

M&G Short Dated Corporate Bond Fund

Annual Short Report May 2020
For the year ended 31 May 2020

M&G Short Dated Corporate Bond Fund

Fund information

The Authorised Corporate Director (ACD) of M&G Investment Funds (2) presents its Annual Short Report for M&G Short Dated Corporate Bond Fund which contains a review of the fund's investment activities and investment performance during the period. The ACD's Annual Long Report and audited Financial Statements for M&G Investment Funds (2), incorporating all the sub-funds and a Glossary of terms is available free of charge either from our website at www.mandg.co.uk/reports or by calling M&G Customer Relations on 0800 390 390.

We have published an annual value assessment delivered to investors in this fund, including an assessment of our charges and services, and how we compare to our competitors. This is available at <https://www.mandg.co.uk/investor/fund-prices-performance/annual-value-assessment>.

ACD

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

Important information

As per the shareholder letter issued 17 June 2019, we have made changes to the way we charge for M&G funds based in the UK, starting on Thursday 1 August 2019. The annual charge should be simpler to understand and be easier to compare to other fund charges. We have combined all the charges that make up the current Ongoing Charge Figure (OCF) into a single annual charge. Only exceptional items such as unforeseen legal and tax expenses, also known as extraordinary expenses, will be excluded from the annual charge. To find out the new annual charge and the OCF on the KIID for the share class(es) you are invested in, visit our website www.mandg.co.uk.

On 5 August 2019, Sterling Class 'PP' (Income) share class launched on M&G Short Dated Corporate Bond Fund.

The investment objective and policy were changed for M&G Short Dated Corporate Bond Fund on 23 March 2020.

The World Health Organisation declared the COVID-19 outbreak a pandemic on 11 March 2020.

Global financial markets have been reacting to the outbreak. All markets have incurred increased volatility and uncertainty since the onset of the pandemic.

The ACD has also noted the operational risks that are posed to the Company and its service providers due to global and local movement restrictions that have been enacted by various governments.

The COVID-19 pandemic is an unprecedented event and the eventual impact on the global economy and markets will largely depend on the scale and duration of the outbreak. The ACD will continue to monitor this situation.

Investment objective up to 22 March 2020

The fund aims to provide a total return (the combination of capital growth and income).

Investment objective from 23 March 2020

The fund aims to provide a higher total return (the combination of capital growth and income), net of the ongoing charge figure, than that of the Markit iBoxx EUR Corporates 1-3 year Index (GBP Hedged) over any five-year period.

M&G Short Dated Corporate Bond Fund

Fund information

Investment policy up to 22 March 2020

At least 80% of the fund is invested in investment grade corporate bonds (including variable rate securities and fixed income securities). The fund invests in securities which on aggregate produce a low portfolio duration, in order to limit the effect of interest rate movements on the fund's capital value. These securities may be issued anywhere in the world. The fund aims to hedge any non-GBP assets to GBP.

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

The fund may also invest in other debt securities (including government and public securities denominated in any currency), collective investment schemes, other transferable securities, cash, near cash, other money market securities, warrants, and other derivative instruments.

Investment policy from 23 March 2020

At least 80% of the fund is invested, directly or indirectly through derivatives, in short-dated investment grade fixed and floating rate corporate debt securities and in Asset-Backed Securities. These securities can be issued by companies from anywhere in the world, including Emerging Markets. These securities can be denominated in any currency.

Other investments may include:

- below investment grade and unrated corporate debt securities; and
- other transferable securities, cash, and near cash, directly or via collective investment schemes (including funds managed by M&G).

The fund aims to hedge any non-Sterling assets back to Sterling.

Derivatives may be used for investment purposes, efficient portfolio management and hedging.

Investment approach up to 22 March 2020

The fund manager combines a top-down assessment of macroeconomic factors with a bottom-up approach to individual stock selection.

Duration is a measure of a bond's or a bond fund's sensitivity to changes in interest rates. Consequently, having a low portfolio duration means that the fund will be less affected by changes in interest rates than a corporate bond fund with a higher portfolio duration.

An in-house team of credit analysts assists the fund manager with individual credit selection along with the monitoring of the companies that issue the bonds held by the fund.

Investment approach from 23 March 2020

The fund is diversified across a range of investment grade debt securities from a variety of sectors and geographies. The fund's investment approach is based on the principle that returns from corporate bond markets are driven by a combination of macroeconomic, asset class, sector, geographic and stock-level factors. As different factors dominate returns at different stages of the economic cycle, the fund manager applies a flexible investment approach, changing the blend of duration and credit exposure in the portfolio to weight them appropriately. The fund manager also maintains a low duration profile through the fund's bias towards short-dated corporate bonds, in order to limit the effect of interest rate movements on the fund's capital value.

Individual credit selection is carried out with the assistance of an in-house team of credit analysts to complement the fund manager's views.

Benchmark up to 22 March 2020

Benchmark: Markit iBoxx EUR Corporates 1-3 year Index (GBP Hedged)

The fund is actively managed. The benchmark is a comparator against which the fund's performance can be measured. The index has been chosen as the fund's comparator benchmark as it best reflects the scope of the fund's investment policy. The comparator benchmark does not constrain the fund's portfolio construction.

For unhedged Share Classes, the benchmark is shown in the Share Class currency.

For currency hedged Share Classes, the benchmark is hedged to the Share Class currency.

M&G Short Dated Corporate Bond Fund

Fund information

Benchmark from 23 March 2020

Benchmark: Markit iBoxx EUR Corporates 1-3 year Index (GBP Hedged)

The benchmark is a target which the fund seeks to outperform. The index has been chosen as the fund's benchmark as it best reflects the scope of the fund's investment policy. The benchmark is used solely to measure the fund's performance and does not constrain the fund's portfolio construction.

The fund is actively managed.

The fund manager has complete freedom in choosing which investments to buy, hold and sell in the fund. The fund's holdings may deviate significantly from the benchmark's constituents.

For unhedged Share Classes, the benchmark is shown in the Share Class currency. For currency hedged Share Classes, the benchmark is hedged to the Share Class currency.

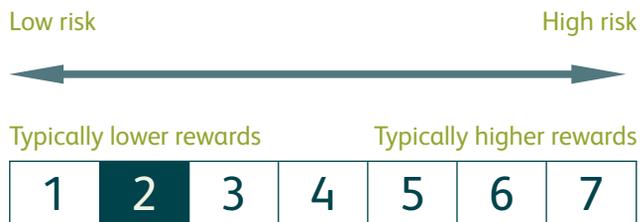
Risk profile

The fund invests in a range of typically low-risk debt instruments, or bonds, that are typically repaid over three years. It is, therefore, subject to the price volatility of the global bond market as well as the performance of individual issuers. In addition, the fund is subject to fluctuations in currency exchange rates.

Debt securities with a short time until their final repayment date tend to be highly liquid, meaning that they can be easily bought or sold. The fund's exposure to debt securities may be gained through the use of derivatives. In association with the use of derivatives, including those instruments not traded through an exchange, collateral is deposited in order to mitigate the risk that a counterparty may default on its obligations or become insolvent.

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

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



The above number:

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

M&G Short Dated Corporate Bond Fund

Investment review

As at 1 June 2020, for the year ended 31 May 2020

Performance against objective

Between 3 June 2019 (the start of the review period) and 1 June 2020, the M&G Short Dated Corporate Bond Fund delivered a positive total return (the combination of income and growth of capital) across all share classes. The fund was ahead of its benchmark, the Markit iBoxx EUR Corporates 1-3 year Index (GBP Hedged), which returned 0.2% over the same period.

It is not possible to assess the fund's performance against its objective over five years as the Markit iBoxx EUR Corporates 1-3 year Index (GBP Hedged) was only introduced as the fund's benchmark on 13 March 2018.*

* For the performance of each share class, please refer to the 'Long-term performance by share class' table in the 'Financial highlights' section of the Annual Long Report and audited Financial Statements for M&G Investment Funds (2).

To give an indication of the performance of the fund, the following table shows the compound rate of return, per annum, over the period for Sterling Class 'A' (Income) shares. Calculated on a price to price basis with income reinvested.

Long-term performance

	One year 03.06.19 % ^[a]	Three years 01.06.17 % p.a.	Five years 01.06.15 % p.a.	Since launch % p.a.
Sterling ^[b] Class 'A'	+1.6	+1.3	+1.6	+3.1 ^[c]

^[a] Absolute basis.

^[b] Price to price with income reinvested.

^[c] 29 January 1993, the end of the initial offer period of the predecessor unit trust.

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

Investment performance

The start of the period under review saw a series of interest rate decisions from central banks in response to mounting uncertainties on the path of global economic growth. Both the Federal Reserve (Fed) and the European

Central Bank (ECB) cut interest rates, while the Bank of England held rates (at 0.75%) although it did include 'lower for longer' language on the rising risk of a 'no deal' Brexit. Volatility continued too, driven by the prospect of the latter and, more significantly, concerns about the US economy. The US manufacturing sector showed signs of increasing weakness despite continued accommodative policy from the Fed. Oil prices spiked on rising tensions in the Middle East, which added to investor unease at the beginning of the period.

The final few months of 2019 were generally positive for investors more inclined to take positions in developing market equities and bonds and also lower-rated bonds issued by US companies. During the last quarter of 2019, investor appetite received a boost from strong signs of a resolution to US-China trade wars, Brexit on the cusp of clearing the final hurdle following a resounding victory for the pro-Brexit Conservative Party in December's UK general election, and the Fed easing interest rates while announcing it would resume securities purchases to grow its balance sheet. The ECB resuming quantitative easing (in November) was an additional source of support for European credit.

Throughout the final quarter of last year, as risk-taking returned, government bond yields trended higher, while credit markets, especially US companies' bonds, rose. It was a more mixed period for European corporate bonds – loans taken out by companies in the form of securities - although emerging market bonds fared better, particularly in a strong October and December.

December was partly dominated by the UK general election, and most opinion polls indicated a comfortable win for the ruling Conservative Party and its pro-Brexit stance.

A promising start to 2020, with risky assets tracking strong growth and jobs data, had fallen away by the middle of January as investors retreated on the news of the coronavirus outbreak in China. By the end of January, traditional 'risk-off' favourites like government bonds, gold and the US dollar – the dollar index being one of the few assets in the currency space to deliver positive returns in the month – were seeing heavy inflows.

Expectations of a reduction in international travel and activity as a result of the virus outbreak resulted in oil prices suffering after they surged at the end of 2019 following increased tensions in the Middle East.

M&G Short Dated Corporate Bond Fund

Investment review

Investment performance

February began on a mildly positive note, as credit spreads – the difference between corporate bond yields and government bond yields – tightened. As the risk premium – the additional return investors require to hold assets considered to be riskier than traditionally safe ones like government bonds -- attached to holding corporate bonds over government bonds was reduced, the market for bond issuance remained fairly active. But as the number of coronavirus cases increased across Europe, 'risk-off' sentiment returned to markets with a vengeance. With a significant widening in credit spreads, the last week of February was the worst for many markets since the global financial crisis.

Certain safe-haven assets rallied, such as the Japanese yen, US Treasuries, UK gilts and German bunds. Italian government bonds lost money, with Italy at the centre of the European outbreak.

March - especially - and April saw further confirmation that coronavirus pandemic would lead to a severe stalling in economic activity worldwide, as governments imposed lockdowns to try to slow down the outbreak. Central banks cut interest rates and purchased debt issued by corporates in order to support the market. Many governments resorted to paying the wages of employees no longer able to work because of the lockdown, and by extending loans to businesses to bridge cashflow.

The fund's performance during the period under review was helped by holding shorter-dated corporate bonds issued by financial and industrial companies, while benefiting less from holding bonds issued by automobile companies. During this period, the fund preferred holding high-quality 'asset-backed securities' (ABS). ABS are bonds backed by assets including credit card receivables, car loans or mortgages, whose creditworthiness is based on the underlying assets, rather than on the company that issued the bonds. Most ABS holdings are floating rate in nature and stand to benefit from rising interest rates through their variable rate coupons.

The fund is, by its very nature, less sensitive to changes in interest rates than those funds which invest in longer-dated corporate bonds (debt issues which are due to be repaid over relatively long periods). It therefore can typically perform well relative to funds which invest in longer-dated corporate bonds, while tending to benefit less than such funds from falling rates.

The fund's lack of sensitivity to interest rate changes was particularly supportive of performance in periods when we saw high levels of volatility, such as early 2020. It benefited less during more risk-friendly months in some of 2019.

Investment activities

In order to ensure that the fund's value and ability to provide an income stream does not fluctuate significantly with changes in the economic cycle, we closely monitor the amount of interest rate risk and credit risk that we take.

Interest rate risk reflects the fact that when interest rates rise, the interest payments on conventional fixed rate bonds become less attractive to investors, causing their prices to fall. Bonds with less time until their maturity date (that is, short-dated bonds) tend to be less sensitive to changes in interest rates than longer-dated bonds because they have fewer interest payments ahead.

Credit risk refers to a borrower's creditworthiness, that is, the likelihood of a borrower failing to service a loan, or default. As with rising interest rates, if investors perceive that a bond issuer's credit risk has increased, this would also tend to weigh on corporate bond prices.

Broadly, we retain a positive outlook on corporate bonds. After corporate bonds experienced considerable weakness in the early stages of 2020, we started to see greater value in these assets once again, and looked to add credit risk back into the portfolio on an issuer-by-issuer basis. Holdings of investment grade corporate bonds represented close to 70% of total assets at the end of the period under review.

Throughout April and to the end of the period under review, we cautiously took advantage of some of the attractive valuations presented to us, while keeping liquidity and the defensive nature of the portfolio our paramount consideration. In this regard, portfolio holdings of 'risk-free' government bonds and cash ended the period at around 13% of total assets held.

We have also kept a sizeable exposure to ABS over the period, between 15-20% of the fund's net asset value. Most ABS holdings are floating rate in nature and stand to benefit from rising interest rates through their variable rate coupons.

Finally, the fund's global approach allows us to take advantage of further opportunities in primary and secondary bond markets.

M&G Short Dated Corporate Bond Fund

Investment review

Outlook

The coronavirus pandemic has completely changed the global economic outlook in 2020, and makes the direction of travel hard to predict. Economies are likely to run at a fraction of their capacity for some time to come, but we have seen significant support from governments and central banks to help bridge the gap. Ultimately, the direction of bond markets depends mainly on shifting investor expectations of how long the world will take to return to normality. In this environment, we look to maintain a high quality portfolio, while taking advantage of attractive asset prices where we believe we are overly compensated for the level of risk we are exposed to.

Matthew Russell Fund manager

An employee of M&G FA Limited (formerly M&G Limited) which is an associate of M&G Securities Limited.

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

Classification of investments

The table below shows the percentage holding per sector.

as at 31 May	% of fund	
	2020	2019
FIXED INCOME		
Debt securities		
'AAA' credit rated bonds	15.77	13.68
'AA' credit rated bonds	14.88	15.77
'A' credit rated bonds	28.78	26.74
'BBB' credit rated bonds	25.83	28.03
'BB' credit rated bonds	2.57	2.87
Bonds with no credit rating	12.51	13.65
Debt derivatives		
Credit default swaps	0.06	(0.02)
CURRENCY		
Forward currency contracts	(0.84)	(2.03)
CASH EQUIVALENTS		
'AAA' rated money market funds ^[a]	0.57	3.77

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

M&G Short Dated Corporate Bond Fund

Financial highlights

Fund performance

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

The following charts and tables reflect the key financial information of a representative share class, Sterling Class 'A' (Income) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be different. For more information on the different share classes in this fund please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

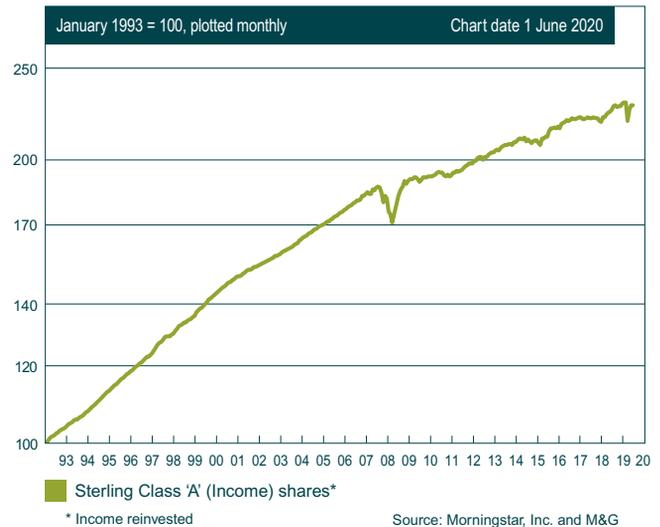
Fund level performance

Fund net asset value

	2020	2019	2018
as at 31 May	£'000	£'000	£'000
Fund net asset value (NAV)	275,432	323,156	472,648

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' (Income) shares.

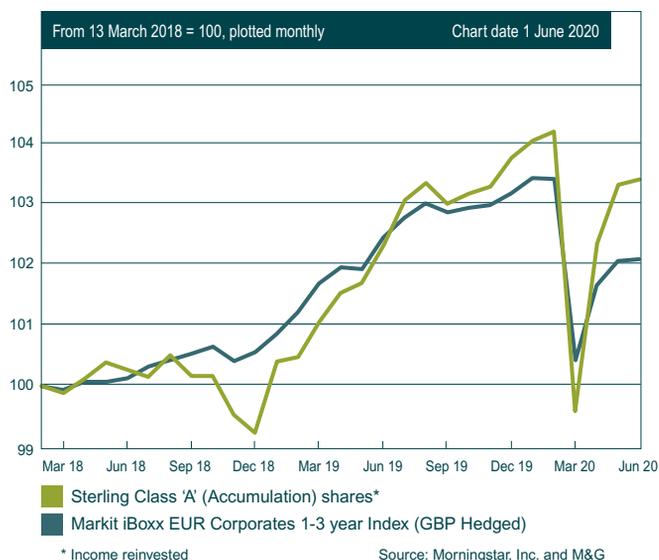


M&G Short Dated Corporate Bond Fund

Financial highlights

Fund performance against the comparator benchmark

We are unable to show the fund's performance against the comparator benchmark from inception, as the fund was previously managed against a different comparator benchmark. Therefore, the graph below shows the performance of the fund from the period where the fund was managed against the Markit iBoxx EUR Corporates 1-3 year Index (GBP Hedged).



Please note, the comparator benchmark was introduced on 13 March 2018. Before this date, the fund was not managed with reference to the Markit iBoxx EUR Corporates 1-3 year Index (GBP Hedged).

To give an indication of how the fund has performed during the period the table on the following page shows the performance of Sterling Class 'A' (Income) shares.

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

Sterling Class 'A' Income share performance

The share class was launched on 29 January 1993.			
for the year to 31 May	2020	2019	2018
Change in NAV per share	UK p	UK p	UK p
Opening NAV	25.47	25.63	25.86
Return before operating charges and after direct portfolio transaction costs	0.55	0.53	0.35
Operating charges	(0.13)	(0.13)	(0.16)
Return after operating charges	0.42	0.40	0.19
Distributions	(0.50)	(0.56)	(0.42)
Closing NAV	25.39	25.47	25.63
Direct portfolio transaction costs	UK p	UK p	UK p
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments ^[a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	%	%	%
Direct portfolio transaction costs ^[b]	0.00	0.00	0.00
Operating charges ^[c]	0.50	0.51	0.64
Return after operating charges	+1.65	+1.56	+0.73
Distribution yield	1.84	2.26	1.86
Effect on yield of charges offset against capital	0.49	0.50	0.62
Other information			
Closing NAV (£'000)	54,948	60,701	100,587
Closing NAV percentage of total fund NAV (%)	19.95	18.78	21.28
Number of shares	216,407,298	238,287,578	392,452,306
Highest share price UK p	25.91	25.78	26.07
Lowest share price UK p	24.40	25.13	25.67

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

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

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

M&G Short Dated Corporate Bond Fund

Financial highlights

Operating charges and portfolio transaction costs

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

Operating charges

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

- **Annual charge:** Charge paid to M&G covering the annual cost of M&G managing and administering the fund and the costs of third parties providing services to the fund. From 1 August 2019, this charge rolls all costs that make up the operating charges into one annual charge.

For every £1 billion of a fund's net asset value, a discount of 0.02% will be applied to that fund's annual charge (up to a maximum of 0.12%).

- **Extraordinary legal and tax expenses:** Costs that specifically relate to legal or tax claims that are both exceptional and unforeseeable. Such expenses are uncommon, and would not be expected in most years. Although they result in a short-term cost of the fund, generally they can deliver longer term benefits for investors.
- **Investment management:** Charge paid to M&G for investment management of the fund. From 1 August 2019 this charge forms part of the annual charge.
- **Administration:** Charge paid for administration services in addition to investment management – any surplus from this charge will be retained by M&G. From 1 August 2019 this charge is rolled into the annual charge.
- **Share class hedging:** Charge paid to M&G for currency hedging services to minimise exchange rate risk for the share class. From 1 August 2019 this charge is rolled into the annual charge.
- **Oversight and other independent services:** Charges paid to providers independent of M&G for services which include depository, custody and audit. From 1 August 2019 these charges will be paid by M&G and rolled into the annual charge.

- **Ongoing charges from underlying funds:** Ongoing charges on holdings in underlying funds that are not rebated. From 1 August 2019 charges from underlying funds (excluding Investment Trust Companies and Real Estate Investment Trusts) will be rebated.

These 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.

Once the annual charge has been operational for twelve months, operating charges will be in line with the ongoing charges shown in the Key Investor Information Document, other than where there have been extraordinary legal or tax expenses, or 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.

Portfolio transaction costs

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

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

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

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

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Financial highlights

Portfolio transaction costs

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

Portfolio transaction costs

as at 31 May	2020	2019	2018	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0.51	0.32	0.31	0.38

^[a] Average of first three columns.

Contact



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Email us with queries:†

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- * For security purposes and to improve the quality of our service, we may record and monitor telephone calls. Please have your M&G client reference to hand.
- ** Please remember to quote your name and M&G client reference and sign any written communication to M&G.
- † Please note that information contained within an email cannot be guaranteed as secure. We advise that you do not include any sensitive information when corresponding with M&G in this way.

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