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M&G Investment Funds (11)

Interim Long Report and unaudited Financial Statements
for the six months ended 31 October 2018

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M&G Investment Funds (11)

Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Investment Funds (11) presents its Interim Long Report and unaudited Financial Statements for the six months ended 31 October 2018.

The unaudited financial statements of M&G Investment Funds (11) and the investment report and unaudited financial statements and notes of each sub-fund are presented in their individual sections of this report as set out in the contents page.

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

Company information

M&G Investment Funds (11) is an umbrella Open-Ended Investment Company (OEIC) and contains two sub-funds, hereinafter referred to as 'funds' in the rest of this report. Each fund is a non-UCITS (Undertakings for Collective Investment in Transferable Securities) scheme as defined in the Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Conduct Authority (FCA). This OEIC is an Investment Company with Variable Capital (ICVC) incorporated under the Open-Ended Investment Companies Regulations 2001. It is authorised and regulated by the FCA under the Financial Services and Markets Act 2000.

The Company was authorised on 1 October 2010, the M&G Episode Income Fund was launched on 11 November 2010 and the M&G Global Target Return Fund was launched on 13 December 2016.

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

As at 31 October 2018, none of the funds held shares of the other funds within this OEIC.

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

Fund managers

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

M&G Episode Income Fund

Steven Andrew

M&G Global Target Return Fund

Tristan Hanson

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

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

* Appointed 26 July 2018.

Investment manager

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

(Authorised and regulated by the Financial Conduct Authority)

Registrar

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

Depositary

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

Independent auditor

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

Important information

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

M&G Investment Funds (11)

Authorised Corporate Director's Report

Investor information

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

Customer services and administration for UK clients:

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

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

Telephone: 0800 390 390 (UK only)

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

Authorised Corporate Director's Responsibilities

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

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

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

13 December 2018

M&G Investment Funds (11)

Financial statements and notes

The financial statements for M&G Investment Funds (11) comprise the individual financial statements for each fund and the notes below.

Notes to the financial statements

Accounting policies

The interim financial statements have been prepared on the same basis as the audited financial statements for the year ended 30 April 2018. They are prepared under the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice (SORP) for Authorised Funds issued by the Investment Association in May 2014.

M&G Investment Funds (11)

Financial statements and notes

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M&G Episode Income Fund

Authorised Corporate Director's Report

Investment objective

The fund aims to generate a growing level of income over any three-year period. The fund also aims to provide capital growth of 2-4% over any three-year period.

There is no guarantee that the fund will achieve its objective over this, or any other, period. The income distributions and the value of your investment may rise and fall and investors may not recoup the original amount they invested.

Investment policy

The fund manager adopts a flexible approach to the allocation of capital between asset classes in response to changes in economic conditions and the valuation of assets. Central to this approach is the identification of episodes, which are periods of time during which, in the fund manager's view, asset prices become over- or under-stated, relative to objective valuation measures, due to the emotional reaction of investors to events. These episodes can exist over both the short and medium term. The fund invests in transferable securities, fixed income assets (including, but not limited to, corporate bonds and government and public securities), warrants, cash, and near cash. Exposure to these assets, and to property, may be gained via collective investment schemes and derivatives (including equity index futures, currency forwards, interest rate swaps, and other liquid derivatives). The manager may seek to minimise currency risk through the combination of diversification and hedging. Derivatives may also be used for efficient portfolio management purposes. More than 70% of the fund will be in sterling or hedged back to sterling.

Investment approach

The fund manager seeks to achieve the fund's objectives whilst managing risk by investing globally across multiple asset classes, sectors, currencies and countries. Where the fund manager believes opportunities are limited to a few areas, the portfolio may be very concentrated in certain assets or markets. The fund manager will typically take investment positions in individual shares or bonds, but may also take positions at an index or sector level via derivatives.

The fund manager looks to generate a growing level of income by investing in assets that offer a regular income such as dividend-paying equities, corporate bonds and government bonds. The fund will typically invest 20-50% of its assets in equities, 40-80% in bonds and up to 20% in other assets, which can include convertibles.

Risk profile

The fund invests globally in a broad range of assets, including company shares (equities), fixed income securities (bonds), currencies and other assets such as property shares and convertible bonds. The fund is, therefore, subject to the price volatility of global financial and currency markets.

The fund adopts a flexible approach to the allocation of capital between asset classes in response to changes in economic conditions and the valuation of assets, and the manager will seek to maximise portfolio diversity wherever possible. The fund has a bias towards income-producing assets. Income distributions from the fund's holdings, however, are not guaranteed and may vary.

The blend of assets held in the fund is regularly adjusted depending on where the manager sees the most value and to manage risks, including liquidity, credit, currency and market risks. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

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

Investment review

As at 1 November 2018, for the six months ended 31 October 2018

Distribution summary

The fund distributed six monthly payments totalling 1.89p per Sterling Class 'A' (Income) share over the six months under review. This represents a decrease of -5.4% from the 2.00p distributed during the same period a year earlier. As at the end of the reporting period, the payout represented a yield (distributed income as a percentage of the fund's share price) of 3.84%.

Performance against objective

Between 1 May 2018 (the start of the review period) and 1 November 2018, the M&G Episode Income Fund produced a negative total return (the combination of income and growth of capital) across all of its share classes*. The fund's returns were behind those of its peer group, the IA Mixed Investment 20-60% Shares Sector, which delivered an average return of -1.6% over the same period.

The fund has achieved its income objective in terms of generating a growing level of income over the three-year period to 1 November 2018.

The fund has achieved its capital objective in terms of generating capital growth of 2-4% on average each year over the three-year period to 1 November 2018.

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

M&G Episode Income Fund

Authorised Corporate Director's Report

Investment review

Investment performance

The six months under review has been a difficult period for both stockmarkets and bonds, culminating in a sharp sell-off in equities in October.

(Equities are shares representing ownership stakes in companies. Bonds are loans that are extended by an investor to an issuer – such as a company or government – usually in exchange for regular interest payments. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'.)

The slump in stockmarkets in October was triggered by a multitude of fears, not least continuing tension between the US and its trading partners and its potential impact on corporate profitability. Indeed, some US companies have recently highlighted the potential risks to future profitability from factors including the Trump administration's protectionist trade policies.

Investors were also unnerved by slowing economic growth in China, the eurozone and elsewhere, and heightened geopolitical risk. There is also the recognition that the prolonged period of 'easy money' since the global financial crisis is gradually coming to an end.

In government bond markets, prices of 30-year US Treasuries fell and yields (a measure of distributed income in relation to bond price) reached their highest level in several years, driven by strong economic data, including low levels of unemployment and rising wage growth. Meanwhile, the European Central Bank confirmed it would halt its asset-purchase programme by the end of 2018.

Despite the increase in volatility, we keep our bias towards equities, which we have broadly maintained over the review period. In our view, equities offer better value relative to bonds. Equities have an attractive earnings yield (company earnings per share as a percentage of the share price) and corporate earnings continue to grow.

We also maintain a sizeable exposure to long-dated US Treasuries and higher yielding European government and emerging market bonds. On the other hand, we remain cautious on most other mainstream government bonds, since we believe these assets still look overvalued and vulnerable to price falls in the event of better economic data and higher interest rates. Consequently, the fund has no exposure to government bonds from Japan, the UK or Germany.

Unsurprisingly, given the fund's sizeable exposure to equities, the broad sell-off in stockmarkets hurt performance. Foremost amongst the declines were the fund's holdings of European banks. Prices declined on worries that economic uncertainty in Turkey and a decline in its currency would hurt the financial strength of European banks. (Note, however, the fund has no direct exposure to Turkey.)

Within the sector, the share prices of Italian banks were hit particularly hard. Italian lenders are big holders of Italian government bonds, which fell as a 'budget battle' between the Italian government and European Commission intensified.

Despite market jitters, we maintain our view that European banks are very attractively valued – they offer a high earnings yield and profits are growing. Furthermore, share prices could benefit if it is perceived that the pace and timing of future interest rate increases is brought forward, as the profitability of banks can improve in a higher interest rate environment.

Losses were also recorded by other European holdings and Japanese equities, particularly companies whose profitability could be adversely affected by an escalating trade war, such as industrials. Exposure to South Korea and Taiwan also resulted in losses. On a more positive note, holdings in US technology shares recorded meaningful gains.

The fund maintains a sizeable position in US Treasuries, which are held for diversification purposes as well as their relatively attractive yield. However, this position was unable to provide support, as yields rose throughout the review period on the back of steadily rising US interest rates and strengthening inflation. By October, US 30-year Treasury yields had breached 3.25%. Holdings in Italian government bonds also lost value.

Elsewhere, the price of emerging market bonds from Mexico and South Africa fell as investors sold them. However, a small position in Brazilian government bonds added value. Brazilian assets rallied sharply as it became apparent that the market's favourite candidate – Jair Bolsonaro – would be elected president.

The allocation to UK commercial property via the M&G Property Portfolio was also a modestly positive contributor to performance. Despite fears over the impact of the UK's decision to leave the European Union, capital values overall continue to increase (the main exception being the retail sector) and rental income (which makes up the bulk of the total return on property over the long term) remains stable. We remain happy having a modest exposure to the asset class.

Investment activities

We see market noise, or the volatility in asset prices that occurs from the regular ebb and flow of news and events, as a source of investment opportunities. By focusing on fundamentals such as interest rates, company earnings and inflation, we can invest when asset prices have moved away from what we believe are appropriate valuation levels.

While we maintained our preference for equities throughout the review period, its weighting in the portfolio decreased marginally, driven by a reduction in exposure to US and UK equities. Despite this small reduction, the fund remains close to its maximum allowable exposure for equities.

In the US, we scaled back the fund's exposure to banks and following a period of strong performance, we sold some of the fund's basket of UK equities. Despite the sale, we still believe UK shares are attractively valued and supported by growing earnings. Conversely, we added to the fund's position in European and Japanese banks, where we believe valuations are particularly attractive.

Meanwhile, the fund's exposure to government bonds increased, as we added to holdings in 30-year US Treasuries as well as 30-year Italian government bonds following sharp price declines. Italian government bonds have been particularly volatile on fears the populist coalition government will choose to breach European fiscal deficit rules.

M&G Episode Income Fund

Authorised Corporate Director's Report

Investment review

Investment activities (continued)

As a result of these portfolio changes, the fund's cash position reduced over the six months. Nonetheless, we still maintain a reasonable cash balance, which will enable us to take advantage of any further weakness in asset prices.

The fund's equity positions are primarily focused on US banks and technology businesses, European financial groups and Japanese companies. We are particularly keen on banks, as many are supported by strong fundamentals (high earnings yields and growing profits) and are potential beneficiaries if there is an upward shift in interest rate expectations. In Europe, the banking sector is especially attractive, as share prices have been adversely affected by political noise in Italy and Turkey.

Japanese banks are benefiting from corporate reforms and the strong global economy, which is a tailwind for the domestic economy. The reforms, which have been driven by a political dynamic, apply to the broader market, not just banks. They have led to improved shareholder returns (dividends and share buybacks) and increased engagement between companies and shareholders.

We think US banks are also attractive, but the interest rate dynamic is less important. The sector still looks cheap relative to the broad market and benefits from the ongoing improvement of the economy.

However, the fund also has a large weighting in US government bonds, which offer a reasonable yield. In times of market stress – for example, a global slowdown or only the prospect of a slowdown – when equities might be expected to perform poorly, US Treasury prices would be expected to rise in value as yields fell. Bond yields move inversely to prices.

UK and German government bonds, which are expensive and offer little upside potential, do not offer the same advantages, in our view. Both have negative real yields and are vulnerable to a rise in interest rate expectations – something that cannot be ruled out, as both economies are doing reasonably well.

Elsewhere, we like the government bonds of other European countries, such as Italy and Spain, which offer significantly higher yields than bunds (German government bonds), as well as emerging market sovereign debt – some of which offers attractive real yields.

Outlook

We are more positive than some commentators on the global economy, and believe growth remains well underpinned. Our view is that while there has been some softening of economic data, there has been no great shift in fundamentals and the market sell-off has been an overreaction.

Given the strength of corporate profitability, together with the attractive earnings yield company shares offer, we are comfortable maintaining a sizeable exposure to equities. However, the fund also has a large weighting in US government bonds for their yield and diversification potential.

As investors, we need to take a step back and look at the bigger picture. We must focus on pertinent information, rather than getting sucked into short-term swings in sentiment. Despite the continuing

market noise, our views on fundamentals – interest rates and company earnings – have not changed meaningfully. While there are risks, they are nowhere near as bad as valuations are implying, in our opinion.

If market noise settles down a little and the fundamental data come back into focus, we expect some very attractive returns from certain areas of the market. We believe investors should be holding assets that are at a good price and will benefit from the underlying dynamic – that is, growth is fine. Furthermore, investors should be positioned for an environment where expectations of higher interest rates are increasing.

We believe the fund is in robust shape and is well positioned to avoid excesses in market volatility.

Steven Andrew

Fund manager

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

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

Investments

Portfolio statement

as at Holding	31.10.18 £'000	31.10.18 %	30.04.18 %
EQUITIES	384,077	46.67	48.49
United Kingdom	23,796	2.89	6.00
UK equities	23,796	2.89	6.00
675,140 BAE Systems	3,522	0.43	
523,959 British Land REIT	3,083	0.37	
352,008 GlaxoSmithKline	5,464	0.66	
326,385 Greene King	1,575	0.19	
756,603 HSBC Holdings	4,892	0.60	
202,350 IG Group Holdings	1,228	0.15	
1,616,137 Legal & General Group	4,032	0.49	
Europe	113,157	13.75	12.93
European equities	113,157	13.75	12.93
1,489,989 Banca Mediolanum	6,795	0.83	
8,058,577 Banco de Sabadell	8,317	1.01	
2,236,754 Banco Santander	8,435	1.02	
2,236,754 Banco Santander (Rights issue)	68	0.01	
719,828 Bank of Ireland	4,057	0.49	
1,102,562 Bankinter	7,160	0.87	
49,901 BASF	2,985	0.36	
1,710,132 BBVA	7,408	0.90	
155,123 BNP Paribas	6,364	0.77	
134,862 Daimler	6,290	0.76	
173,074 Inditex	3,829	0.47	
901,894 ING Groep	8,358	1.02	
4,220,079 Intesa Sanpaolo	7,409	0.90	
123,803 KBC Group	6,725	0.82	
23,044 LVMH	5,474	0.66	
1,288,897 Mediobanca	8,931	1.09	
39,340 Münchener Rückversicherungs-Gesellschaft	6,635	0.81	
1,742,283 Natixis	7,917	0.96	

M&G Episode Income Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)				
as at Holding	31.10.18 £'000	31.10.18 %	30.04.18 %	
North America	110,641	13.44	15.86	
North American equities	110,641	13.44	15.86	
126,603 5th Third Bancorp	2,662	0.32		
86,480 American Express	6,910	0.84		
61,989 Apple	10,352	1.26		
167,486 Bank of America	3,511	0.43		
125,492 Bank of Montreal	7,413	0.90		
119,242 Bank of Nova Scotia	4,970	0.60		
342,600 CenturyLink	5,487	0.67		
77,099 Citigroup	3,895	0.47		
197,400 Consolidated Communications	1,936	0.23		
10,411 Fairfax Financial	3,891	0.47		
763,300 Ford Motor	5,653	0.69		
72,099 JPMorgan Chase	6,024	0.73		
186,200 KeyCorp	2,598	0.31		
35,820 M&T Bank	4,577	0.56		
8,399 MasterCard	1,234	0.15		
430,200 Meridian Bioscience	5,483	0.67		
122,800 Microsoft	9,973	1.21		
142,500 Pfizer	4,783	0.58		
40,613 PNC Financial Services	3,966	0.48		
206,594 Shaw Communications	3,016	0.37		
75,801 SunTrust Banks	3,676	0.45		
104,735 US Bancorp	4,290	0.52		
105,233 Wells Fargo	4,341	0.53		
Japan	109,357	13.29	10.21	
Japanese equities	109,357	13.29	10.21	
1,648 Advance Residence Investment REIT	3,286	0.40		
1,185,900 Chiba Bank	5,869	0.71		
96,700 East Japan Railway Company	6,607	0.80		
279,000 Hitachi	6,681	0.81		
311,900 Honda Motor	6,988	0.85		
594,100 Itochu	8,606	1.05		
2,478 Japan Retail Fund Investment REIT	3,573	0.43		
311,300 Mitsubishi	6,845	0.83		
886,000 Mitsubishi UFJ Financial	4,198	0.51		
4,076,600 Mizuho Financial Group	5,471	0.67		
895,300 Nissan Motor	6,361	0.77		
1,445,400 Nomura Holdings	5,476	0.67		
507,400 Orix	6,462	0.79		
476,500 Panasonic	4,119	0.50		
1,443,100 Resona Holdings	5,938	0.72		
487,700 Sumitomo	5,781	0.70		
186,500 Sumitomo Mitsui Financial	5,693	0.69		
134,400 Sumitomo Mitsui Trust Holdings	4,178	0.51		
137,900 West Japan Railway	7,225	0.88		
Asia Pacific (ex Japan)	24,688	3.00	3.23	
Asia Pacific equities	24,688	3.00	3.23	
51,987 Commonwealth Bank of Australia	1,988	0.24		
59,214 Coway	2,851	0.35		
649,600 Hon Hai Precision Industry	1,292	0.16		
92,209 Kangwon Land	1,815	0.22		
135,801 Kia Motors	2,645	0.32		
184,863 Korea Electric Power Corporation	3,429	0.41		
1,109 Pental Group	5	0.00		
431,000 Sembcorp Marine	390	0.05		
41,091 SK Telecom	7,551	0.92		
1,311,979 Stockland REIT	2,634	0.32		
372,000 Yip's Chemical Holdings	88	0.01		

Portfolio statement (continued)

as at Holding	31.10.18 £'000	31.10.18 %	30.04.18 %	
Other	2,438	0.30	0.26	
Other equities	2,438	0.30	0.26	
134,800 Banco do Brasil	1,232	0.15		
232,466 SulAmérica	1,206	0.15		
FIXED INCOME	399,419	48.53	43.23	
United Kingdom	48,741	5.92	6.00	
UK Government bonds	39,905	4.85	4.80	
£13,984,486 Treasury 0% 2019 (04 Feb)	13,958	1.70		
£26,000,000 Treasury 0% 2019 (11 Feb)	25,947	3.15		
UK investment grade corporate bonds	699	0.08	0.19	
£646,000 Marks & Spencer 4.75% 2025	699	0.08		
UK below investment grade corporate bonds	3,268	0.40	0.40	
£973,000 Barclays Bank Var. Rate Perp. (14%)	1,041	0.13		
£724,000 EI Group (formerly Enterprise Inns) 6% 2023	780	0.10		
£178,000 Tesco 6.125% 2022	201	0.02		
£1,280,000 Virgin Media Secured Finance 4.875% 2027	1,246	0.15		
UK corporate bonds with no credit rating	4,773	0.58	0.60	
£1,401,000 Admiral 5.5% 2024	1,521	0.19		
£1,620,000 BUPA Finance 5% 2023	1,748	0.21		
£1,347,000 John Lewis 6.125% 2025	1,504	0.18		
UK interest rate swaps	96	0.01	0.01	
£2,400,000 Pay 1.515% Receive VAR Feb 2047	96	0.01		
Europe	91,334	11.09	7.42	
European Government bonds	88,188	10.71	6.67	
€75,382,000 Italy (Republic of) 2.7% 2047	54,796	6.66		
€4,255,000 Italy (Republic of) 4.75% 2044	4,221	0.51		
PLN59,340,000 Poland (Republic of) 5.75% 2022	13,756	1.67		
€11,599,000 Spain (Kingdom of) 5.15% 2044	15,415	1.87		
European investment grade corporate bonds	514	0.06	0.06	
£440,000 innogy Finance (formerly RWE Finance) 5.625% 2023	514	0.06		
European below investment grade corporate bonds	2,632	0.32	0.69	
€1,685,000 Altice Financing 9% 2023	1,564	0.19		
€1,227,000 Ziggo Bond Finance 4.625% 2025	1,068	0.13		
North America	176,959	21.51	19.23	
North American Government bonds	173,240	21.05	18.74	
MXN596,759,000 Mexico (United Mexican States) 8.5% 2038	22,405	2.72		
\$33,401,000 US Treasury 2.75% 2028	25,328	3.08		
\$131,755,500 US Treasury 2.75% 2042	92,507	11.24		
\$45,456,600 US Treasury 3% 2048	33,000	4.01		
North American investment grade corporate bonds	2,124	0.26	0.25	
MXN2,500,000 América Móvil 6.45% 2022	87	0.01		
\$2,524,000 Ford Motor Credit 5.875% 2021	2,037	0.25		
North American below investment grade corporate bonds	800	0.10	0.10	
\$1,423,000 Windstream 9% 2025	800	0.10		
North American corporate bonds with no credit rating	795	0.10	0.14	
\$1,869,000 TRU Taj 12% 2021	795	0.10		
£150,000 Washington Mutual Bank 5.5% 2019 ^[a]	0	0.00		

M&G Episode Income Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at Holding	31.10.18 £'000	31.10.18 %	30.04.18 %
Asia Pacific (ex Japan)	656	0.08	0.08
Asia Pacific (ex Japan)			
Government bonds	656	0.08	0.08
MYR2,971,000 Malaysia (Govt. of) 4.232% 2031	539	0.07	
MYR628,000 Malaysia (Govt. of) 4.498% 2030	117	0.01	
Other	81,729	9.93	10.50
Other Government bonds	56,522	6.87	7.51
BRL96,869,000 Brazil (Federal Republic of) 10% 2023	21,085	2.56	
CLP1,950,000,000 Chile (Republic of) 5.5% 2020	2,263	0.28	
COP41,236,800,000 Colombia (Republic of) 10% 2024	11,697	1.42	
USD11,720,000 Peru (Republic of) 6.95% 2031	2,935	0.36	
ZAR504,906,546 South Africa (Republic of) 6.25% 2036	18,542	2.25	
Other corporate bonds with no credit rating	25,207	3.06	2.99
\$1,398,000 M&G (Lux) Emerging Markets Hard Currency Bond Fund US dollar Class 'C' (Income) ^[b]	10,237	1.24	
\$650,000 SPDR® Barclays 10+ Year US Corporate Bond ETF	14,970	1.82	
PROPERTY	30,332	3.69	2.92
United Kingdom	30,332	3.69	2.92
2,569,137 M&G Property Portfolio Sterling Class 'I' (Income) ^[b]	30,332	3.69	
CURRENCY	(9,104)	(1.12)	(0.72)
Forward currency contracts	(9,104)	(1.12)	(0.72)
AUD(6,714,708) Sold for £3,686,214 (expires 18.01.19)	(37)	0.00	
CAD4,517,010 Bought for £2,646,148 (expires 18.01.19)	40	0.00	
CAD(33,654,065) Sold for £19,710,225 (expires 18.01.19)	(301)	(0.04)	
€22,600,485 Bought for £20,007,121 (expires 18.01.19)	128	0.02	
€(231,885,445) Sold for £206,343,669 (expires 18.01.19)	(243)	(0.03)	
¥(12,454,844,904) Sold for £84,588,650 (expires 18.01.19)	(1,855)	(0.23)	
PLN(64,246,273) Sold for £13,257,011 (expires 18.01.19)	109	0.01	
\$28,749,353 Bought for £21,960,803 (expires 18.01.19)	452	0.05	
\$(332,139,213) Sold for £251,539,818 (expires 18.01.19)	(7,397)	(0.90)	
Portfolio of investments	804,724	97.77	93.92
CASH EQUIVALENTS	3,942	0.48	3.05
'AAA' rated money market funds ^[c]	3,942	0.48	3.05
3,941,940 Northern Trust Global Fund - Sterling	3,942	0.48	
Total portfolio	808,666	98.25	96.97
Net other assets / (liabilities)	14,422	1.75	3.03
Net assets attributable to shareholders	823,088	100.00	100.00

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

[a] Defaulted bond.

[b] Related party.

[c] 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 October	2018	2017
Portfolio transactions	£'000	£'000
Total purchases	158,818	220,069
Total sales	98,513	121,321

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

M&G Episode 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 charts and tables show the performance for two of the fund's share classes – Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.

We show performance for these two share classes because:

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

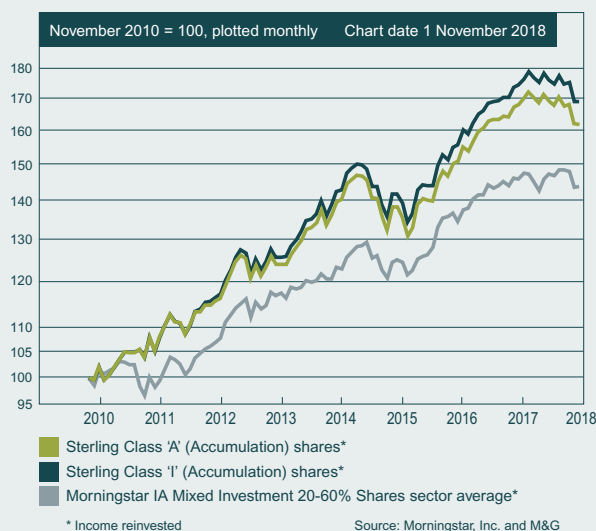
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (11), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at	31.10.18 £'000	30.04.18 £'000	30.04.17 £'000
Fund net asset value (NAV)	823,088	829,425	673,541

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.



The fund's Sterling Class 'I' (Accumulation) shares were launched on 3 August 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Accumulation) shares.

Distribution since launch

The charts below show the annual distribution of Sterling Class 'A' (Income) shares and Sterling Class 'I' (Income) shares since launch.

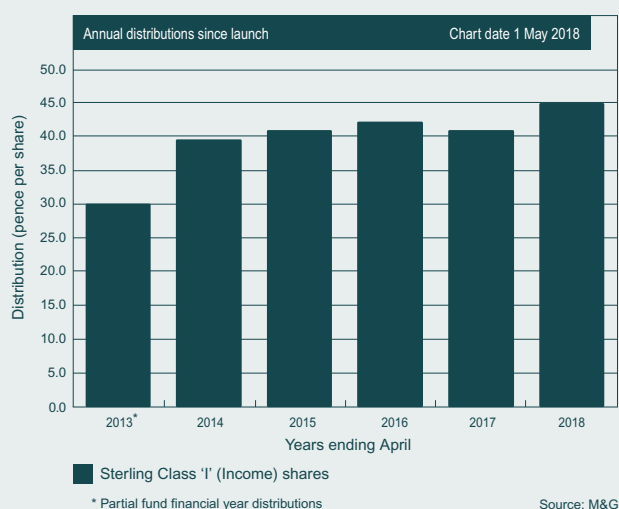


M&G Episode Income Fund

Financial highlights

Fund performance

Distribution since launch (continued)



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

Long-term performance by share class

	Six months 01.05.18 % [a]	Three years 02.11.15 % p.a.	Five years 01.11.13 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	-5.4	+5.5	+5.2	+6.2 [c]
Class 'I'	-5.2	+6.2	+5.8	+6.6 [d]
Class 'R'	-5.3	+6.0	+5.6	+6.4 [d]
Class 'X'	-5.4	+5.5	+5.2	+6.2 [c]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 11 November 2010, the launch date of the fund.

[d] 3 August 2012, 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, comprising operating charges and portfolio transaction costs.

Operating charges

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

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

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

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

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

M&G Episode 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 or by calling M&G Customer Relations.

Portfolio transaction costs				
	Six months to 31.10.18	Year to 30.04.18	Year to 30.04.17	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.01	0.03	0.04	0.03
Taxes	0.02	0.03	0.03	0.02
Costs before dilution adjustments	0.03	0.06	0.07	0.05
Dilution adjustments ^[c]	(0.01)	(0.01)	(0.02)	(0.01)
Total direct portfolio transaction costs	0.02	0.05	0.05	0.04
as at	31.10.18	30.04.18	30.04.17	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.36	0.29	0.38	0.34

^[a] Average of first three columns.

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

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

Specific share class performance

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

Historic yields for the current period are calculated as at 9 November 2018.

Sterling Class 'A' Income share performance

The share class was launched on 11 November 2010.

	Six months to 31.10.18	Year to 30.04.18	Year to 30.04.17
Change in NAV per share	UK p	UK p	UK p
Opening NAV	129.50	125.80	113.78
Return before operating charges and after direct portfolio transaction costs	(6.09)	10.46	18.16
Operating charges	(1.03)	(2.01)	(1.79)
Return after operating charges	(7.12)	8.45	16.37
Distributions	(1.89)	(4.75)	(4.35)
Closing NAV	120.49	129.50	125.80
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.08	0.09
Dilution adjustments ^[a]	0.00	(0.01)	(0.02)
Total direct portfolio transaction costs	0.02	0.07	0.07
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	1.57	1.56	1.49
Return after operating charges	-5.50	+6.72	+14.39
Historic yield	3.83	3.63	3.46
Effect on yield of charges offset against capital	1.53	1.53	1.52
Other information			
Closing NAV (£'000)	60,272	66,094	68,533
Closing NAV percentage of total fund NAV (%)	7.32	7.97	10.18
Number of shares	50,022,081	51,037,890	54,478,224
Highest share price (UK p)	130.76	133.48	127.55
Lowest share price (UK p)	120.08	126.34	110.83

M&G Episode Income Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 11 November 2010.

	Six months to 31.10.18 UK p	Year to 30.04.18 UK p	Year to 30.04.17 UK p
Change in NAV per share			
Opening NAV	170.75	159.88	139.51
Return before operating charges and after direct portfolio transaction costs	(8.12)	13.47	22.59
Operating charges	(1.36)	(2.60)	(2.22)
Return after operating charges	(9.48)	10.87	20.37
Distributions	(1.50)	(3.62)	(3.90)
Retained distributions	1.50	3.62	3.90
Closing NAV	161.27	170.75	159.88
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.10	0.11
Dilution adjustments ^[a]	(0.01)	(0.01)	(0.03)
Total direct portfolio transaction costs	0.01	0.09	0.08
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	1.57	1.56	1.49
Return after operating charges	-5.55	+6.80	+14.60
Historic yield	2.22	2.10	2.02
Effect on yield of charges offset against capital	0.03	0.03	0.03
Other information			
Closing NAV (£'000)	19,600	20,523	22,467
Closing NAV percentage of total fund NAV (%)	2.38	2.47	3.34
Number of shares	12,153,415	12,019,359	14,052,214
Highest share price (UK p)	172.39	173.21	161.19
Lowest share price (UK p)	160.33	160.57	136.31

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

	Six months to 31.10.18 UK p	Year to 30.04.18 UK p	Year to 30.04.17 UK p
Change in NAV per share			
Opening NAV	1,280.86	1,234.87	1,108.58
Return before operating charges and after direct portfolio transaction costs	(61.39)	101.11	175.90
Operating charges	(5.43)	(10.27)	(8.82)
Return after operating charges	(66.82)	90.84	167.08
Distributions	(18.67)	(44.85)	(40.79)
Closing NAV	1,195.37	1,280.86	1,234.87
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.17	0.77	0.86
Dilution adjustments ^[a]	(0.05)	(0.11)	(0.22)
Total direct portfolio transaction costs	0.12	0.66	0.64
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	0.82	0.81	0.75
Return after operating charges	-5.22	+7.36	+15.07
Historic yield	3.65	3.47	3.30
Effect on yield of charges offset against capital	0.78	0.78	0.78
Other information			
Closing NAV (£'000)	348,353	350,297	278,177
Closing NAV percentage of total fund NAV (%)	42.32	42.23	41.30
Number of shares	29,141,804	27,348,689	22,526,834
Highest share price (UK p)	1,293.62	1,316.27	1,250.58
Lowest share price (UK p)	1,191.23	1,240.61	1,080.86

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 31.10.18 UK p	Year to 30.04.18 UK p	Year to 30.04.17 UK p
Change in NAV per share			
Opening NAV	1,572.39	1,463.43	1,269.26
Return before operating charges and after direct portfolio transaction costs	(76.05)	121.32	204.32
Operating charges	(6.70)	(12.36)	(10.15)
Return after operating charges	(82.75)	108.96	194.17
Distributions	(18.55)	(42.47)	(40.52)
Retained distributions	18.55	42.47	40.52
Closing NAV	1,489.64	1,572.39	1,463.43
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.20	0.93	0.99
Dilution adjustments ^[a]	(0.06)	(0.13)	(0.25)
Total direct portfolio transaction costs	0.14	0.80	0.74
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	0.82	0.81	0.74
Return after operating charges	-5.26	+7.45	+15.30
Historic yield	2.84	2.67	2.56
Effect on yield of charges offset against capital	0.03	0.03	0.03
Other information			
Closing NAV (£'000)	373,493	370,068	284,368
Closing NAV percentage of total fund NAV (%)	45.38	44.62	42.22
Number of shares	25,072,725	23,535,447	19,431,610
Highest share price (UK p)	1,587.89	1,592.74	1,475.27
Lowest share price (UK p)	1,480.75	1,470.23	1,240.75

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 31.10.18 UK p	Year to 30.04.18 UK p	Year to 30.04.17 UK p
Change in NAV per share			
Opening NAV	126.53	122.29	110.06
Return before operating charges and after direct portfolio transaction costs	(6.03)	10.08	17.49
Operating charges	(0.69)	(1.34)	(1.16)
Return after operating charges	(6.72)	8.74	16.33
Distributions	(1.85)	(4.50)	(4.10)
Closing NAV	117.96	126.53	122.29
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.08	0.08
Dilution adjustments ^[a]	0.00	(0.01)	(0.02)
Total direct portfolio transaction costs	0.02	0.07	0.06
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	1.07	1.06	0.99
Return after operating charges	-5.31	+7.15	+14.84
Historic yield	3.71	3.52	3.35
Effect on yield of charges offset against capital	1.03	1.03	1.03
Other information			
Closing NAV (£'000)	6,515	6,586	2,562
Closing NAV percentage of total fund NAV (%)	0.79	0.79	0.38
Number of shares	5,523,429	5,204,936	2,094,893
Highest share price (UK p)	127.78	130.16	123.90
Lowest share price (UK p)	117.56	122.85	107.27

M&G Episode Income Fund

Financial highlights

Specific share class performance

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 31.10.18 UK p	Year to 30.04.18 UK p	Year to 30.04.17 UK p
Change in NAV per share			
Opening NAV	155.54	145.05	126.05
Return before operating charges and after direct portfolio transaction costs	(7.49)	12.12	20.34
Operating charges	(0.85)	(1.63)	(1.34)
Return after operating charges	(8.34)	10.49	19.00
Distributions	(1.68)	(3.91)	(3.86)
Retained distributions	1.68	3.91	3.86
Closing NAV	147.20	155.54	145.05
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.09	0.10
Dilution adjustments ^[a]	(0.01)	(0.01)	(0.02)
Total direct portfolio transaction costs	0.01	0.08	0.08
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	1.07	1.06	0.99
Return after operating charges	-5.36	+7.23	+15.07
Historic yield	2.63	2.49	2.38
Effect on yield of charges offset against capital	0.03	0.03	0.03
Other information			
Closing NAV (£'000)	3,583	3,272	623
Closing NAV percentage of total fund NAV (%)	0.44	0.40	0.09
Number of shares	2,433,762	2,103,353	429,731
Highest share price (UK p)	157.06	157.63	146.23
Lowest share price (UK p)	146.33	145.70	123.19

Sterling Class 'X' Income share performance

The share class was launched on 11 November 2010.

	Six months to 31.10.18 UK p	Year to 30.04.18 UK p	Year to 30.04.17 UK p
Change in NAV per share			
Opening NAV	129.57	125.86	113.84
Return before operating charges and after direct portfolio transaction costs	(6.09)	10.47	18.16
Operating charges	(1.03)	(2.01)	(1.79)
Return after operating charges	(7.12)	8.46	16.37
Distributions	(1.89)	(4.75)	(4.35)
Closing NAV	120.56	129.57	125.86
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.08	0.09
Dilution adjustments ^[a]	0.00	(0.01)	(0.02)
Total direct portfolio transaction costs	0.02	0.07	0.07
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	1.57	1.56	1.49
Return after operating charges	-5.50	+6.72	+14.38
Historic yield	3.83	3.63	3.46
Effect on yield of charges offset against capital	1.53	1.53	1.53
Other information			
Closing NAV (£'000)	9,777	11,000	14,780
Closing NAV percentage of total fund NAV (%)	1.19	1.33	2.19
Number of shares	8,109,826	8,489,677	11,742,838
Highest share price (UK p)	130.83	133.56	127.63
Lowest share price (UK p)	120.15	126.41	110.89

Sterling Class 'X' Accumulation share performance

The share class was launched on 11 November 2010.

	Six months to 31.10.18 UK p	Year to 30.04.18 UK p	Year to 30.04.17 UK p
Change in NAV per share			
Opening NAV	170.81	159.94	139.56
Return before operating charges and after direct portfolio transaction costs	(8.12)	13.47	22.60
Operating charges	(1.36)	(2.60)	(2.22)
Return after operating charges	(9.48)	10.87	20.38
Distributions	(1.50)	(3.62)	(3.90)
Retained distributions	1.50	3.62	3.90
Closing NAV	161.33	170.81	159.94
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.10	0.11
Dilution adjustments ^[a]	(0.01)	(0.01)	(0.03)
Total direct portfolio transaction costs	0.01	0.09	0.08
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.02	0.05	0.05
Operating charges	1.57	1.56	1.49
Return after operating charges	-5.55	+6.80	+14.60
Historic yield	2.23	2.09	2.02
Effect on yield of charges offset against capital	0.03	0.03	0.03
Other information			
Closing NAV (£'000)	1,495	1,585	2,031
Closing NAV percentage of total fund NAV (%)	0.18	0.19	0.30
Number of shares	926,659	928,134	1,269,777
Highest share price (UK p)	172.45	173.28	161.25
Lowest share price (UK p)	160.39	160.63	136.33

^[a] In respect of direct portfolio transaction costs.

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

M&G Episode Income Fund

Financial statements and notes

Financial statements

Statement of total return				
for the six months to 31 October	2018		2017	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		(55,231)		22,939
Revenue	14,868		13,458	
Expenses	(3,653)		(3,331)	
Net revenue / (expense) before taxation	11,215		10,127	
Taxation	(1,563)		(1,435)	
Net revenue / (expense) after taxation		9,652		8,692
Total return before distributions		(45,579)		31,631
Distributions		(11,271)		(10,381)
Change in net assets attributable to shareholders from investment activities		(56,850)		21,250

Statement of change in net assets attributable to shareholders				
for the six months to 31 October	2018		2017	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		829,425		673,541
Amounts received on issue of shares	75,803		80,999	
Amounts paid on cancellation of shares	(30,129)		(14,495)	
		45,674		66,504
Dilution adjustments		120		163
Change in net assets attributable to shareholders from investment activities (see above)		(56,850)		21,250
Retained distributions on Accumulation shares		4,713		4,002
Unclaimed distributions		6		7
Closing net assets attributable to shareholders		823,088		765,467

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

Balance sheet			
as at	31 October 2018	30 April 2018	
	£'000	£'000	
Assets			
Fixed assets			
Investments	814,557	786,527	
Current assets			
Debtors	6,872	11,446	
Cash and bank balances	10,729	18,857	
Cash equivalents	3,942	25,338	
Total assets	836,100	842,168	
Liabilities			
Investment liabilities	(9,833)	(7,600)	
Creditors			
Distribution payable	(1,067)	(2,993)	
Other creditors	(2,112)	(2,150)	
Total liabilities	(13,012)	(12,743)	
Net assets attributable to shareholders	823,088	829,425	

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 3.

Distribution policy

In determining the amount available for reinvestment to Accumulation shares, all expenses with the exception of the annual management charge, administration charge and overdraft interest are offset against capital, increasing the amount available for reinvestment whilst restraining capital performance to an equivalent extent. In determining the amount available for distribution to Income shares, all expenses with the exception of overdraft interest are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

Marginal tax relief has not been taken into account in respect of expenses offset against capital.

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

M&G Episode Income Fund

Financial statements and notes

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M&G Global Target Return Fund

Authorised Corporate Director's Report

Investment objective

The fund aims to achieve a total return (the combination of income and capital growth) of at least 4%, per annum above the 3-month GBP LIBOR rate, before any charges are taken, in any market conditions and over any three year period. LIBOR is the rate at which banks borrow money from each other.

The fund aims to achieve this while seeking to minimise the degree to which the value of the fund fluctuates over time (volatility), while also seeking to limit monthly losses. Managing the fund in this way reduces its ability to achieve returns significantly above 3-month GBP LIBOR plus 4%.

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

Investment policy

The fund has a highly flexible investment approach with the freedom to invest in different types of investment assets from anywhere in the world. The fund manager's approach combines in-depth research to determine the value of assets over the medium to long term, together with analysis of market reactions to events, to identify investment opportunities.

The fund may at any one time invest in the following asset classes: fixed income securities (including, but not limited to, corporate bonds and government and public securities) company shares, currencies, cash, near cash and deposits. The fund will mostly gain exposure to these assets by investing through derivatives, but may also invest directly, or by investing through other funds. Derivatives are financial contracts whose value is derived from an underlying asset. In cases where the fund manager believes that investment opportunities are limited to a few areas, or where available investment opportunities would add too much risk, the fund may hold a high level of cash. At any one time the geographical range of the fund may be more focused rather than globally diversified.

The fund may also invest in other transferable securities and warrants (allowing the fund manager to buy stocks for a fixed price until a certain date) which may be from anywhere in the world and denominated in any currency.

The fund may take short positions (holding derivatives with the aim of delivering a positive return when the assets they are linked to fall in value) in markets, currencies, securities, and groups of securities. The fund also has the flexibility to gain exposure to investments exceeding the net asset value of the fund in order to increase potential returns in both rising and falling markets.

Derivatives can be used to meet the fund's investment objective and for efficient portfolio management.

Investment approach

The fund manager adopts a flexible approach to the allocation of capital between asset classes in response to changes in economic conditions and the valuation of assets, guided by a robust valuation framework. The fund manager seeks to respond to opportunities created by asset prices moving away from a reasonable sense of 'fair' value due to investors reacting emotionally to events. The blend of investments held in the fund is actively adjusted depending on where the fund manager sees the most value and to manage risks in order to limit monthly losses. The fund manager will seek to manage risk by combining diversified and relatively uncorrelated assets (which are assets affected by market conditions in different ways) and by employing derivative strategies to help protect or profit from falling markets. In cases where the fund manager believes that investment opportunities are limited to a few areas, or where the available investment opportunities would add too much risk to the fund, the fund may hold high levels of cash.

The fund manager believes that this approach has the potential to limit monthly losses to less than 3% in normal to stressed times and less than 6% in highly stressed times. The fund manager believes the fund has the potential to deliver an annualised volatility (the degree to which the value of the fund fluctuates over any 12-month period) of between 3% and 7%. The fund manager will ensure the fund's 1-month 99% VaR remains below 6%.

Risk profile

The fund invests globally in a broad range of assets, including company shares (equities), fixed income securities (bonds), currencies and other assets such as REITs, infrastructure-related securities, convertible bonds and asset-backed securities. The fund is, therefore, subject to the price volatility of global financial and currency markets.

The fund adopts a flexible approach to the allocation of capital between asset classes in response to changes in economic conditions and the valuation of assets.

Investments are mainly implemented through exchange traded derivatives and OTCs, physical assets and cash or cash equivalents.

The fund can be positioned to benefit from a rise or fall in the value of any asset class (such as company shares or bonds) at overall fund level. This means if asset prices move in the opposite direction to that expected, the fund can incur a loss.

Due to the fund's defensive nature and strong focus on risk management, the fund manager observes defined thresholds related to risk measures including volatility, monthly losses and value at risk.

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.

M&G Global Target Return Fund

Authorised Corporate Director's Report

Investment review

As at 1 November 2018, for the six months ended 31 October 2018

Performance against objective

Between 1 May 2018 (the start of the review period) and 1 November 2018, the M&G Global Target Return Fund delivered a negative total return (the combination of capital growth and income) across all share classes. This was behind 3-month GBP LIBOR + 4% over the same period. The fund's objective is to achieve a total return of at least 4% per annum above the 3-month GBP LIBOR rate, before any charges are taken, in any market condition and over any three-year period.* LIBOR is the rate at which banks borrow money from each other.

The fund is an absolute return fund. We define these as funds whose returns will be independent of the performance of any individual asset class over the long term, and therefore have the potential to deliver positive returns in any market environment, although this cannot be guaranteed. To perform independently of market conditions, this is a highly flexible fund, which can be long or short of any asset class. This means we can use derivatives to implement positions designed to benefit from a rise in an asset's value (long position) or fall in an asset's value (short position). In our view, a highly flexible portfolio comprising small positions across diversified sources of incremental returns and potential protection should offer a smoother ride and more defensive properties than a portfolio investing statically in so-called 'safe-haven' assets, such as core government bonds, that may not offer protection in all market environments. (Bonds are loans that are extended by an investor to an issuer – such as a company or government – usually 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'.)

We also apply an extensive risk management process, which involves regularly monitoring the fund against a range of explicit risk measures. Should any of these measures be breached, a formal review will be triggered to decide how best to protect against potential further losses.

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

Investment performance

Financial markets experienced considerable volatility during the six-month review period, as investors grew concerned about the strength of the global economy against a backdrop of political uncertainty.

Many regional stockmarkets suffered bouts of weakness, triggered by an escalating trade war between the US and China, whereby President Trump's administration confirmed that US\$200 billion of tariffs would be imposed on imports from China. In Europe, the formation of a Eurosceptic government in Italy and subsequent budget negotiations with the European Union (EU) affected equity (company shares) and bond markets. Meanwhile, in emerging markets, the Turkish lira experienced one of the largest currency movements of the past 10 years, underpinned by its central bank's reluctance to raise interest rates to combat inflation. Contagion quickly spread to other emerging markets and the European banking sector, as investors expressed fears that some institutions were overexposed to Turkish debt.

Strong performance from US equities was generally an exception during the period, as investors appeared to view US stockmarkets as providing potential safety from volatility elsewhere. However, their

extended rally came to an end in October, demonstrating that investor confidence remains fragile globally.

The wide-ranging nature of market volatility meant that many positions were affected throughout the review period. Negative returns were driven primarily by exposures to Asian and European equities and German government bonds. The fund also had modest direct exposure to the Turkish lira going into August, which affected fund performance during the same month. However, the position partially recovered and has since acted as an effective diversifier. It is also worth noting that the fund has held fairly low exposure to US equities, which has cost performance.

Negative returns over the period were partly offset by the addition of US government bonds in May and the reduction of a position in Brazilian bonds in October to realise profits. Positions designed to protect the fund against weakness in US equity and corporate bond markets also added value towards the end of the review period. Additional diversification was provided by selling an infrastructure holding after takeover bid speculation pushed its share price sharply higher.

Investment activities

Since the fund's inception in December 2016, our asset allocation strategy has been consistent. At its core lies a belief that global equities are likely to deliver superior returns compared to G7 government bonds over the coming years, which is founded on relative valuations and our observations on global economic and political trends. We believe this dynamic has been playing out since early 2016, most notably in the US, and we continue to manage the fund in line with this multi-year perspective.

During the review period, we were highly active in managing the portfolio with a view to keeping the fund within its intended risk thresholds, which was achieved.

August was a notable month in which market movements put pressure on a number of the fund's positions across emerging markets, equities and government bonds. In line with our conservative mandate, we deemed it necessary to scale back portfolio risk during this period. Such actions can be uncomfortable, but in an ever-uncertain world, they are occasionally unavoidable when capital preservation is required.

In response to August's market weakness, the fund's overall target equity weighting was decreased from around 19% to 11%. (The fund's targeted position in an asset or asset class can vary from its actual positioning at any given time, mainly because of asset price movements.) This included reducing equity positions in Europe and selected emerging markets; however, we continued to hold the position in Turkey, as we believed the market was already trading at a severely depressed level. Other protective measures included reducing positions in emerging market currencies from Brazil and Mexico, and in German government bonds.

As markets and the portfolio showed signs of stabilising, we gradually added back to positions we believe offer fundamentally strong potential from a medium-term perspective. This included adding new small positions in large mining stocks and Singaporean equities, as well as topping up the Korean equity position. Towards the end of the review period, we also added to our positions in Hong Kong and Japanese stockmarket indices and slightly increased our exposure to European banks. By the end of the review period, the portfolio's overall target equity weighting was slightly over 21%.

M&G Global Target Return Fund

Authorised Corporate Director's Report

Investment review

Investment activities (continued)

In government bonds, we added US Treasuries in May with a view to protecting the portfolio against potential unexpected weakness in global economic growth or company earnings. This quickly provided positive returns, as investors sought protection from volatility elsewhere, and we subsequently closed the position. In October, we again added US Treasuries to the fund based on a similar hypothesis.

Outlook

We believe recent weakness in global equities and emerging market assets provide a compelling starting point for attractive prospective returns over the medium term. A number of emerging market currencies have weakened significantly and have the potential to behave independently of developed market assets, which can enhance portfolio diversification. Meanwhile, prospective returns after inflation on G7 cash and bonds remain firmly in negative territory, with the exception of the US, where they are above zero, but still low.

Many investor concerns remain unresolved, including the ongoing trade war between the US and China, and political risks in Italy and Brexit. However, firstly, it is worth remembering that there are always things to worry about. Secondly, it is next to impossible to have an edge in forecasting the outcomes of events. We cannot predict what these outcomes or the markets' reactions will be. In our view, rather than focusing on events we cannot predict, the odds of successful returns are likely to be improved by focusing on expected medium-term returns, as implied by valuations and assessing the broad economic environment as objectively as possible.

Global economic data still suggests a healthy environment. Unemployment has not been lower in over 40 years in both the US and the UK, while it continues to decline in the euro area and has only been lower in the region during two of the last 20 years. Inflation, meanwhile, remains low and under control. The Chinese economy has slowed, but policymakers have begun stimulus measures to boost growth. Expectations of global company profits continue to suggest overall growth.

This is not the narrative many investors will hear today. During the review period, the International Monetary Fund (IMF) released its global economic outlook. In January, it talked of "brighter prospects", whereas now, its chief economist mentions "clouds on the horizon". The updated forecast predicts world GDP growth of 3.7% this year and next – the same level as achieved in 2017. The change in language is therefore revealing.

Rising US interest rates have arguably been the main cause of the higher market volatility this year. Looking ahead, absent higher inflation, pressure from ever-higher rates is unlikely to persist for a prolonged period. The US Federal Reserve has by now raised rates by a reasonable amount and market expectations already reflect further increases.

As always, key indicators to watch are inflation and profits. As long as inflation remains stable and profits grow, current valuations suggest a high probability of equities outperforming bonds over the medium term. This view is reflected in the fund's positioning. Market volatility may well persist, but this should be viewed as a source of opportunity, rather than something to fear.

Please note that the asset breakdown shown below has been added for your information and was not prepared in accordance with the requirement of the Investment Association Statement of Recommended Practice for Financial Statements of UK Authorised Funds (SORP). As a consequence, the exposures shown in this table may differ from the portfolio statement holdings as they reflect the fund's overall exposure rather than the fund's balance sheet as at 31 October 2018.

The table below reflects the fund's exposure as at 31 October 2018. The long exposure shown comprises physical and derivative positions, held in the view that the underlying securities will rise in value. Short exposure comprises derivative positions, held in the view that the underlying securities will fall in value. Net exposure is the difference between the fund's long and short exposure. Please note, where securities do not perform as expected, a capital loss will be incurred by the fund.

Asset breakdown

	Long exposure %	Short exposure %	Net exposure %
Equity	21.9	0.0	21.9
UK	2.5	0.0	2.5
Europe	5.8	0.0	5.8
US	5.1	0.0	5.1
Japan	3.0	0.0	3.0
Asia Pacific ex Japan	4.7	0.0	4.7
Other	0.8	0.0	0.8
Equity options (nominal)	0.4	-0.1	0.3
Government bonds	60.1	-28.5	31.6
UK	0.0	-7.6	-7.6
Europe	4.8	-16.0	-11.2
US	51.0	0.0	51.0
Japan	0.0	-5.0	-5.0
Asia Pacific ex Japan	2.1	0.0	2.1
Other	2.3	0.0	2.3
Corporate bonds	1.6	0.0	1.6
Investment grade	1.6	0.0	1.6
High yield	0.0	0.0	0.0
Bond options (nominal)	0.0	0.0	0.0
Credit default swaps	0.0	-34.1	-34.1
Other	3.4	0.0	3.4
Convertible bonds	0.0	0.0	0.0
Property funds / Infrastructure	0.0	0.0	0.0
Private loans	2.9	0.0	2.9
Other	0.4	0.0	0.4

Source: M&G

Equity options (nominal): The total value of all the equity options held in the fund expressed as a percentage of net asset value (NAV). **Bond options (nominal):** The total value of all the bond options held in the fund expressed as a percentage of net asset value (NAV). **Private loans:** A loan provided by a non-bank lender, generally at a specific interest rate and for a predetermined length of time.

Tristan Hanson

Fund manager

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

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

M&G Global Target Return Fund

Authorised Corporate Director's Report

Investments

Portfolio statement

as at Holding	31.10.18 £'000	31.10.18 %	30.04.18 %
EQUITIES	12,953	12.64	11.32
Mining	1,761	1.72	0.00
27,613 Anglo American	461	0.45	
27,042 BHP Billiton	420	0.41	
139,047 Glencore	440	0.43	
11,609 Rio Tinto	440	0.43	
Pharmaceuticals & biotechnology	0	0.00	1.06
Banks	4,182	4.08	3.01
146,394 Banco BPM	220	0.22	
144,125 Bankia	359	0.35	
21,246 BBVA	92	0.09	
30,270 CaixaBank	96	0.09	
7,771 Citigroup	393	0.38	
13,163 Commerzbank	98	0.10	
3,299 Erste Group	107	0.10	
10,503 ING Groep	97	0.10	
277,006 Intesa Sanpaolo	486	0.47	
4,812 JPMorgan Chase	402	0.39	
684,847 Lloyds Banking Group	393	0.38	
56,185 Mediobanca	389	0.38	
3,202 Société Générale	92	0.09	
16,907 Standard Chartered	94	0.09	
46,277 UniCredit	468	0.46	
9,604 Wells Fargo	396	0.39	
Real estate investment trusts	434	0.42	0.45
3,047 Unibail-Rodamco-Westfield	434	0.42	
Financial services	445	0.43	0.41
5,570 American Express	445	0.43	
Equity investment instruments	1,035	1.01	0.89
623,203 BioPharma Credit	508	0.50	
575,772 Greencoat Renewables	527	0.51	
Software & computer services	509	0.50	0.44
1,162,100 NetLink NBN	509	0.50	
Equity portfolios	4,675	4.56	4.67^[a]
106,008 db x-trackers MSCI Indonesia Swap ETF	1,100	1.07	
455,165 Greencoat UK Wind	590	0.58	
88,134 International Public Partnerships	134	0.13	
48,273 iShares MSCI Emerging Markets Investable Market Index	955	0.93	
68,109 iShares MSCI Turkey ETF	818	0.80	
1,869,505 M&G Japan Fund Sterling Class 'A' (Income) ^[b]	1,078	1.05	
Equity derivatives	(88)	(0.08)	0.39
Equity futures contracts	(444)	(0.43)	0.39
217 EURO STOXX Index Dec 2018	(99)	(0.10)	
39 Hang Seng Index Nov 2018	2	0.00	
6 IBEX 35 Index Nov 2018	(5)	0.00	
41 KOSPI 200 Index Dec 2018	(220)	(0.21)	
26 MSCI Singapore Index Nov 2018	3	0.00	
20 S&P 500 E-Mini Index Dec 2018	(64)	(0.06)	
18 TOPIX Index Dec 2018	(58)	(0.06)	
318 2 Year US Treasury Note Dec 2018	(3)	0.00	

Portfolio statement (continued)

as at Holding	31.10.18 £'000	31.10.18 %	30.04.18 %
Equity options	356	0.35	0.00
€3,250 EURO STOXX 50 Index Jun 2019 Call	14	0.01	
€4,300 EURO STOXX 50 Index Dec 2019 Call	118	0.12	
€ 2,100 S&P 500 Index Dec 18 2875 Put	292	0.29	
€(2,100) S&P 500 Index Dec 18 2600 Put	(68)	(0.07)	
FIXED INCOME	83,933	81.95	75.10
Debt securities	81,427	79.50	73.18
'AA' credit rated bonds	71,696	70.00	65.65
£7,400,000 Treasury 0% 2018 (05 Nov)	7,399	7.22	
£7,400,000 Treasury 0% 2018 (12 Nov)	7,398	7.22	
£6,600,000 Treasury 0% 2018 (19 Nov)	6,598	6.44	
£6,611,000 Treasury 0% 2018 (26 Nov)	6,608	6.45	
£5,450,000 Treasury 0% 2019 (07 Jan)	5,442	5.31	
£6,620,000 Treasury 0% 2019 (14 Jan)	6,610	6.46	
£5,700,000 Treasury 0% 2019 (21 Jan)	5,691	5.56	
£5,900,000 Treasury 0% 2019 (28 Jan)	5,890	5.75	
£6,600,000 Treasury 0% 2019 (04 Feb)	6,588	6.43	
£9,800,000 Treasury 0% 2019 (11 Feb)	9,780	9.55	
£3,700,000 Treasury 0% 2019 (18 Feb)	3,692	3.61	
'A' credit rated bonds	0	0.00	3.54
'BBB' credit rated bonds	5,117	4.99	0.84
IDR42,446,000,000 Indonesia (Republic of) 8.25% 2036	2,053	2.00	
€3,820,000 Italy (Republic of) 2% 2028	3,064	2.99	
'BB' credit rated bonds	2,263	2.21	0.80
BRL5,013,000 Brazil (Federal Republic of) 10% 2023	1,091	1.07	
ZAR25,544,000 South Africa (Republic of) 8.05% 2037	1,172	1.14	
'B' credit rated bonds	1,767	1.73	1.72
€1,156,000 Argentina (Republic of) 5% 2027	787	0.77	
€1,223,356 Argentina (Republic of) Var. Rate 2033 (7.82%)	980	0.96	
Bonds with no credit rating	584	0.57	0.63
£273,000 Newday Funding FRN 2024	277	0.27	
£300,000 Paragon Mortgages No. 24 FRN 2043	307	0.30	
Debt derivatives	(516)	(0.50)	(1.26)
Credit default swaps	(647)	(0.63)	(1.11)
\$9,900,000 Chile (Republic of) Jun 2023	(190)	(0.19)	
\$11,020,000 China (Republic of) Jun 2023	(139)	(0.13)	
\$12,000,000 Korea (Republic of) Jun 2023	(266)	(0.27)	
¥11,090,000 Philippines (Republic of) Jun 2023	(52)	(0.04)	
Interest rate swaps	113	0.11	(0.02)
¥103,100,000 Pay 0.814% Receive VAR May 2048	19	0.01	
¥21,600,000 Pay 0.8775% Receive VAR Aug 2047	2	0.00	
¥64,920,000 Pay 0.8875% Receive VAR Jan 2048	3	0.00	
£47,750,000 Pay 0.914% Receive VAR Mar 2047	0	0.00	
£40,430,000 Pay 0.94% Receive VAR Mar 2047	(3)	0.00	
£281,000 Pay 1.461% Receive VAR Mar 2047	15	0.02	
£125,000 Pay 1.464% Receive VAR Aug 2047	6	0.01	
£236,500 Pay 1.488% Receive VAR Mar 2047	11	0.01	
£1,381,500 Pay 1.507% Receive VAR Mar 2047	58	0.06	
£91,000 Pay 1.54% Receive VAR Jan 2047	3	0.00	
£530,000 Pay 1.67% Receive VAR Jul 2048	1	0.00	
£950,000 Pay 1.68% Receive VAR Feb 2048	1	0.00	
£550,000 Pay 1.713% Receive VAR May 2048	(6)	(0.01)	
£300,000 Pay 2.636% Receive VAR Dec 2046	3	0.01	

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Investments

Portfolio statement (continued)			
as at Holding	31.10.18 £'000	31.10.18 %	30.04.18 %
Interest rate futures	18	0.02	(0.13)
(3) 10 Year Japan Government Bond Dec 2018	(4)	0.00	
(87) Euro Bobl Dec 2018	14	0.01	
(22) Euro Bund Dec 2018	11	0.01	
(20) Euro Buxl Dec 2018	(7)	(0.01)	
(26) UK Long Gilt Bond Dec 2018	4	0.01	
Fixed income portfolios	3,022	2.95	3.18 ^[a]
Bond portfolios	3,022	2.95	3.18
33,798 M&G European Loan Fund Sterling Class 'C' (Income) ^{[b] [d]}	3,022	2.95	
CURRENCY	(112)	(0.10)	(0.27)
Forward currency contracts	(112)	(0.10)	(0.27)
AUD(1,849,320) Sold for £999,851 (expires 22.02.19)	(24)	(0.02)	
BRL4,549,238 Bought for \$1,209,260 (expires 22.02.19)	9	0.01	
€469,021 Bought for £413,778 (expires 22.02.19)	5	0.00	
€(13,018,940) Sold for £11,501,257 (expires 22.02.19)	(113)	(0.11)	
HKD5,043,966 Bought for \$646,510 (expires 11.10.19)	0	0.00	
HKD10,199,379 Bought for \$1,303,088 (expires 07.12.18)	(1)	0.00	
IDR4,302,942,048 Bought for \$276,007 (expires 22.02.19)	2	0.00	
¥150,737,288 Bought for £1,028,328 (expires 22.02.19)	19	0.02	
RUB176,650,275 Bought for \$2,642,823 (expires 22.02.19)	8	0.01	
SGD(3,687,847) Sold for £2,036,363 (expires 22.02.19)	(42)	(0.04)	
CHF(1,371,599) Sold for £1,059,602 (expires 22.02.19)	(15)	(0.01)	
TRY10,943,861 Bought for £1,342,619 (expires 22.02.19)	111	0.11	
\$14,742,357 Bought for HKD114,707,887 (expires 07.12.18)	80	0.08	
\$2,934,139 Bought for CNY19,771,458 (expires 07.12.18)	78	0.08	
\$2,170,020 Bought for CNY14,453,693 (expires 06.06.19)	75	0.07	
\$2,058,597 Bought for THB67,186,415 (expires 22.02.19)	18	0.02	
\$1,894,895 Bought for KRW2,133,557,218 (expires 22.02.19)	11	0.01	
\$1,333,874 Bought for MYR5,551,584 (expires 22.02.19)	7	0.01	
\$2,031,716 Bought for TWD62,038,438 (expires 22.02.19)	6	0.01	
\$277,162 Bought for IDR4,302,942,048 (expires 22.02.19)	(1)	0.00	
\$924,553 Bought for £723,476 (expires 22.02.19)	(4)	0.00	
\$2,608,109 Bought for BRL9,947,328 (expires 22.02.19)	(48)	(0.05)	
\$(8,985,733) Sold for £6,809,241 (expires 22.02.19)	(184)	(0.18)	
CNY14,453,693 Bought for \$2,106,829 (expires 06.06.19)	(26)	(0.03)	
CNY19,771,458 Bought for \$2,940,765 (expires 07.12.18)	(83)	(0.09)	

Portfolio statement (continued)

as at Holding	31.10.18 £'000	31.10.18 %	30.04.18 %
Portfolio of investments	96,774	94.49	86.15
CASH EQUIVALENTS	0	0.00	2.84
'AAA' rated money market funds ^[c]	0	0.00	2.84
SHARE CLASS HEDGING	1	0.00	0.00
Forward currency contracts for share class hedging	1	0.00	0.00
€29,749 Bought for £26,039 (expires 14.11.18)	1	0.00	
€(908) Sold for £796 (expires 14.11.18)	0	0.00	
Total portfolio	96,775	94.49	88.99
Net other assets / (liabilities)	5,648	5.51	11.01
Net assets attributable to shareholders	102,423	100.00	100.00

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

^[a] The comparative sector weightings have been reanalysed to reflect changes to the sector classifications.

^[b] Related party.

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

^[d] Delisted.

Portfolio transactions

for the six months to 31 October	2018 £'000	2017 £'000
Portfolio transactions		
Total purchases	93,503	23,734
Total sales	78,616	25,277

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

M&G Global Target Return Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

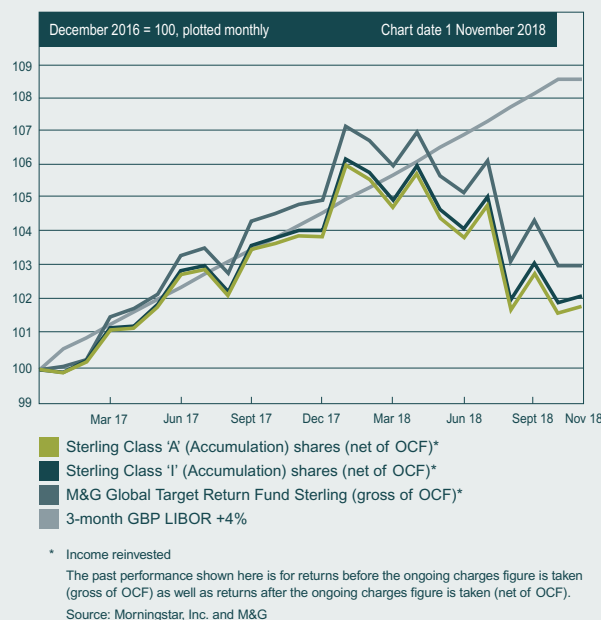
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (11), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at	31.10.18 £'000	30.04.18 £'000	30.04.17 £'000
Fund net asset value (NAV)	102,423	93,593	58,032

Performance since launch

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



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

Long-term performance by share class

	Six months 01.05.18 % ^[a]	Three years 02.11.15 % p.a.	Five years 01.11.13 % p.a.	Since launch % p.a.
Euro^[b]				
Class 'Z-H'	-3.9	n/a	n/a	-3.9 ^[c]
Sterling^[b]				
Class 'A'	-3.5	n/a	n/a	+1.0 ^[d]
Class 'I'	-3.5	n/a	n/a	+1.1 ^[d]
Class 'L'	-3.4	n/a	n/a	+1.1 ^[e]

^[a] Absolute basis.

^[b] Price to price with income reinvested.

^[c] 20 April 2018, the launch date of the share class. Not annualised.

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

^[e] 24 February 2017, the launch date of the share class.

M&G Global Target Return Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

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 or by calling M&G Customer Relations.

Portfolio transaction costs

	Six months to 31.10.18	Year to 30.04.18	Year to 30.04.17	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0.03	0.02	0.01	0.02
Taxes	0.02	0.01	0.00	0.01
Costs before dilution adjustments	0.05	0.03	0.01	0.03
Dilution adjustments ^[c]	0.00	0.00	(0.01)	0.00
Total direct portfolio transaction costs	0.05	0.03	0.00	0.03
as at	31.10.18	30.04.18	30.04.17	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.11	0.11	0.21	0.14

^[a] Average of first three columns.

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

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

M&G Global Target Return Fund

Financial highlights

Specific share class performance

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

Historic yields for the current period are calculated as at 9 November 2018.

Euro Class 'Z-H' Accumulation share performance

The share class was launched on 20 April 2018.

Change in NAV per share	Six months to	Year to	Year to
	31.10.18	30.04.18	30.04.17
	Euro ¢	Euro ¢	Euro ¢
Opening NAV	1,001.25	1,000.00	
Return before operating charges and after direct portfolio transaction costs	(40.81)	1.89	n/a
Operating charges	(1.35)	(0.64)	n/a
Return after operating charges	(42.16)	1.25	n/a
Distributions	0.00	(0.24)	n/a
Retained distributions	0.00	0.24	n/a
Closing NAV	959.09	1,001.25	n/a
Direct portfolio transaction costs	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0.00	0.01	n/a
Dilution adjustments ^[a]	0.00	0.00	n/a
Total direct portfolio transaction costs	0.00	0.01	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.03	n/a
Operating charges	0.24	0.23*	n/a
Return after operating charges	-4.21	+0.13	n/a
Historic yield	0.03	0.02	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV (£'000)	26	27	n/a
Closing NAV percentage of total fund NAV (%)	0.03	0.03	n/a
Number of shares	3,005	3,005	n/a
Highest share price (Euro ¢)	1,000.69	1,002.23	n/a
Lowest share price (Euro ¢)	954.56	999.73	n/a

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

Sterling Class 'A' Accumulation share performance

The share class was launched on 13 December 2016.

Change in NAV per share	Six months to	Year to	Year to
	31.10.18	30.04.18	30.04.17
	UK p	UK p	UK p
Opening NAV	105.67	100.72	100.00
Return before operating charges and after direct portfolio transaction costs	(3.61)	5.94	1.15
Operating charges	(0.50)	(0.99)	(0.43)
Return after operating charges	(4.11)	4.95	0.72
Distributions	0.00	(0.47)	(0.13)
Retained distributions	0.00	0.47	0.13
Closing NAV	101.56	105.67	100.72
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.03	0.02
Dilution adjustments ^[a]	0.00	0.00	(0.02)
Total direct portfolio transaction costs	0.02	0.03	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.03	0.00
Operating charges	0.92	0.92	1.05*
Return after operating charges	-3.90	+4.91	+0.72
Historic yield	0.46	0.43	0.13
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	1,210	1,027	101
Closing NAV percentage of total fund NAV (%)	1.18	1.10	0.17
Number of shares	1,191,254	971,496	100,000
Highest share price (UK p)	105.62	106.16	101.42
Lowest share price (UK p)	101.07	101.23	99.23

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

Sterling Class 'I' Accumulation share performance

The share class was launched on 13 December 2016.

Change in NAV per share	Six months to	Year to	Year to
	31.10.18	30.04.18	30.04.17
	UK p	UK p	UK p
Opening NAV	105.90	100.79	100.00
Return before operating charges and after direct portfolio transaction costs	(3.65)	5.88	1.16
Operating charges	(0.39)	(0.77)	(0.37)
Return after operating charges	(4.04)	5.11	0.79
Distributions	0.00	(0.63)	(0.20)
Retained distributions	0.00	0.63	0.20
Closing NAV	101.86	105.90	100.79
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.03	0.02
Dilution adjustments ^[a]	0.00	0.00	(0.02)
Total direct portfolio transaction costs	0.02	0.03	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.03	0.00
Operating charges	0.72	0.71	0.87*
Return after operating charges	-3.81	+5.07	+0.79
Historic yield	0.62	0.59	0.20
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	46,457	43,240	10,643
Closing NAV percentage of total fund NAV (%)	45.36	46.20	18.34
Number of shares	45,606,780	40,829,400	10,560,541
Highest share price (UK p)	105.86	106.36	101.48
Lowest share price (UK p)	101.38	101.30	99.25

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

M&G Global Target Return Fund

Financial highlights

Specific share class performance

Sterling Class 'L' Accumulation share performance

The share class was launched on 24 February 2017.

	Six months to 31.10.18 UK p	Year to 30.04.18 UK p	Year to 30.04.17 UK p
Change in NAV per share			
Opening NAV	105.60	100.43	100.00
Return before operating charges and after direct portfolio transaction costs	(3.64)	5.82	0.60
Operating charges	(0.34)	(0.65)	(0.17)
Return after operating charges	(3.98)	5.17	0.43
Distributions	0.00	(0.71)	(0.13)
Retained distributions	0.00	0.71	0.13
Closing NAV	101.62	105.60	100.43
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.03	0.01
Dilution adjustments ^[a]	0.00	0.00	(0.01)
Total direct portfolio transaction costs	0.02	0.03	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.05	0.03	0.00
Operating charges	0.62	0.61	0.68*
Return after operating charges	-3.77	+5.15	+0.43
Historic yield	0.69	0.66	0.13
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	54,730	49,300	47,288
Closing NAV percentage of total fund NAV (%)	53.43	52.67	81.49
Number of shares	53,858,641	46,683,361	47,087,143
Highest share price (UK p)	105.57	106.05	101.10
Lowest share price (UK p)	101.13	100.94	99.85

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

^[a] In respect of direct portfolio transaction costs.

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

M&G Global Target Return Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 31 October	2018		2017	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		(4,284)		1,508
Revenue	693		417	
Expenses	(322)		(178)	
Net revenue / (expense) before taxation	371		239	
Taxation	(57)		(32)	
Net revenue / (expense) after taxation		314		207
Total return before equalisation		(3,970)		1,715
Equalisation		18		6
Change in net assets attributable to shareholders from investment activities		(3,952)		1,721

Statement of change in net assets attributable to shareholders

for the six months to 31 October	2018		2017	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		93,593		58,032
Amounts received on issue of shares	17,713		3,484	
Amounts paid on cancellation of shares	(4,938)		(292)	
		12,775		3,192
Dilution adjustments		7		4
Change in net assets attributable to shareholders from investment activities (see above)		(3,952)		1,721
Closing net assets attributable to shareholders		102,423		62,949

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

Balance sheet

as at	31 October 2018	30 April 2018
	£'000	£'000
Assets		
Fixed assets		
Investments	98,500	82,359
Current assets		
Debtors	2,096	512
Cash and bank balances	6,814	9,994
Cash equivalents	0	2,662
Total assets	107,410	95,527
Liabilities		
Investment liabilities	(1,725)	(1,736)
Creditors		
Overdrawn positions at futures clearing houses and collateral manager	(1,115)	(85)
Other creditors	(2,147)	(113)
Total liabilities	(4,987)	(1,934)
Net assets attributable to shareholders	102,423	93,593

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 3.

Distribution policy

In determining the amount available for reinvestment to Accumulation shares, all expenses with the exception of the annual management charge, administration charge and overdraft interest are offset against capital, increasing the amount available for reinvestment whilst restraining capital performance to an equivalent extent. In determining the amount available for distribution to Income shares, all expenses with the exception of overdraft interest are offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

Marginal tax relief has not been taken into account in respect of expenses offset against capital.

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.

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.

Glossary

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

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

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

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

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

Equities: Shares of ownership in a company.

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

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

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

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

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

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

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

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

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

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

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

Gilts: Fixed income securities issued by the UK government.

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

Hedging: A method of reducing unnecessary or unintended risk.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

Treasuries: Fixed income securities issued by the US government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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