Class 'A-H' Accumulation share performance

The share class was launched on 28 September 2012.

	Six months to 31.03.17 Swiss ¢	Year to 30.09.16 Swiss ¢	Year to 30.09.15 Swiss ¢
<b>Change in NAV per share</b>			
Opening NAV	1,175.12	1,119.62	1,138.53
Return before operating charges and after direct portfolio transaction costs	29.08	71.54	(2.43)
Operating charges	(8.44)	(16.04)	(16.48)
Return after operating charges	20.64	55.50	(18.91)
Distributions	(13.18)	(27.09)	(22.55)
Retained distributions	13.18	27.09	22.55
Closing NAV	1,195.76	1,175.12	1,119.62
<b>Direct portfolio transaction costs [a]</b>	<b>Swiss ¢</b>	<b>Swiss ¢</b>	<b>Swiss ¢</b>
Costs before dilution adjustments	0.04	0.11	0.06
Dilution adjustments [b]	(0.01)	(0.08)	0.00
Total direct portfolio transaction costs	0.03	0.03	0.06
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	1.43	1.43	1.43
Return after operating charges	+1.76	+4.96	-1.66
Distribution yield	1.81	2.05	1.87
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	50,315	45,526	90,148
Closing NAV percentage of total fund NAV (%)	0.29	0.30	0.49
Number of shares	5,243,955	4,893,433	11,910,392
Highest share price (Swiss ¢)	1,207.68	1,187.49	1,167.47
Lowest share price (Swiss ¢)	1,166.57	1,084.10	1,119.37

# M&G Optimal Income Fund

## Financial highlights

### Specific share class performance

#### Swiss franc Class 'C-H' Income share performance

The share class was launched on 16 January 2015.

	Six months to 31.03.17 Swiss ¢	Year to 30.09.16 Swiss ¢	Year to 30.09.15 Swiss ¢
<b>Change in NAV per share</b>			
Opening NAV	1,133.50	1,106.76	1,168.88
Return before operating charges and after direct portfolio transaction costs	28.59	71.46	(26.16)
Operating charges	(5.29)	(10.51)	(7.29)
Return after operating charges	23.30	60.95	(33.45)
Distributions	(20.64)	(34.21)	(28.67)
Closing NAV	1,136.16	1,133.50	1,106.76
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>Swiss ¢</b>	<b>Swiss ¢</b>	<b>Swiss ¢</b>
Costs before dilution adjustments	0.04	0.12	0.04
Dilution adjustments <sup>[b]</sup>	(0.01)	(0.08)	0.00
Total direct portfolio transaction costs	0.03	0.04	0.04
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	0.93	0.92	0.93
Return after operating charges	+2.06	+5.51	-2.86
Distribution yield <sup>[c]</sup>	3.26	3.45	2.36
Effect on yield of charges offset against capital	0.92	0.90	0.00
<b>Other information</b>			
Closing NAV (£'000)	8,916	6,010	3,086
Closing NAV percentage of total fund NAV (%)	0.05	0.04	0.02
Number of shares	977,996	669,753	412,494
Highest share price (Swiss ¢)	1,167.96	1,164.20	1,179.16
Lowest share price (Swiss ¢)	1,126.72	1,073.85	1,120.16

#### Swiss franc Class 'C-H' Accumulation share performance

The share class was launched on 28 September 2012.

	Six months to 31.03.17 Swiss ¢	Year to 30.09.16 Swiss ¢	Year to 30.09.15 Swiss ¢
<b>Change in NAV per share</b>			
Opening NAV	1,198.39	1,135.82	1,149.55
Return before operating charges and after direct portfolio transaction costs	29.36	73.47	(2.90)
Operating charges	(5.59)	(10.90)	(10.83)
Return after operating charges	23.77	62.57	(13.73)
Distributions	(16.42)	(33.54)	(28.56)
Retained distributions	16.42	33.54	28.56
Closing NAV	1,222.16	1,198.39	1,135.82
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>Swiss ¢</b>	<b>Swiss ¢</b>	<b>Swiss ¢</b>
Costs before dilution adjustments	0.04	0.12	0.06
Dilution adjustments <sup>[b]</sup>	(0.01)	(0.08)	0.00
Total direct portfolio transaction costs	0.03	0.04	0.06
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	0.93	0.92	0.93
Return after operating charges	+1.98	+5.51	-1.19
Distribution yield	2.33	2.55	2.36
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	98,144	72,848	26,438
Closing NAV percentage of total fund NAV (%)	0.57	0.47	0.14
Number of shares	10,007,856	7,678,121	3,443,163
Highest share price (Swiss ¢)	1,233.96	1,210.70	1,180.64
Lowest share price (Swiss ¢)	1,190.42	1,102.21	1,135.59

#### US dollar Class 'A-H' Income share performance

The share class was launched on 8 August 2014.

	Six months to 31.03.17 US ¢	Year to 30.09.16 US ¢	Year to 30.09.15 US ¢
<b>Change in NAV per share</b>			
Opening NAV	1,343.54	1,293.09	1,326.51
Return before operating charges and after direct portfolio transaction costs	48.82	103.41	11.36
Operating charges	(9.71)	(18.67)	(19.22)
Return after operating charges	39.11	84.74	(7.86)
Distributions	(23.91)	(34.29)	(25.56)
Closing NAV	1,358.74	1,343.54	1,293.09
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>US ¢</b>	<b>US ¢</b>	<b>US ¢</b>
Costs before dilution adjustments	0.05	0.13	0.07
Dilution adjustments <sup>[b]</sup>	(0.01)	(0.09)	0.00
Total direct portfolio transaction costs	0.04	0.04	0.07
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	1.42	1.43	1.43
Return after operating charges	+2.91	+6.55	-0.59
Distribution yield <sup>[c]</sup>	3.23	3.44	1.83
Effect on yield of charges offset against capital	1.42	1.40	0.00
<b>Other information</b>			
Closing NAV (£'000)	56,310	60,931	1,315,498
Closing NAV percentage of total fund NAV (%)	0.32	0.39	7.22
Number of shares	5,160,723	5,879,099	11,885,851
Highest share price (US ¢)	1,394.03	1,375.33	1,363.52
Lowest share price (US ¢)	1,339.09	1,259.05	1,305.02

# M&G Optimal Income Fund

## Financial highlights

### Specific share class performance

#### US dollar Class 'A-H' Accumulation share performance

The share class was launched on 1 October 2010.

	Six months to 31.03.17 US ¢	Year to 30.09.16 US ¢	Year to 30.09.15 US ¢
<b>Change in NAV per share</b>			
Opening NAV	1,418.75	1,331.90	1,340.91
Return before operating charges and after direct portfolio transaction costs	50.53	106.24	10.45
Operating charges	(10.25)	(19.39)	(19.46)
Return after operating charges	40.28	86.85	(9.01)
Distributions	(15.29)	(32.13)	(25.83)
Retained distributions	15.29	32.13	25.83
Closing NAV	1,459.03	1,418.75	1,331.90
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>US ¢</b>	<b>US ¢</b>	<b>US ¢</b>
Costs before dilution adjustments	0.05	0.14	0.07
Dilution adjustments <sup>[b]</sup>	(0.01)	(0.09)	0.00
Total direct portfolio transaction costs	0.04	0.05	0.07
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	1.43	1.42	1.43
Return after operating charges	+2.84	+6.52	-0.67
Distribution yield	1.82	2.05	1.83
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	1,304,341	1,067,522	101,121
Closing NAV percentage of total fund NAV (%)	7.52	6.92	0.55
Number of shares	111,322,672	97,542,216	150,118,496
Highest share price (US ¢)	1,470.98	1,431.21	1,377.95
Lowest share price (US ¢)	1,413.13	1,296.56	1,331.61

#### US dollar Class 'A-H M' Income share performance

The share class was launched on 16 January 2015.

	Six months to 31.03.17 US ¢	Year to 30.09.16 US ¢	Year to 30.09.15 US ¢
<b>Change in NAV per share</b>			
Opening NAV	1,001.57	964.15	1,000.00
Return before operating charges and after direct portfolio transaction costs	36.17	76.70	(12.52)
Operating charges	(7.13)	(13.85)	(10.00)
Return after operating charges	29.04	62.85	(22.52)
Distributions	(17.89)	(25.43)	(13.33)
Closing NAV	1,012.72	1,001.57	964.15
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>US ¢</b>	<b>US ¢</b>	<b>US ¢</b>
Costs before dilution adjustments	0.04	0.10	0.03
Dilution adjustments <sup>[b]</sup>	(0.01)	(0.07)	0.00
Total direct portfolio transaction costs	0.03	0.03	0.03
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	1.44	1.43	1.42
Return after operating charges	+2.90	+6.52	-2.25
Distribution yield <sup>[c]</sup>	3.23	3.44	1.86
Effect on yield of charges offset against capital	1.42	1.40	0.00
<b>Other information</b>			
Closing NAV (£'000)	44,627	17,620	23,233
Closing NAV percentage of total fund NAV (%)	0.26	0.11	0.13
Number of shares	5,487,403	2,280,655	3,662,465
Highest share price (US ¢)	1,024.01	1,013.99	1,008.93
Lowest share price (US ¢)	994.21	932.10	965.46

#### US dollar Class 'C-H' Income share performance

The share class was launched on 8 August 2014.

	Six months to 31.03.17 US ¢	Year to 30.09.16 US ¢	Year to 30.09.15 US ¢
<b>Change in NAV per share</b>			
Opening NAV	1,369.72	1,316.85	1,351.88
Return before operating charges and after direct portfolio transaction costs	49.44	105.94	10.49
Operating charges	(6.43)	(12.46)	(12.78)
Return after operating charges	43.01	93.48	(2.29)
Distributions	(24.50)	(40.61)	(32.74)
Closing NAV	1,388.23	1,369.72	1,316.85
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>US ¢</b>	<b>US ¢</b>	<b>US ¢</b>
Costs before dilution adjustments	0.05	0.14	0.07
Dilution adjustments <sup>[b]</sup>	(0.01)	(0.09)	0.00
Total direct portfolio transaction costs	0.04	0.05	0.07
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	0.93	0.92	0.93
Return after operating charges	+3.14	+7.10	-0.17
Distribution yield <sup>[c]</sup>	3.24	3.45	2.32
Effect on yield of charges offset against capital	0.92	0.90	0.00
<b>Other information</b>			
Closing NAV (£'000)	46,253	31,837	27,603
Closing NAV percentage of total fund NAV (%)	0.27	0.21	0.15
Number of shares	4,148,890	3,013,204	3,185,873
Highest share price (US ¢)	1,423.88	1,404.04	1,391.60
Lowest share price (US ¢)	1,365.89	1,284.61	1,332.42

# M&G Optimal Income Fund

## Financial highlights

### Specific share class performance

#### US dollar Class 'C-H' Accumulation share performance

The share class was launched on 1 October 2010.

	Six months to 31.03.17 US ¢	Year to 30.09.16 US ¢	Year to 30.09.15 US ¢
<b>Change in NAV per share</b>			
Opening NAV	1,463.05	1,366.78	1,369.26
Return before operating charges and after direct portfolio transaction costs	51.38	109.24	10.45
Operating charges	(6.87)	(12.97)	(12.93)
Return after operating charges	44.51	96.27	(2.48)
Distributions	(19.41)	(40.03)	(33.19)
Retained distributions	19.41	40.03	33.19
Closing NAV	1,507.56	1,463.05	1,366.78
<b>Direct portfolio transaction costs <sup>[a]</sup></b>	<b>US ¢</b>	<b>US ¢</b>	<b>US ¢</b>
Costs before dilution adjustments	0.05	0.14	0.07
Dilution adjustments <sup>[b]</sup>	(0.01)	(0.10)	0.00
Total direct portfolio transaction costs	0.04	0.04	0.07
<b>Performance and charges</b>	<b>%</b>	<b>%</b>	<b>%</b>
Direct portfolio transaction costs	0.01	0.00	0.00
Operating charges	0.93	0.92	0.93
Return after operating charges	+3.04	+7.04	-0.18
Distribution yield	2.32	2.54	2.32
Effect on yield of charges offset against capital	0.00	0.00	0.00
<b>Other information</b>			
Closing NAV (£'000)	243,776	237,933	262,429
Closing NAV percentage of total fund NAV (%)	1.41	1.54	1.44
Number of shares	20,136,035	21,082,338	29,182,769
Highest share price (US ¢)	1,519.58	1,475.46	1,409.02
Lowest share price (US ¢)	1,458.01	1,332.73	1,366.50

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

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

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

# M&G Optimal Income Fund

## Financial statements and notes

### Financial statements

#### Statement of total return

for the six months to 31 March	2017		2016	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		169,070		781,010
Revenue	301,093		310,386	
Expenses	(103,001)		(102,945)	
Net revenue / (expense) before taxation	198,092		207,441	
Taxation	(2,424)		145	
Net revenue / (expense) after taxation		195,668		207,586
<b>Total return before distributions</b>		<b>364,738</b>		<b>988,596</b>
Distributions		(204,552)		(203,168)
<b>Change in net assets attributable to shareholders from investment activities</b>		<b>160,186</b>		<b>785,428</b>

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

for the six months to 31 March	2017		2016	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		15,426,945		18,235,013
Amounts received on issue of shares	2,209,528		540,029	
Amounts paid on cancellation of shares	(627,467)		(4,745,801)	
		1,582,061		(4,205,772)
Dilution adjustments		6,126		15,199
Change in net assets attributable to shareholders from investment activities (see above)		160,186		785,428
Retained distributions on Accumulation shares		170,112		139,964
Unclaimed distributions		2		0
<b>Closing net assets attributable to shareholders</b>		<b>17,345,432</b>		<b>14,969,832</b>

The opening net assets attributable to shareholders for 2017 differs to the closing position in 2016 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

#### Balance sheet

as at	31 March 2017	30 September 2016
	£'000	£'000
<b>Assets</b>		
<b>Fixed assets</b>		
Investments	17,058,417	15,396,406
<b>Current assets</b>		
Debtors	5,972,633	727,026
Cash and bank balances	418,646	335,688
<b>Total assets</b>	<b>23,449,696</b>	<b>16,459,120</b>
<b>Liabilities</b>		
Investment liabilities	(259,316)	(327,172)
<b>Creditors</b>		
Bank overdrafts	(10,576)	(33,577)
Distribution payable	(47,834)	(47,425)
Other creditors	(5,786,538)	(624,001)
<b>Total liabilities</b>	<b>(6,104,264)</b>	<b>(1,032,175)</b>
<b>Net assets attributable to shareholders</b>	<b>17,345,432</b>	<b>15,426,945</b>

### Notes to the financial statements

#### Accounting policies

The interim financial statements have been prepared on the same basis as the audited annual financial statements for the year ended 30 September 2016. They are prepared in accordance with 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

18 May 2017

# M&G Optimal Income Fund

## Other regulatory disclosures

### Swiss investor information

For funds registered in Switzerland we are required by FINMA to disclose the Total Expense Ratio (TER).

For this fund the TERs are the same as the operating charges disclosed in the fund's financial highlights section.

# Glossary

**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.



# Glossary

**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.

**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.

**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.

**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.

# Glossary

**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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