



M&G Investment Funds (2)

Interim Long Report and unaudited Financial Statements
for the six months ended 30 November 2016



Contents

M&G Investment Funds (2)

Authorised Corporate Director's Report	Page	1
Financial statements and notes	Page	4
Directors' statement	Page	4

Authorised Corporate Director's Reports, including the financial highlights and financial statements and notes for:

M&G Gilt & Fixed Interest Income Fund	Page	5
M&G Global High Yield Bond Fund	Page	13
M&G Index-Linked Bond Fund	Page	29
M&G Index Tracker Fund	Page	37
M&G Short Dated Corporate Bond Fund	Page	49
M&G UK Income Distribution Fund (formerly M&G Extra Income Fund)	Page	61
M&G UK Select Fund	Page	75

Other regulatory disclosures	Page	87
------------------------------	------	----

Glossary	Page	88
----------	------	----

M&G Investment Funds (2)

Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Investment Funds (2) presents its Interim Long Report and unaudited Financial Statements for the six months ended 30 November 2016.

The unaudited financial statements of M&G Investment Funds (2) 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 (2) is an umbrella Open-Ended Investment Company (OEIC) and contains seven sub-funds, hereinafter referred to as 'funds' in the rest of this report. Each fund is a UCITS (Undertakings for Collective Investment in Transferable Securities) scheme as defined in the Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Conduct Authority (FCA). This OEIC is an Investment Company with Variable Capital (ICVC) incorporated under the Open-Ended Investment Companies Regulations 2001. It is authorised and regulated by the FCA under the Financial Services and Markets Act 2000.

The Company was authorised on 1 August 2001 and was launched on 24 January 2002, following the conversion of a series of authorised unit trusts.

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

As at 30 November 2016, 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 Gilt & Fixed Interest Income Fund

Matthew Russell

M&G Global High Yield Bond Fund

Stefan Isaacs & James Tomlins

M&G Index-Linked Bond Fund

Ben Lord

M&G Index Tracker Fund

Richard O'Connor

M&G Short Dated Corporate Bond Fund

Matthew Russell

M&G UK Income Distribution Fund

Richard Hughes

M&G UK Select Fund

Garfield Kiff & Rory Alexander (Deputy fund managers)

For the majority of the review period Mike Felton was the fund manager.

ACD

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

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

Directors of the ACD

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

Investment manager

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

(Authorised and regulated by the Financial Conduct Authority)

Registrar

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

Depositary

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

Independent auditor

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

Important information

With effect from 16 December 2016 the M&G Extra Income Fund changed its name to M&G UK Income Distribution Fund, and the fund's investment objective and policy was also amended. This change has no impact on the fund's investment approach and there will be no change to the way the fund is managed.

Please note that from 1 October 2016, the M&G UK Income Distribution Fund began taking the annual management charge and administration charge from income in the case of Accumulation shares. These charges continue to be charged to capital for Income shares. In addition to these changes, the annual management charge was reduced on Sterling 'R' and 'I' share classes.

Please note that from 1 October 2016, all the sub-funds of M&G Investment Funds (2) apart from M&G UK Income Distribution Fund, began taking the annual management charge, administration charge and where relevant, the share class hedging charge, from capital in the case of Income shares. These charges continue to be charged to income for Accumulation shares.

The objectives and policies remain unchanged for all the funds, apart from M&G UK Income Distribution Fund as mentioned above. All costs associated with introducing these changes will be borne by M&G Securities Limited.

M&G Investment Funds (2)

Authorised Corporate Director's Report

Important information

In the 2016 Budget, the UK government announced that, effective from 6 April 2017, interest distributions from open-ended investment companies (OEICs) may be paid without deducting income tax (currently 20%).

As a result, prices for the sterling share classes of M&G's bond funds will be calculated without an accrual for the deduction of income tax. This change, for different funds, will be phased in between October 2016 and March 2017.

From 1 December 2016 the M&G Gilt & Fixed Interest Income Fund, M&G Index-Linked Bond Fund and M&G Short Dated Corporate Bond Fund's prices for the sterling share classes will be calculated without income tax deducted.

From 1 March 2017 the M&G Global High Yield Bond Fund's prices for the sterling share classes will be calculated without income tax deducted.

Investor information

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

Customer services and administration for non-UK clients:

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

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

Telephone: +49 69 1338 6767

Email: iocs@mandg.co.uk

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

Austrian Paying and Information Agent:

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

Belgian Financial Agent:

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

Danish Representative Agent:

Nordea Bank Danmark A/S,
Client Relations DK, Investor Services & Solutions,
Postbox 850, Reg.no.6428. HH. 6,1., 0900 Copenhagen C, Denmark

French Centralising Agent:

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

German Information Agent:

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

M&G Investment Funds (2)

Authorised Corporate Director's Report

Investor information

Greek Paying Agent and Distributor:

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

Irish Facilities Agent:

Société Générale SA, Dublin Branch,
3rd Floor IFSC House – The IFSC, Dublin 1, Ireland

Italian Paying Agents:

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

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

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

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

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

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

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

Luxembourg Paying and Information Agent:

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

Portuguese Distributor:

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

Spanish Representative:

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

Swedish Paying Agent:

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

Swiss Paying Agent and Representative:

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

Authorised Corporate Director's Responsibilities

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

M&G Investment Funds (2)

Financial statements and notes

The financial statements for M&G Investment Funds (2) 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 annual financial statements for the year ended 31 May 2016. The financial statements of each fund have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice for Authorised Funds issued by the Investment Association in May 2014.

With effect from 1 October 2016, each of the funds amended its distribution policy in respect of the treatment of certain charges. This is set out in the notes to each fund's financial statements.

Amendments to FRS 102 'Fair value hierarchy disclosures' effective for annual periods beginning on or after 1 January 2017 have been early adopted. These amendments improve the consistency of fair value disclosures for financial instruments with those required by EU-adopted IFRS (International Financial Reporting Standards).

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 January 2017

M&G Gilt & Fixed Interest Income Fund

Authorised Corporate Director's Report

Important information

Please note that from 1 October 2016, the M&G Gilt & Fixed Interest Income Fund began taking the annual management charge and administration charge from capital in the case of Income shares. These charges continue to be charged to income for Accumulation shares.

The fund's objective and policy remain unchanged. All costs associated with introducing these changes will be borne by M&G Securities Limited.

In the 2016 Budget, the UK government announced that, effective from 6 April 2017, interest distributions from open-ended investment companies (OEICs) may be paid without deducting income tax (currently 20%).

As a result, prices for the sterling share classes of M&G's bond funds will be calculated without an accrual for the deduction of income tax. This change, for different funds, will be phased in between October 2016 and March 2017.

From 1 December 2016 the M&G Gilt & Fixed Interest Income Fund's prices for the sterling share classes will be calculated without income tax deducted.

Investment objective

The Fund is designed to provide a secure income with stability of capital consistent with investment in gilts over a rolling three to five year period. There is no guarantee that the Fund will achieve its objective over this, or any other, period. The income distributions and the value of your investment may rise and fall and investors may not recoup the original amount they invested.

Investment policy

The Fund invests mainly in short, medium or long-dated gilts according to M&G's view at any given moment of the likely course of interest rates and trend of the gilt-edged market. The Fund's exposure to gilts may be gained through the use of derivatives. The Fund may also invest in other assets including collective investment schemes, other transferable securities, other debt instruments, cash and near cash, deposits, warrants, money market instruments and other derivative instruments.

Investment approach

The fund manager's investment approach is driven primarily by macroeconomic factors such as views on inflation, interest rates and economic growth and tends not to be influenced by short-term changes in the economic or market environment. A minimum of 70% of the fund is to be invested in UK government bonds, subject to which, it can invest a maximum of 20% in government guaranteed securities and up to 5% in corporate bonds and cash. The corporate bond purchases are made in consultation with the fund managers of the M&G Corporate Bond Fund and the M&G Global High Yield Bond Fund.

Risk profile

The fund invests in fixed income securities, or bonds, issued by the UK government. It is, therefore, subject to the price volatility of the UK government bond market. It is also influenced by developments in the broader global government bond market. UK government bonds are highly liquid securities, meaning they are normally traded with relative ease.

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'



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 December 2016, for the six months ended 30 November 2016

Performance against objective

Between 1 June 2016 (the start of the review period) and 1 December 2016, the M&G Gilt & Fixed Interest Income Fund's Sterling Class 'A' and 'I' share classes delivered a total return (the combination of income and growth of capital) of 1,4% and 1,5%, respectively. This was slightly behind the average return from the fund's peer group, the IA UK Gilts sector, which was 1,7% over the same period.

Over three- and five-year periods to 1 December 2016, the fund has delivered positive total returns, thus meeting its objective of providing a secure income with stability of capital consistent with investment in UK government bonds, or gilts.^[a]

M&G Gilt & Fixed Interest Income Fund

Authorised Corporate Director's Report

Investment review

Investment performance

The six months under review have been underpinned by geopolitical events. As we entered 2016 following an interest rate rise by the Federal Reserve, the US economy continued to perform well and investors expected further rises would follow during the year. However, several global economic factors led other major central banks to leave interest rates unchanged or even to reduce them. China's slowing economy remained a concern, for example, while inflation generally remained subdued. As 2016 progressed, concerns emerged that global economic growth was faltering, and interest rates are not typically increased in such an environment.

At the beginning of the review period in June, the UK held a referendum regarding its membership of the European Union (EU). The vote produced an unexpected 'leave' result (so-called Brexit), which most economists expected would weaken the economic outlook, not only in the UK but also in the EU.

For bond markets, there were some important knock-on effects from the referendum, as the expected timing of another US interest rate rise was pushed back and the performance of government bonds was supported by their perceived 'safe-haven' status among investors during times of uncertainty. (Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'.)

Subsequently in August, the Bank of England (BoE) cut interest rates and announced additional measures to counter the prospect of slower economic growth following the EU referendum result. These steps included using its own money to buy government bonds and certain types of corporate bond, a strategy known as 'quantitative easing' that largely aims to keep interest rates low and promote lending activity. The European Central Bank (ECB) already had similar measures in place as economic growth in the eurozone, while gradually improving, remained sluggish.

In the final months of the review period, however, sentiment towards bonds weakened and some of their gains from earlier in 2016 were offset as markets declined. In the UK, adverse considerations included rising inflation expectations, given that the size of sterling's decline since the EU referendum result is likely to push up import costs. Inflation expectations also began to rise in the US, while in Europe, some concerns emerged that the ECB might look to scale back its economic stimulus measures. Although the ECB did not change its monetary policies, the prospect of higher inflation (which typically makes fixed income investments less attractive) continued to weigh on global bond markets and they declined in September and October.

The surprise election result in the US saw global bonds generally react negatively as investors weighed up how US government debt and inflation might increase if the incoming Trump administration implements big infrastructure spending and tax-cutting policies, as it

has indicated. In addition, the prospect of shifts towards trade protectionism is now a key concern. Amid the sell-off across bond markets, short-dated UK and German government bonds (bonds that are due to be repaid within five years) were among the few areas of the market that found support as prices fell, pushing up the yields. (Bond yields refer to the interest received from a fixed income security, which is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. Bond yields typically move in the opposite direction to bond prices.) This sell-off affected the performance of longer dated government bonds (bonds that are due to be repaid in more than 10 years) in particular, given their greater sensitivity to changes in yields.

Nevertheless, over the six months as a whole, longer dated UK government bonds generally outperformed those issues with a shorter repayment period. As the fund holds mostly gilts due to be repaid between 10 and 25 years, its returns for the six-month period were positive.

Investment activities

One of the key drivers of the fund's performance is the ability to reduce or increase the portfolio's sensitivity to changes in bond yields, otherwise known as 'duration'. At the beginning of the review period, in light of the UK's referendum, we increased the duration of the fund as we were of the opinion that the result of the vote could have a negative impact on the economy and may lead to further interest rate cuts and increased stimulus measures. We therefore bought gilts maturing in 2028, 2039 and 2044.

We also invested in US index-linked bonds called Treasury inflation-protected securities (TIPS). These are bonds where both the value of the loan and the interest payments are adjusted in line with inflation over the life of the security. We believe TIPS have been attractively priced relative to conventional bonds as we continue to search for 'relative value' within government bond markets.

Following the BoE's rate cut and stimulus package to help support the economy following the Brexit vote, we bought bonds with maturities between 10 and 25 years and remained underweight relative to bonds due to be repaid in more than 25 years' time.

Inflation expectations increased as sterling fell relative to other major currencies. We therefore sold the fund's position in 10-year index-linked bonds and engaged in 'relative-value' trades by investing in attractively priced conventional gilts.

Outlook

As fluctuations in financial markets persisted over the review period, generally the demand for UK government bonds pushed up their prices, resulting in a fall in bond yields over the six months.

Even though gilt yields have increased from historical lows, we believe there will be sustained demand for government bonds. Both conventional and index-linked gilts tend to perform well during uncertain economic times as investors increase their demand for assets that are perceived to be low risk.

M&G Gilt & Fixed Interest Income Fund

Authorised Corporate Director's Report

Investment review

Outlook (continued)

We are of the opinion that the UK economy should continue to grow, albeit at a slightly slower pace than initially expected. Although UK government bonds have undergone a prolonged period of heightened demand, volatility in financial markets appears set to remain high. Given their 'safe-haven' status, any further uncertainty would tend to support demand for gilts.

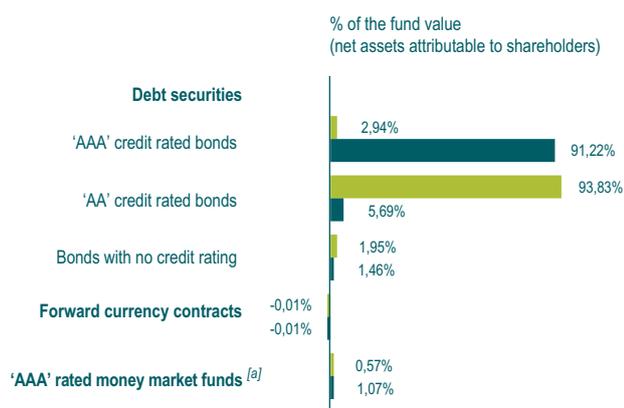
Matthew Russell
Fund manager

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

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

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

Classification of investments



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

■ 30 November 2016

■ 31 May 2016

Source: M&G

Investments

Portfolio statement

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Debt securities	657.297	98,72	98,37
'AAA' credit rated bonds	19.550	2,94	91,22
£7.000.000 European Investment Bank 8,75% 2017	7.431	1,11	
£7.000.000 KfW 1,125% 2019	7.118	1,08	
£5.000.000 Kommunalbanken AS 1,125% 2016	5.001	0,75	
'AA' credit rated bonds	624.718	93,83	5,69
£12.400.000 Barclays Bank 1,5% 2017	12.448	1,87	
£2.807.421 CTRL Section 1 Finance 5,234% 2035	3.507	0,53	
£7.000.000 Finland (Republic of) 1,625% 2020	7.238	1,09	
£7.088.000 Transport for London 1,25% 2017	7.139	1,07	
£5.000.000 Transport for London 3,875% 2042	6.189	0,93	
£37.000.000 Treasury 1% 2017	37.261	5,60	
£28.500.000 Treasury 1,5% 2047	25.667	3,85	
£59.500.000 Treasury 1,75% 2019	61.948	9,30	
£18.000.000 Treasury 2% 2020	19.018	2,86	
£14.500.000 Treasury 2,5% 2065	17.870	2,68	
£25.500.000 Treasury 3,25% 2044	32.137	4,83	
£13.000.000 Treasury 3,5% 2068	20.494	3,08	
£23.000.000 Treasury 4,25% 2027	29.396	4,42	
£27.625.000 Treasury 4,25% 2039	39.116	5,87	
£16.000.000 Treasury 4,25% 2046	24.228	3,64	
£52.000.000 Treasury 4,5% 2034	72.722	10,92	
£29.000.000 Treasury 4,75% 2038	43.506	6,53	
£47.000.000 Treasury 5% 2025	61.171	9,19	
£50.000.000 Treasury 6% 2028	74.506	11,19	
\$35.000.000 US Treasury 0,125% IL 2020	29.157	4,38	
Bonds with no credit rating	13.029	1,95	1,46
£10.000.000 European Investment Bank 1,125% 2021	10.033	1,50	
£3.022.000 PRS Finance 1,75% 2026	2.996	0,45	
Forward currency contracts	(71)	(0,01)	(0,01)
\$256.980 Bought for £207.070 (expires 14.12.16)	(1)	0,00	
\$(36.826.201) Sold for £29.495.530 (expires 14.12.16)	(70)	(0,01)	
Portfolio of investments	657.226	98,71	98,36
'AAA' rated money market funds [a]	3.786	0,57	1,07
3.786.000 Northern Trust Global Fund - Sterling	3.786	0,57	
Total portfolio	661.012	99,28	99,43
Net other assets / (liabilities)	4.808	0,72	0,57
Net assets attributable to shareholders	665.820	100,00	100,00

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

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

Portfolio transactions

for the six months to 30 November	2016 £'000	2015 £'000
Portfolio transactions		
Total purchases	615.863	725.806
Total sales	642.235	736.637

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

M&G Gilt & Fixed Interest Income Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

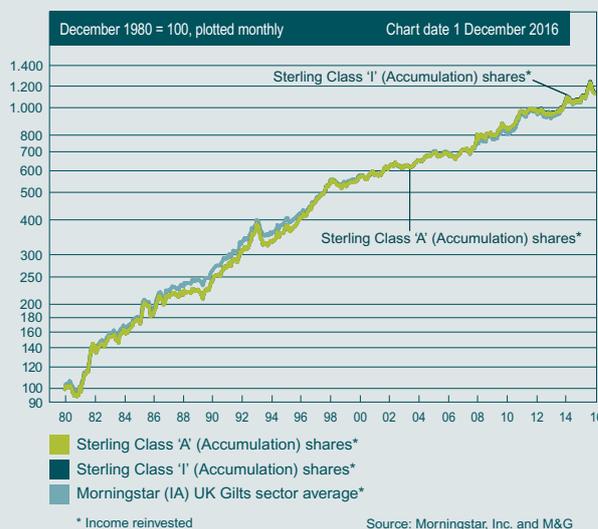
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at	30.11.16 £'000	31.05.16 £'000	31.05.15 £'000
Fund net asset value (NAV)	665.820	674.624	702.376

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.

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 01.06.16 % ^[a]	Three years 02.12.13 % p.a.	Five years 01.12.11 % p.a.	Since launch % p.a.
Sterling^[b]				
Class 'A'	+1,4	+5,9	+3,3	+7,0 ^[c]
Class 'I'	+1,5	+6,1	n/a	+3,1 ^[d]

^[a] Absolute basis.

^[b] Price to price with income reinvested.

^[c] 9 December 1980, the end of the initial offer period of the predecessor unit trust.

^[d] 3 August 2012, the launch date of the share class.

M&G Gilt & Fixed Interest Income 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, comprised of operating charges and portfolio transaction costs.

Operating charges

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

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

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

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

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

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, method of execution and the quality of research provided. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission, taxes, and costs of research from brokers and other research providers.
- **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 wholly in fixed interest securities no direct portfolio transaction costs are applicable. To give an indication of the indirect portfolio dealing costs the table below shows the average portfolio dealing spread.

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

Portfolio transaction costs

as at	30.11.16	31.05.16	31.05.15	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0,10	0,08	0,07	0,08

^[a] Average of first three columns.

M&G Gilt & Fixed Interest Income Fund

Financial highlights

Specific share class performance

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

Sterling Class 'A' Income share performance

The share class was launched on 9 December 1980.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	94,61	91,64	84,50
Return before operating charges and after direct portfolio transaction costs	3,45	4,71	8,88
Operating charges	(0,46)	(0,84)	(0,81)
Return after operating charges	2,99	3,87	8,07
Distributions	(0,41)	(0,90)	(0,93)
Closing NAV	97,19	94,61	91,64
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,91	0,91	0,91
Return after operating charges	+3,16	+4,22	+9,55
Distribution yield ^[a]	1,34	0,81	1,04
Effect on yield of charges offset against capital	0,90	n/a	n/a

Other information

Closing NAV (£'000)	85.140	91.193	118.394
Closing NAV percentage of total fund NAV (%)	12,79	13,52	16,86
Number of shares	87.601.486	96.391.838	129.192.823
Highest share price (UK p)	105,49	96,51	95,63
Lowest share price (UK p)	95,31	88,65	83,65

Sterling Class 'A' Accumulation share performance

The share class was launched on 9 December 1980.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	524,72	504,34	461,21
Return before operating charges and after direct portfolio transaction costs	19,10	26,00	48,57
Operating charges	(2,55)	(4,62)	(4,42)
Return after operating charges	16,55	21,38	44,15
Distributions	(1,45)	(4,99)	(5,09)
Retained distributions	1,16	3,99	4,07
Closing NAV	540,98	524,72	504,34
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,91	0,91	0,91
Return after operating charges	+3,15	+4,24	+9,57
Distribution yield ^[a]	0,44	0,81	1,04
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (£'000)	345.775	335.616	390.646
Closing NAV percentage of total fund NAV (%)	51,93	49,75	55,62
Number of shares	63.916.611	63.961.600	77.456.253
Highest share price (UK p)	585,09	533,28	524,20
Lowest share price (UK p)	528,62	487,87	456,58

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	1.072,94	1.039,30	958,31
Return before operating charges and after direct portfolio transaction costs	39,16	53,45	100,70
Operating charges	(3,78)	(6,94)	(6,67)
Return after operating charges	35,38	46,51	94,03
Distributions	(5,59)	(12,87)	(13,04)
Closing NAV	1.102,73	1.072,94	1.039,30

	%	%	%
Performance and charges			
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,66	0,66	0,66
Return after operating charges	+3,30	+4,48	+9,81
Distribution yield ^[a]	1,34	1,06	1,28
Effect on yield of charges offset against capital	0,65	n/a	n/a

Other information

Closing NAV (£'000)	46.189	47.015	28.980
Closing NAV percentage of total fund NAV (%)	6,94	6,97	4,12
Number of shares	4.188.578	4.381.877	2.788.441
Highest share price (UK p)	1.197,04	1.094,97	1.084,90
Lowest share price (UK p)	1.080,95	1.005,59	948,74

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	1.115,43	1.069,97	976,56
Return before operating charges and after direct portfolio transaction costs	40,55	55,26	102,94
Operating charges	(3,93)	(7,14)	(6,86)
Return after operating charges	36,62	48,12	96,08
Distributions	(4,54)	(13,30)	(13,36)
Retained distributions	3,63	10,64	10,69
Closing NAV	1.151,14	1.115,43	1.069,97

	%	%	%
Performance and charges			
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,66	0,66	0,66
Return after operating charges	+3,28	+4,50	+9,84
Distribution yield ^[a]	0,69	1,06	1,28
Effect on yield of charges offset against capital	n/a	n/a	n/a

Other information

Closing NAV (£'000)	188.716	200.800	164.356
Closing NAV percentage of total fund NAV (%)	28,34	29,76	23,40
Number of shares	16.393.808	18.001.958	15.360.769
Highest share price (UK p)	1.244,42	1.132,94	1.111,37
Lowest share price (UK p)	1.123,71	1.035,27	966,81

^[a] Following the change in charging structure outlined on page 1, you may see variances between the comparative and current year figures.

M&G Gilt & Fixed Interest Income Fund

Financial statements and notes

Financial statements

Statement of total return				
for the six months to 30 November	2016		2015	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		20,208		1,004
Revenue	5,024		6,666	
Expenses	(2,883)		(2,905) ^[a]	
Net revenue / (expense) before taxation	2,141		3,761	
Taxation	(5)		0	
Net revenue / (expense) after taxation		2,136		3,761
Total return before distributions		22,344		4,765
Distributions		(2,322)		(3,761)
Change in net assets attributable to shareholders from investment activities		20,022		1,004

Statement of change in net assets attributable to shareholders				
for the six months to 30 November	2016		2015	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		674,624		702,376
Amounts received on issue of shares	28,202		52,147 ^[a]	
Amounts paid on cancellation of shares	(58,419)		(79,495) ^[a]	
		(30,217)		(27,348)
Dilution adjustments		35		27 ^[a]
Change in net assets attributable to shareholders from investment activities (see above)		20,022		1,004
Retained distributions on Accumulation shares		1,352		2,367
Unclaimed distributions		4		3
Closing net assets attributable to shareholders		665,820		678,429

The opening net assets attributable to shareholders for 2016 differs to the closing position in 2015 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet		
as at	30 November 2016	31 May 2016
	£'000	£'000
Assets		
Fixed assets		
Investments	661,083	670,849
Current assets		
Debtors	6,159	6,211
Cash and bank balances	90	12
Total assets	667,332	677,072
Liabilities		
Investment liabilities	(71)	(86)
Creditors		
Bank overdrafts	0	(848)
Distribution payable	(698)	(914)
Other creditors	(743)	(600)
Total liabilities	(1,512)	(2,448)
Net assets attributable to shareholders	665,820	674,624

^[a] Restated, please see notes to the financial statements.

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

The fund has adopted FRS 102 and the 2014 SORP. As a result there are some presentational changes to the classification of items in the financial statements. The following presentational changes are considered to be minimal and have no impact on the total return or net asset value in either the current or prior accounting period. In the 'Statement of change in net assets attributable to shareholders', 'Dilution adjustments' are now disclosed as a separate line item.

'Dilution adjustments' totalling £35,000 (2015: £27,000) have been reclassified from 'Amounts received on issue of shares' of £9,000 (2015: £3,000) and 'Amounts paid on cancellation of shares' of £26,000 (2015: £24,000).

Interest payable of £nil (2015: £1,000) has been reclassified from 'Distributions' into 'Expenses'.

Distribution policy

With effect from 1 October 2016 the distribution policy has been amended so that in determining the amount available for distribution to Income shares, the annual management charge and administration charge are now 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.

M&G Gilt & Fixed Interest Income Fund

Financial statements and notes

This page is intentionally blank

M&G Global High Yield Bond Fund

Authorised Corporate Director's Report

Important information

Please note that from 1 October 2016, the M&G Global High Yield Bond Fund began taking the annual management charge, administration charge and where relevant, the share class hedging charge, from capital in the case of Income shares. These charges continue to be charged to income for Accumulation shares.

The fund's objective and policy remain unchanged. All costs associated with introducing these changes will be borne by M&G Securities Limited.

In the 2016 Budget, the UK government announced that, effective from 6 April 2017, interest distributions from open-ended investment companies (OEICs) may be paid without deducting income tax (currently 20%).

As a result, prices for the sterling share classes of M&G's bond funds will be calculated without an accrual for the deduction of income tax. This change, for different funds, will be phased in between October 2016 and March 2017.

From 1 March 2017 the M&G Global High Yield Bond Fund's prices for the sterling share classes will be calculated without income tax deducted.

Investment objective

The Fund is designed to maximise total return (the combination of income and growth of capital) while generating a high level of income.

Investment policy

The Fund invests predominantly in higher yielding corporate debt instruments which may be denominated in sterling, European currencies and other major global currencies, should the investment managers deem them to be appropriate investments. The Fund's exposure to higher yielding corporate debt instruments may be gained through the use of derivatives and any currency exposures within the Fund may be managed by currency hedges into sterling. The Fund may also invest in other assets including collective investment schemes, government and public securities and other transferable securities, cash and near cash, deposits, warrants, money market instruments and other derivative instruments.

Investment approach

The M&G Global High Yield Bond Fund invests predominantly in higher yielding corporate bonds. The fund managers' investment approach concentrates on bottom-up analysis of individual bond issues whilst remaining aware of macroeconomic developments. There is a focus on proprietary research rather than external research. Credit risk is constantly monitored and always well diversified. Foreign currency exposure is typically hedged to sterling using forward foreign currency contracts, although some currency exposure may exist.

Risk profile

The fund invests mainly in higher yielding fixed income securities, which may be denominated in sterling, European currencies and other major global currencies. 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.

The fund's focus on higher yielding debt securities implies that it may experience greater volatility than a fund that invests primarily in investment grade debt securities as higher risk assets could potentially experience a degree of illiquidity in times of market distress.

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.

Investment review

As at 1 December 2016, for the six months ended 30 November 2016

Performance against objective

Between 1 June 2016 (the start of the review period) and 1 December 2016, the M&G Global High Yield Bond Fund produced a positive total return (the combination of income and growth of capital) across all share classes. The fund's sterling and euro share classes performed broadly in line with the fund's peer group of comparable high yield bond funds.

The fund aims to maximise total return, while generating a high level of income. Over the review period, the fund has provided income^[a] and positive total returns.^[b]

M&G Global High Yield Bond Fund

Authorised Corporate Director's Report

Investment review

Investment performance

Global high yield bonds delivered positive returns over the review period, supported by a rising oil price and their tendency to be less sensitive to interest rate changes. This is because of high yield bonds' generally short repayment period. (High yield bonds are fixed income securities issued by companies with a low credit rating. They therefore pay a higher rate of interest than their more highly rated counterparts to compensate investors for the greater possibility that the issuer might be unable to meet its obligations, or in other words, default.)

The US election result in November shocked pollsters and markets alike when Donald Trump secured the 270 Electoral College votes required to win the presidency. While many markets reacted negatively to the news initially, in the US high yield market at least, Trump's 'reflationary' policy proposals (tax cuts and increased infrastructure spending) boosted investor sentiment in this domestically focused market.

The Organization of the Petroleum Exporting Countries (OPEC) agreement on its first oil production cut in eight years was also positive news, as the energy sector accounts for around 15% of the US high yield market. In contrast to the first half of 2016, the US high yield market has delivered a strong return of 6.5% over the review period with the lower rated names having performed most strongly.

In contrast, the bank-heavy European high yield market has struggled with increased political risk in Europe including Brexit, Austrian elections and the recent Italian referendum on constitutional reform. Negative headlines around profits and possible regulatory fines have dampened investor appetite for financial high yield bonds and weighed on returns from the European high yield market (3.4% for the six-month period).

Performance was positive across all of the fund's share classes, with the sterling share classes outperforming the funds in its comparative sector. The fund's positioning to be less sensitive to interest rate changes, meaningful exposure to the US and careful selection of individual bond issues all helped drive relative performance over the review period. However, the fund's cautious allocation to the energy sector meant that it was unable to fully benefit from the positive performance seen there.

Investment activities

Throughout the period, the fund was positioned with a bias towards defensive, non-cyclical companies offering resilient cashflows, with our favoured sector being well-capitalised banks. We preferred banks based in the US as they were often further progressed in balance sheet improvements than their European counterparts. In Europe, our focus was on top-tier banks which were well capitalised, such as Intesa Sanpaolo and UBS. In the energy sector, however, the fund was still very cautiously positioned and had only modest exposure.

In regional allocation terms, around half of the fund remained exposed to the US high yield market. However, following the strong performance of the US market versus its European counterpart, we were more balanced in our outlook towards these two regions.

In recent months we took the opportunity to de-risk the fund by increasing the allocation of higher rated bonds and decreasing exposure to lower rated single B bonds. We also made the decision to reduce the holdings in bonds which we believed had limited upside potential following strong performance, including issues from Entertainment One and Spectrum Brands.

Outlook

Looking across the regions, the US high yield market shows potential for further growth as the overall economy continues to improve. President-elect Trump's inflationary proposals for corporate tax cuts and increased infrastructure spending should allow companies to increase their prices and lower their debt burden (as a result of the inflation effect decreasing the real debt level) at the same time. While the president-elect has espoused more populist rhetoric around the possibility of raising further trade barriers, the more domestic focus of the US high yield market should mean that it is less affected in such a scenario.

We continue to favour defensive businesses and remain cautious with our allocation to the energy sector. We believe that the remaining companies in the sector that offer value to investors are high-cost producers, companies that require an ever higher oil price to survive.

Stefan Isaacs & James Tomlins

Co-fund managers

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

[a] 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.

[b] The fund's distribution and distribution yield are as shown in the 'Specific share class performance' tables in the 'Fund performance' section of this report. This fund provides a variable level of income.

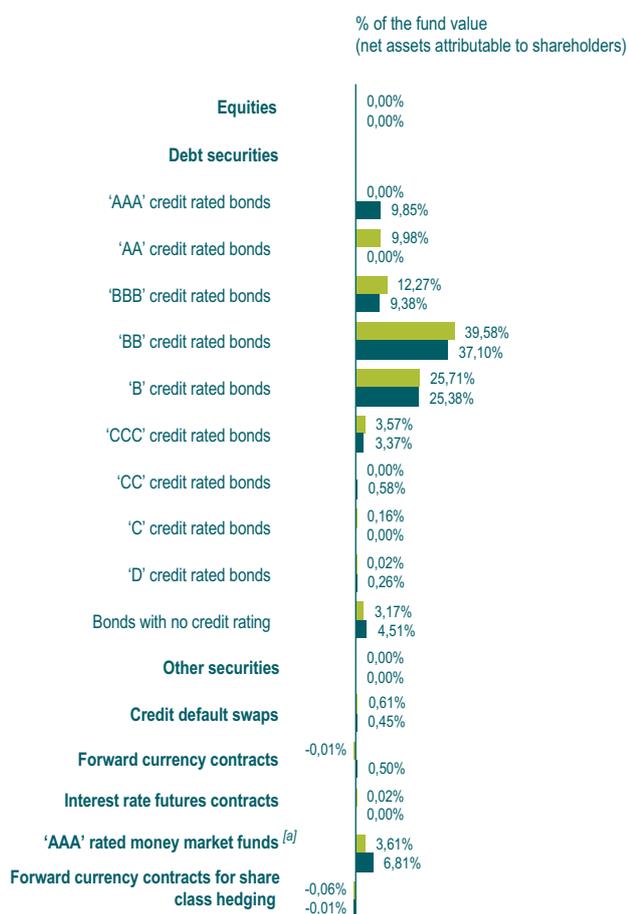
Please note that the views expressed in this Report should not be taken as a recommendation or advice on how the fund or any holding mentioned in the Report is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial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

M&G Global High Yield Bond Fund

Authorised Corporate Director's Report

Investment review

Classification of investments



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

■ 30 November 2016
■ 31 May 2016

Source: M&G

Investments

Portfolio statement

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Equities	28	0,00	0,00
50.673.446 New World Resource	25	0,00	
11.963 Sandridge Energy	2	0,00	
10.357 Sandridge Energy Warrants 1	0	0,00	
4.361 Sandridge Energy Warrants 2	0	0,00	
1.588 Seventy Seven Energy	0	0,00	
8.627 Seventy Seven Energy Warrants	1	0,00	
Debt securities	1.067.091	94,46	90,43
'AAA' credit rated bonds	0	0,00	9,85
'AA' credit rated bonds	112.781	9,98	0,00
£40.000.000 Treasury 0% 2016 (5 Dec)	39.998	3,54	
£51.000.000 Treasury 1,25% 2018	51.960	4,60	
£20.000.000 Treasury 1,75% 2019	20.823	1,84	
'BBB' credit rated bonds	138.568	12,27	9,38
\$2.500.000 Alcoa 5,95% 2037	1.920	0,17	
€2.000.000 América Móvil Var. Rate 2073 (6,375%)	1.887	0,17	
£3.250.000 BHP Billiton Finance Var. Rate 2077 (6,5%)	3.509	0,31	
€7.000.000 Commerzbank 7,75% 2021	7.019	0,62	
\$6.000.000 Commerzbank 8,125% 2023	5.373	0,48	
\$6.963.000 Diamond 1 and 2 Finance 5,45% 2023	5.815	0,51	
\$10.000.000 HCA Holdings 4,5% 2027	7.557	0,67	
\$5.000.000 HCA Holdings 4,75% 2023	4.018	0,35	
\$2.863.000 HCA Holdings 5% 2024	2.296	0,20	
\$10.500.000 HCA Holdings 6,5% 2020	9.122	0,81	
\$3.000.000 JPMorgan Chase Var. Rate Perp. (6%)	2.402	0,21	
\$13.000.000 JPMorgan Chase Var. Rate Perp. (7,9%)	10.652	0,94	
\$5.000.000 Lear 5,25% 2025	4.220	0,37	
\$2.500.000 Lear 5,375% 2024	2.110	0,19	
£3.000.000 Legal & General Group 5,375% 2045	2.996	0,27	
\$12.000.000 MPLX LP 4,5% 2023	9.673	0,86	
€3.536.000 MPT Operating Partnership 5,75% 2020	3.161	0,28	
\$1.035.000 Noble Energy 5,625% 2021	859	0,08	
\$5.355.000 Qwest 6,875% 2033	4.150	0,37	
\$8.283.000 Regency Energy Partners 5,875% 2022	7.322	0,65	
\$9.000.000 Sabine Pass Liquef 5,625% 2021	7.621	0,67	
\$4.000.000 Sabine Pass Liquef 5,625% 2025	3.333	0,30	
\$2.000.000 Smithfield Foods 5,875% 2021	1.670	0,15	
\$5.000.000 Smithfield Foods 6,625% 2022	4.216	0,37	
€6.000.000 UBS Var. Rate 2026 (4,75%)	5.409	0,48	
\$10.000.000 Wells Fargo Var. Rate Perp. (7,98%)	8.263	0,73	
\$4.000.000 Williams Partners 4,875% 2023	3.242	0,29	
\$10.872.000 Williams Partners 4,875% 2024	8.753	0,77	
'BB' credit rated bonds	447.163	39,58	37,10
€3.350.000 Adient Global Holdings 3,5% 2024	2.795	0,25	
\$400.000 AES 6% 2026	320	0,03	
\$10.000.000 AES 7,375% 2021	8.844	0,78	
\$5.000.000 Ally Financial 4,75% 2018	4.126	0,37	
\$6.667.000 Anglo American Capital 3,625% 2020	5.322	0,47	
\$3.500.000 Antero Midstream Partner 5,375% 2024	2.856	0,25	
\$7.500.000 Antero Resources 5,125% 2022	6.000	0,53	
\$2.000.000 Antero Resources 5,625% 2023	1.628	0,14	
\$5.000.000 ArcelorMittal Var. Rate 2039 (8%)	4.261	0,38	
€1.100.000 Arrow Global Finance FRN 2023	963	0,08	

M&G Global High Yield Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
'BB' credit rated bonds (continued)			
£2,175,000 Arrow Global Finance 5,125% 2024	2,147	0,19	
\$5,000,000 Ball 4% 2023	3,950	0,35	
\$7,250,000 Banco Bilbao Vizcaya Argentaria Var. Rate Perp. (5,919%)	5,742	0,51	
\$9,035,000 Bank of America Var. Rate Perp. (8%)	7,310	0,65	
\$7,228,000 Bank of America Var. Rate Perp. (8,125%)	5,890	0,52	
€7,950,000 Bank of Ireland 10% 2022	8,865	0,78	
€5,143,000 Bank of Ireland Var. Rate 2024 (4,25%)	4,414	0,39	
€11,500,000 Belden 5,5% 2023	10,442	0,92	
\$5,000,000 Cascades 5,5% 2022	4,066	0,36	
\$2,500,000 CCO Holdings Capital 5,125% 2023	2,054	0,18	
\$7,000,000 CCO Holdings Capital 5,75% 2026	5,776	0,51	
\$2,000,000 Centene 4,75% 2025	1,538	0,14	
\$2,333,000 Centene 6,125% 2024	1,925	0,17	
\$3,000,000 CenturyLink 5,8% 2022	2,374	0,21	
\$1,500,000 CenturyLink 7,5% 2024	1,235	0,11	
\$2,000,000 Churchill Downs 5,375% 2021	1,666	0,15	
\$2,500,000 Citigroup Var. Rate Perp. (5,9%)	2,008	0,18	
\$10,000,000 Citigroup Var. Rate Perp. (5,95%)	7,951	0,70	
\$3,000,000 Cogeco Cable 4,875% 2020	2,485	0,22	
\$9,741,000 Columbus International 7,375% 2021	8,287	0,73	
\$3,500,000 Community Health Systems 5,125% 2021	2,560	0,23	
\$7,000,000 Concho Resources 5,5% 2023	5,710	0,51	
\$2,800,000 Crédit Agricole Var. Rate Perp. (7,875%)	2,217	0,20	
\$4,759,000 Credit Suisse Var. Rate Perp. (7,5%)	3,870	0,34	
\$2,667,000 Crown Americas 4,25% 2026	2,017	0,18	
€4,346,000 Crown European Holdings 4% 2022	4,044	0,36	
\$3,947,000 CSC Holdings 5,5% 2047	3,134	0,28	
€3,379,779 Delamare Finance 5,5457% 2029	3,412	0,30	
\$3,500,000 Diamond 1 and 2 Finance 5,875% 2021	2,951	0,26	
€3,531,000 Dufry Finance 4,5% 2023	3,181	0,28	
\$8,000,000 Fiat Chrysler Automobiles 5,25% 2023	6,352	0,56	
€4,500,000 Finmeccanica Finance 4,5% 2021	4,253	0,38	
\$8,500,000 FMG Resources 9,75% 2022	7,843	0,69	
\$2,000,000 Freeport-McMoRan 3,875% 2023	1,504	0,13	
\$3,000,000 Freeport-McMoRan Copper & Gold 3,55% 2022	2,273	0,20	
\$11,000,000 Freeport-McMoRan Copper & Gold 5,45% 2043	7,462	0,66	
\$2,000,000 Fresenius Medical Care II 5,875% 2022	1,770	0,16	
\$5,000,000 Fresenius US Finance 4,25% 2021	4,176	0,37	
\$2,500,000 Frontier Communications 6,25% 2021	1,852	0,16	
\$1,500,000 Frontier Communications 7,125% 2023	1,034	0,09	
€7,000,000 Gestamp Funding Luxembourg 3,5% 2023	6,136	0,54	
\$2,500,000 Goodyear Tire & Rubber 5% 2026	1,986	0,18	
\$692,000 Goodyear Tire & Rubber 5,125% 2023	568	0,05	
€4,267,000 Greif Luxembourg Finance 7,375% 2021	4,392	0,39	
\$4,839,000 Hanesbrands 4,625% 2024	3,890	0,34	
\$3,530,000 Hanesbrands 4,875% 2026	2,819	0,25	
\$4,000,000 Huntington Ingalls 5% 2025	3,285	0,29	
€5,000,000 Ineos Finance 4% 2023	4,353	0,39	

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
'BB' credit rated bonds (continued)			
\$10,000,000 International Game Technology 6,25% 2022	8,333	0,74	
\$7,500,000 JBS USA 5,875% 2024	5,982	0,53	
€3,000,000 KBC Groep NV Var. Rate Perp. (5,625%)	2,552	0,23	
\$6,500,000 Lamar Media 5,75% 2026	5,507	0,49	
\$3,000,000 Levi Strauss & Co. 5% 2025	2,402	0,21	
\$3,000,000 Levi Strauss & Co. 6,875% 2022	2,521	0,22	
€2,536,000 Lincoln Finance 6,875% 2021	2,322	0,21	
€4,888,000 Lloyds Banking Group Var. Rate Perp. (6,375%)	4,097	0,36	
€8,000,000 Lock 7% 2021	7,228	0,64	
\$3,000,000 MGM Resorts International 6,625% 2021	2,623	0,23	
\$4,500,000 Micron Technology 5,5% 2025	3,518	0,31	
€2,000,000 National Westminster Bank Var. Rate Perp. (6,625%)	1,550	0,14	
€3,000,000 Nationwide Building Society Var. Rate Perp. (6,875%)	2,893	0,26	
\$7,500,000 Neptune Finco 6,625% 2025	6,482	0,57	
\$1,250,000 Newfield Exploration 5,375% 2026	1,010	0,09	
€4,000,000 OI European Group 6,75% 2020	4,078	0,36	
\$4,056,000 Owens Brockway 5% 2022	3,335	0,30	
\$4,500,000 Pilgrim's Pride 5,75% 2025	3,605	0,32	
€2,110,000 Promontoria MCS FRN 2021	1,830	0,16	
\$3,500,000 QuintilesIMS 5% 2026	2,783	0,25	
€2,517,000 Rexel 3,5% 2023	2,190	0,19	
\$2,750,000 Rice Energy 6,25% 2022	2,236	0,20	
\$3,000,000 Royal Bank of Scotland 6% 2023	2,432	0,22	
\$3,530,000 Royal Bank of Scotland 6,1% 2023	2,883	0,26	
\$5,000,000 Sally Beauty Holdings 5,75% 2022	4,171	0,37	
€5,500,000 Samvardhana Motherson 4,125% 2021	4,801	0,42	
€2,392,000 Schaeffler Verwaltung Zwei 2,75% Pik 2021	2,068	0,18	
€1,392,000 Sealed Air 4,5% 2023	1,281	0,11	
\$5,000,000 Sealed Air 5,125% 2024	4,111	0,36	
\$4,000,000 Service Corporation International 5,375% 2024	3,345	0,30	
\$8,000,000 Sirius XM Radio 5,75% 2021	6,714	0,59	
\$7,000,000 Société Générale Var. Rate Perp. (7,875%)	5,291	0,47	
€2,700,000 TA Manufacturing 3,625% 2023	2,249	0,20	
\$5,000,000 Tenet Healthcare 4,375% 2021	3,860	0,34	
\$2,500,000 Tenet Healthcare 4,5% 2021	1,952	0,17	
\$8,000,000 Tenet Healthcare 6% 2020	6,575	0,58	
\$4,000,000 Tenet Healthcare FRN 2020	3,204	0,28	
€5,000,000 Tesco 6,125% 2022	5,609	0,50	
\$3,000,000 T-Mobile USA 6% 2024	2,522	0,22	
\$3,500,000 T-Mobile USA 6,25% 2021	2,916	0,26	
\$6,000,000 T-Mobile USA 6,464% 2019	4,892	0,43	
\$4,145,000 T-Mobile USA 6,633% 2021	3,474	0,31	
\$3,300,000 T-Mobile USA 6,731% 2022	2,766	0,24	
\$6,000,000 UBS Var. Rate Perp. (7,0%)	5,016	0,44	
€7,000,000 Unicredit Var. Rate 2025 (5,75%)	6,138	0,54	
€6,268,000 Unitymedia Hessen 3,5% 2027	5,144	0,46	
€5,333,000 Unitymedia Hessen 4% 2025	4,635	0,41	
\$2,727,000 Unitymedia Hessen 5% 2025	2,155	0,19	
€2,000,000 Unitymedia Hessen 6,25% 2029	1,876	0,17	
\$6,667,000 VideoTron 5,375% 2024	5,488	0,49	
€3,000,000 Virgin Media Secured Finance 4,875% 2027	2,868	0,25	
€2,250,000 Virgin Media Secured Finance 6% 2021	2,332	0,21	
€4,286,000 Virgin Media Secured Finance 6,25% 2029	4,425	0,39	
£13,300,000 William Hill 4,875% 2023	13,219	1,17	

M&G Global High Yield Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
'BB' credit rated bonds (continued)			
€3.081.000 Wind Acquisition Finance 4% 2020	2.667	0,24	
€1.578.000 Worldpay Finance 3,75% 2022	1.437	0,13	
\$3.000.000 Wynn Las Vegas 5,375% 2022	2.437	0,22	
\$6.000.000 ZF North American Capital 4,75% 2025	4.849	0,43	
	290.456	25,71	25,38
'B' credit rated bonds			
\$5.000.000 Ahern Rentals 7,375% 2023	3.097	0,28	
€9.700.000 Alice Financing 7,25% 2022	8.810	0,78	
\$1.267.000 Altice Financing 8,125% 2024	1.048	0,09	
\$2.750.000 Altice Financing 8,125% 2024 144A	2.253	0,20	
£2.042.000 AMC Entertainment 6,375% 2024	2.099	0,19	
\$1.333.000 AmSurg Corporation 5,625% 2022	1.091	0,10	
€8.000.000 Ardagh Packaging Finance 4,25% 2022	7.008	0,62	
\$1.000.000 Ardagh Packaging FRN 2021	809	0,07	
€4.000.000 Areva 4,875% 2024	3.414	0,30	
\$6.000.000 Avis Budget Finance 5,25% 2025	4.427	0,39	
€5.426.000 Axalta Coating System 3,75% 2025	4.539	0,40	
€2.695.000 Axalta Coating System 4,25% 2024	2.347	0,21	
€2.000.000 Bank of Ireland Var. Rate Perp. (7,375%)	1.660	0,15	
\$3.000.000 Barclays Bank Var. Rate Perp. (7,875%)	2.367	0,21	
£3.357.000 Bibby Offshore Services 7,5% 2021	1.964	0,17	
€3.013.000 BiSoho SAS 5,875% 2023	2.747	0,24	
\$5.600.000 Bombardier 5,75% 2022	4.025	0,36	
\$3.000.000 Bombardier 6,125% 2023	2.080	0,19	
\$1.700.000 Bombardier 7,75% 2020	1.375	0,12	
£3.500.000 Boparan Finance 5,5% 2021	3.282	0,29	
€4.722.000 Cable Communications Systems 5,0% 2023	4.144	0,37	
£6.767.000 Cabot Financial 7,5% 2023	6.655	0,59	
€3.000.000 Cabot Financial FRN 2021	2.573	0,23	
\$4.000.000 Cemex 5,7% 2025	3.102	0,28	
\$5.000.000 Cemex Finance 9,375% 2022	4.345	0,39	
\$6.100.000 Chesapeake Energy 8% 2022	4.978	0,44	
€3.362.000 Cirsa Funding Luxembourg 5,75% 2021	3.027	0,27	
£2.178.000 Cognita Financing 7,75% 2021	2.289	0,20	
\$5.000.000 DaVita HealthCare 5% 2025	3.897	0,35	
\$5.000.000 DaVita HealthCare 5,125% 2024	3.958	0,35	
€2.857.000 eircom Finance 4,25% 2022	2.520	0,22	
£750.000 Entertainment One 6,875% 2022	806	0,07	
\$2.500.000 Florida East Coast Holdings 6,75% 2019	2.068	0,18	
€1.259.000 Galapagos Holding FRN 2021	1.006	0,09	
£2.000.000 Garfunkelux 8,5% 2022	2.056	0,18	
\$4.000.000 Gray Television 5,125% 2024	2.991	0,26	
€3.000.000 Guala Closures FRN 2021	2.611	0,23	
\$5.486.000 Halcon Resources 12% 2022	4.609	0,41	
£2.261.000 House of Fraser Funding FRN 2020	1.963	0,17	
€2.200.000 HP Pelzer Holding 7,5% 2021	2.002	0,18	
£2.000.000 Iceland Bondco 6,25% 2021	1.965	0,17	
£4.341.000 Intergen 7,5% 2021	3.650	0,32	
\$762.000 Intesa Sanpaolo 7,7% 2025	536	0,05	
€4.504.000 Intesa Sanpaolo Var. Rate Perp. (7%)	3.591	0,32	
€2.000.000 Intesa Sanpaolo Var. Rate Perp. (8,047%)	1.801	0,16	
\$3.667.000 Kindred Healthcare 8% 2020	2.820	0,25	

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
'B' credit rated bonds (continued)			
\$3.333.000 Kindred Healthcare 8,75% 2023	2.382	0,21	
€14.000.000 Matterhorn Telecom 3,875% 2022	12.009	1,06	
\$7.500.000 Neptune Finco 10,875% 2025	6.994	0,62	
£5.000.000 New Look 6,5% 2022	4.703	0,42	
\$5.000.000 New Red Finance 6% 2022	4.166	0,37	
\$4.000.000 Oasis Petroleum 6,875% 2022	3.228	0,29	
\$4.000.000 Petrobras Global Finance 5,375% 2023	2.800	0,25	
\$4.000.000 Platform Specialty 6,5% 2022	3.156	0,28	
€2.000.000 Play Topco 7,75% 2020	1.740	0,15	
\$7.500.000 Post Holdings 6% 2022	6.272	0,56	
\$4.500.000 R.R. Donnelley & Sons 6,5% 2023	3.402	0,30	
\$1.000.000 Reynolds Group FRN 2021	822	0,07	
€1.450.000 Royal Bank of Scotland 5,5% Perp.	1.162	0,10	
\$2.679.000 Royal Bank of Scotland Var. Rate Perp. (7,5%)	1.926	0,17	
\$1.400.000 Royal Bank of Scotland Var. Rate Perp. (8%)	1.030	0,09	
\$5.500.000 Sable International 6,875% 2022	4.550	0,40	
€2.330.000 Schumann 7% 2023	2.001	0,18	
€12.000.000 SFR Group 5,625% 2024	10.599	0,94	
\$3.984.000 SFR Group 7,375% 2026	3.191	0,28	
\$3.703.000 Shea Homes Funding 6,125% 2025	2.885	0,26	
\$2.000.000 SM Energy 5% 2024	1.486	0,13	
\$2.300.000 Sprint Capital 6,875% 2028	1.750	0,15	
\$12.500.000 Sprint Corporation 7,875% 2023	10.269	0,91	
\$750.000 Stonegate Pub Company FRN 2019	749	0,07	
€2.100.000 The Chemours Company 6,125% 2023	1.731	0,15	
€5.700.000 Unitymedia Kabel 3,75% 2027	4.503	0,40	
\$6.000.000 Univision Communications 6,75% 2022	5.011	0,44	
\$5.000.000 Valeant Pharmaceuticals 5,5% 2023	3.074	0,27	
\$5.625.000 Valeant Pharmaceuticals 5,625% 2021	3.642	0,32	
\$3.000.000 Valeant Pharmaceuticals 6,75% 2021	2.084	0,18	
€3.104.000 Veritas 7,5% 2023	2.488	0,22	
£4.375.000 Virgin Media 5,5% 2024	4.261	0,38	
\$1.423.000 VPI Escrow 6,375% 2020	1.008	0,09	
€3.081.000 VRX Escrow 4,5% 2023	1.969	0,17	
\$13.000.000 VTR Finance 6,875% 2024	10.558	0,93	
€8.700.000 Wind Acquisition Finance 7% 2021	7.672	0,68	
\$2.900.000 Windstream 7,5% 2023	2.174	0,19	
\$1.000.000 Windstream 7,75% 2020	811	0,07	
\$10.500.000 WPX Energy 5,25% 2024	7.971	0,71	
€1.741.000 Ziggo Bond Finance 4,625% 2025	1.485	0,13	
\$429.000 Ziggo Bond Finance 5,875% 2025	337	0,03	
	40.362	3,57	3,37
'CCC' credit rated bonds			
€5.000.000 ARD Finance 6,625% IL 2023	4.120	0,36	
\$10.000.000 Caesars Entertainment Resort Properties 8% 2020	8.374	0,75	
\$1.386.000 California Resources 8% 2022	821	0,07	
\$5.000.000 Calumet Specialty Products 6,5% 2021	3.227	0,28	
\$3.750.000 Community Health Systems 6,875% 2022	2.093	0,19	
\$6.000.000 Crimson Merger 6,625% 2022	4.023	0,36	
\$3.000.000 Everest Acquisition 6,375% 2023	1.584	0,14	
\$3.000.000 Everest Acquisition 7,75% 2022	1.590	0,14	
\$4.000.000 Hexion Nova Scotia Finance 8,875% 2018	3.110	0,27	
\$5.000.000 Hexion Nova Scotia Finance 9% 2020	2.971	0,26	
\$5.000.000 Intelsat Jackson 7,5% 2021	2.901	0,26	
\$6.500.000 Rite Aid 6,125% 2023	5.548	0,49	
	0	0,00	0,58
'CC' credit rated bonds			

M&G Global High Yield Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
'C' credit rated bonds	1,805	0,16	0,00
\$2,500,000 Petroleum Geo-Services 7,375% 2018	1,805	0,16	
'D' credit rated bonds	198	0,02	0,26
\$55,000 California Resources 6% 2024	27	0,00	
\$1,120,000 Edcon (formerly Edcon Proprietary) 9,5% 2018	171	0,02	
Bonds with no credit rating	35,758	3,17	4,51
€1,457,000 Assicurazioni Generali Var. Rate 2047 (5,5%)	1,253	0,11	
€1,100,000 Assicurazioni Generali Var. Rate Perp. (6,416%)	1,089	0,10	
\$5,600,000 Banco Bilbao Vizcaya Argentina 9% Perp.	4,590	0,41	
€2,200,000 Banco Bilbao Vizcaya Argentina Var. Rate Perp. (7%)	1,733	0,15	
€11,900,000 Banco Santander Var. Rate Perp. (6,25%)	9,114	0,81	
\$2,563,000 BBVA Bancomer 6,75% 2022	2,187	0,19	
€3,000,000 Cattles Var. Rate 2014 (7,875%) ^[a]	75	0,01	
\$4,500,000 Chaparral Energy 7,625% 2022	2,837	0,26	
€15,140,572 Codere 8,25% 2015 ^[a]	4,880	0,43	
€3,721,000 Crystal Almond 10% 2021	3,203	0,28	
€3,847,784 Hellas Telecom III 8,5% 2013 ^[a]	0	0,00	
€1,614,000 HomeVi FRN 2021	1,399	0,12	
\$4,000,000 Linn Energy 6,25% 2019	1,004	0,09	
€4,841,751 New World Resources 8% 2020	107	0,01	
€2,000,000 Old Mutual 8% 2021	2,237	0,20	
\$5,300,000 Sandbridge Energy 7,5% 2021	1	0,00	
\$1,000,000 Seventy Seven Energy 6,5% 2022	49	0,00	
Other securities ^[b]	0	0,00	0,00
£1,583 Polestar (Exchange Shares)	0	0,00	
Credit default swaps	6,915	0,61	0,45
\$(65,660,000) Markit CDX North American High Yield Series 24 5 Year Jun 2020	3,972	0,35	
\$(46,000,000) Markit CDX North American High Yield Series 26 5 Year Jun 2021	2,090	0,18	
€(11,000,000) Markit iTraxx Europe Xover Series 26 5 Year Dec 2021	683	0,06	
\$(10,000,000) Sprint Communications Inc Jun 2021	170	0,02	
Forward currency contracts	(123)	(0,01)	0,50
€(304,220,184) Sold for £261,344,912 (expires 14.12.16)	1,167	0,10	
\$(793,453,537) Sold for £635,728,158 (expires 14.12.16)	(1,290)	(0,11)	
Interest rate futures contracts	184	0,02	0,00
(17) EuroBuxl Dec 2016	184	0,02	
Portfolio of investments	1,074,095	95,08	91,38
'AAA' rated money market funds ^[c]	40,830	3,61	6,81
40,830,000 Northern Trust Global Fund - Sterling	40,830	3,61	

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Forward currency contracts for share class hedging	(743)	(0,06)	(0,01)
€19,996,537 Bought for £17,835,127 (expires 14.12.16)	(734)	(0,06)	
€(2,772,915) Sold for £2,365,340 (expires 14.12.16)	(6)	0,00	
CHF64,493 Bought for £53,275 (expires 14.12.16)	(2)	0,00	
CHF(792) Sold for £639 (expires 14.12.16)	0	0,00	
\$2,026,350 Bought for £1,628,221 (expires 14.12.16)	(1)	0,00	
\$41,265 Bought for £33,072 (expires 15.12.16)	0	0,00	
\$(62,184) Sold for £49,843 (expires 14.12.16)	0	0,00	
Total portfolio	1,114,182	98,63	98,18
Net other assets / (liabilities)	15,521	1,37	1,82
Net assets attributable to shareholders	1,129,703	100,00	100,00

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

^[a] Defaulted bond.

^[b] Unquoted / unlisted.

^[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 30 November	2016 £'000	2015 £'000
Portfolio transactions		
Total purchases	211,842	168,541
Total sales	320,703	221,133

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

M&G Global High Yield 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 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.

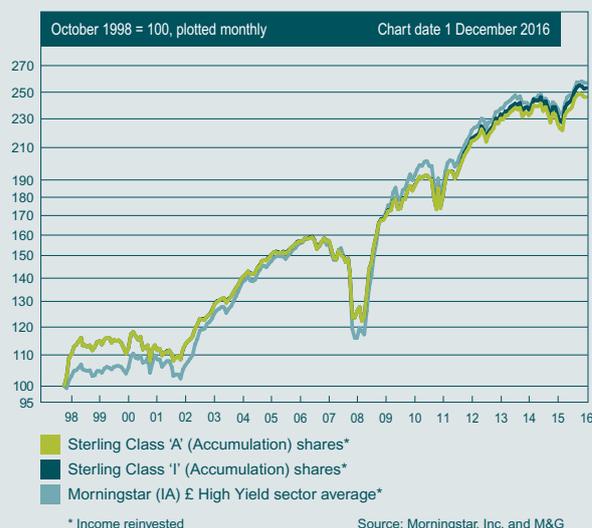
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at	30.11.16 £'000	31.05.16 £'000	31.05.15 £'000
Fund net asset value (NAV)	1,129,703	1,133,409	1,265,438

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.

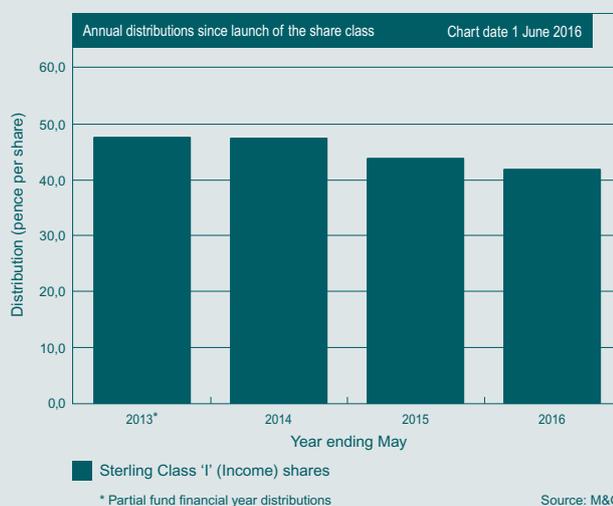
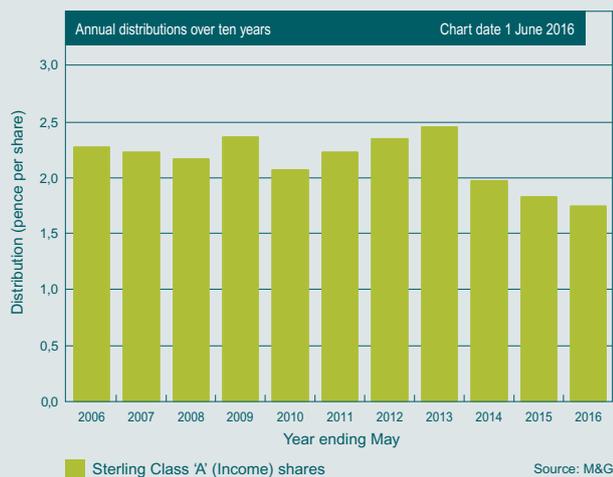
M&G Global High Yield Bond Fund

Financial highlights

Fund performance

Distribution since launch

The charts below show the annual distribution of Sterling Class 'A' (Income) shares and Sterling Class 'I' (Income) 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 01.06.16 % ^[a]	Three years 02.12.13 % p.a.	Five years 01.12.11 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A-H'	+3,8	+2,6	+7,3	+5,3 ^[c]
Class 'B-H'	+3,5	+2,2	n/a	+3,4 ^[d]
Class 'C-H'	+4,1	+3,3	+7,9	+5,9 ^[c]
Sterling ^[e]				
Class 'A'	+4,1	+2,5	+7,0	+5,9 ^[f]
Class 'I'	+4,3	+3,0	n/a	+5,7 ^[g]
Class 'R'	+4,2	+2,7	n/a	+5,4 ^[g]
Class 'X'	+4,1	+2,5	+7,0	+5,1 ^[h]
Swiss franc ^[b]				
Class 'A-H'	+3,4	n/a	n/a	+4,8 ^[i]
Class 'C-H'	+3,8	n/a	n/a	+5,5 ^[i]
US dollar ^[b]				
Class 'A-H'	+4,5	+3,2	+7,9	+5,7 ^[c]
Class 'C-H'	+5,7	+4,1	+8,8	+6,6 ^[c]

^[a] Absolute basis.

^[b] Price to price with gross income reinvested.

^[c] 10 December 2010, the launch date of the share class.

^[d] 26 July 2013, the launch date of the share class.

^[e] Price to price with income reinvested.

^[f] 1 October 2002, the launch date of the share class.

^[g] 3 August 2012, the launch date of the share class.

^[h] 16 October 1998, the end of the initial offer period of the predecessor unit trust.

^[i] 25 September 2015, the launch date of the share class.

M&G Global High Yield Bond Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

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, method of execution and the quality of research provided. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission, taxes, and costs of research from brokers and other research providers.
- **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 wholly in fixed interest securities no direct portfolio transaction costs are applicable. To give an indication of the indirect portfolio dealing costs the table below shows the average portfolio dealing spread.

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

Portfolio transaction costs

	Six months to 30.11.16	Year to 31.05.16	Year to 31.05.15	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0,86	0,94	0,80	0,87

[a] Average of first three columns.

M&G Global High Yield Bond Fund

Financial highlights

Specific share class performance

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

Euro Class 'A-H' Income share performance

The share class was launched on 12 July 2013.

	Six months to 30.11.16 Euro €	Year to 31.05.16 Euro €	Year to 31.05.15 Euro €
Change in NAV per share			
Opening NAV	1.149,55	1.214,53	1.249,05
Return before operating charges and after direct portfolio transaction costs	52,51	2,10	37,63
Operating charges	(8,44)	(16,40)	(17,48)
Return after operating charges	44,07	(14,30)	20,15
Distributions	(27,85)	(50,68)	(54,67)
Closing NAV	1.165,77	1.149,55	1.214,53
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,43	1,43	1,43
Return after operating charges	+3,83	-1,18	+1,61
Distribution yield ^[a]	5,37	4,35	4,14
Effect on yield of charges offset against capital	1,42	n/a	n/a
Other information			
Closing NAV (£'000)	1.864	1.878	3.143
Closing NAV percentage of total fund NAV (%)	0,16	0,17	0,25
Number of shares	186.980	214.088	360.061
Highest share price (Euro €)	1.198,53	1.224,16	1.260,80
Lowest share price (Euro €)	1.136,70	1.063,80	1.181,13

Euro Class 'A-H' Accumulation share performance

The share class was launched on 10 December 2010.

	Six months to 30.11.16 Euro €	Year to 31.05.16 Euro €	Year to 31.05.15 Euro €
Change in NAV per share			
Opening NAV	1.309,19	1.324,79	1.304,09
Return before operating charges and after direct portfolio transaction costs	59,68	2,35	39,29
Operating charges	(9,72)	(17,95)	(18,59)
Return after operating charges	49,96	(15,60)	20,70
Distributions	(28,84)	(56,08)	(58,51)
Retained distributions	28,84	56,08	58,51
Closing NAV	1.359,15	1.309,19	1.324,79
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,43	1,43	1,43
Return after operating charges	+3,82	-1,18	+1,59
Distribution yield ^[a]	3,96	4,35	4,14
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	2.864	2.021	6.686
Closing NAV percentage of total fund NAV (%)	0,25	0,18	0,53
Number of shares	246.467	202.355	702.180
Highest share price (Euro €)	1.382,58	1.335,26	1.335,65
Lowest share price (Euro €)	1.294,54	1.194,63	1.260,91

Euro Class 'B-H' Income share performance

The share class was launched on 11 September 2015.

	Six months to 30.11.16 Euro €	Year to 31.05.16 Euro €	Year to 31.05.15 Euro €
Change in NAV per share			
Opening NAV	976,74	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	45,25	18,91	n/a
Operating charges	(9,82)	(13,37)	n/a
Return after operating charges	35,43	5,54	n/a
Distributions	(22,06)	(28,80)	n/a
Closing NAV	990,11	976,74	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	1,93	1,91	n/a
Return after operating charges	+3,63	+0,55	n/a
Distribution yield ^[a]	5,38	3,86	n/a
Effect on yield of charges offset against capital	1,92	n/a	n/a
Other information			
Closing NAV (£'000)	151	37	n/a
Closing NAV percentage of total fund NAV (%)	0,02	0,00	n/a
Number of shares	17.890	5.007	n/a
Highest share price (Euro €)	1.018,47	1.000,59	n/a
Lowest share price (Euro €)	965,50	903,83	n/a

M&G Global High Yield Bond Fund

Financial highlights

Specific share class performance

Euro Class 'B-H' Accumulation share performance

The share class was launched on 26 July 2013.

	Six months to 30.11.16	Year to 31.05.16	Year to 31.05.15
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	1,078,17	1,096,11	1,083,02
Return before operating charges and after direct portfolio transaction costs	49,23	3,26	34,15
Operating charges	(10,81)	(21,20)	(21,06)
Return after operating charges	38,42	(17,94)	13,09
Distributions	(20,92)	(41,46)	(42,71)
Retained distributions	20,92	41,46	42,71
Closing NAV	1,116,59	1,078,17	1,096,11
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,93	1,92	1,94
Return after operating charges	+3,56	-1,64	+1,21
Distribution yield ^[a]	3,47	3,85	3,64
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	444	220	47
Closing NAV percentage of total fund NAV (%)	0,04	0,02	0,00
Number of shares	46,469	26,761	5,936
Highest share price (Euro ¢)	1,136,22	1,104,75	1,105,14
Lowest share price (Euro ¢)	1,065,22	985,30	1,045,09

Euro Class 'C-H' Income share performance

The share class was launched on 8 August 2014.

	Six months to 30.11.16	Year to 31.05.16	Year to 31.05.15
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	1,232,73	1,302,63	1,317,06
Return before operating charges and after direct portfolio transaction costs	56,42	2,24	50,80
Operating charges	(5,27)	(10,15)	(10,07)
Return after operating charges	51,15	(7,91)	40,73
Distributions	(32,36)	(61,99)	(55,16)
Closing NAV	1,251,52	1,232,73	1,302,63
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,83	0,82	0,83
Return after operating charges	+4,15	-0,61	+3,09
Distribution yield ^[a]	5,38	4,98	4,74
Effect on yield of charges offset against capital	0,83	n/a	n/a
Other information			
Closing NAV (£'000)	13	11	14
Closing NAV percentage of total fund NAV (%)	0,00	0,00	0,00
Number of shares	1,182	1,182	1,519
Highest share price (Euro ¢)	1,285,42	1,312,96	1,342,79
Lowest share price (Euro ¢)	1,219,46	1,141,01	1,267,83

Euro Class 'C-H' Accumulation share performance

The share class was launched on 10 December 2010.

	Six months to 30.11.16	Year to 31.05.16	Year to 31.05.15
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	1,351,63	1,359,10	1,328,66
Return before operating charges and after direct portfolio transaction costs	62,04	3,62	41,58
Operating charges	(5,86)	(11,09)	(11,14)
Return after operating charges	56,18	(7,47)	30,44
Distributions	(34,04)	(66,12)	(67,78)
Retained distributions	34,04	66,12	67,78
Closing NAV	1,407,81	1,351,63	1,359,10
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,83	0,83	0,83
Return after operating charges	+4,16	-0,55	+2,29
Distribution yield ^[a]	4,55	4,97	4,74
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	6,674	6,040	3,175
Closing NAV percentage of total fund NAV (%)	0,60	0,53	0,25
Number of shares	554,510	585,710	325,077
Highest share price (Euro ¢)	1,430,48	1,369,86	1,370,18
Lowest share price (Euro ¢)	1,336,28	1,231,21	1,289,96

Sterling Class 'A' Income share performance

The share class was launched on 1 October 2002.

	Six months to 30.11.16	Year to 31.05.16	Year to 31.05.15
Change in NAV per share	UK p	UK p	UK p
Opening NAV	48,73	51,12	52,23
Return before operating charges and after direct portfolio transaction costs	2,58	0,47	1,89
Operating charges	(0,35)	(0,69)	(0,73)
Return after operating charges	2,23	(0,22)	1,16
Distributions	(1,20)	(2,17)	(2,27)
Closing NAV	49,76	48,73	51,12
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,41	1,41	1,41
Return after operating charges	+4,58	-0,42	+2,22
Distribution yield ^[a]	5,37	4,24	4,14
Effect on yield of charges offset against capital	1,40	n/a	n/a
Other information			
Closing NAV (£'000)	103,148	101,416	134,114
Closing NAV percentage of total fund NAV (%)	9,13	8,95	10,60
Number of shares	207,306,676	208,137,424	262,335,107
Highest share price (UK p)	51,01	51,53	52,71
Lowest share price (UK p)	48,12	44,91	49,54

M&G Global High Yield Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 1 October 2002.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	117,38	118,83	117,19
Return before operating charges and after direct portfolio transaction costs	6,26	1,20	4,33
Operating charges	(0,86)	(1,62)	(1,65)
Return after operating charges	5,40	(0,42)	2,68
Distributions	(2,64)	(5,14)	(5,18)
Retained distributions	2,11	4,11	4,14
Closing NAV	122,25	117,38	118,83
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,41	1,41	1,41
Return after operating charges	+4,60	-0,36	+2,28
Distribution yield ^[a]	3,97	4,24	4,14
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	244.324	203.053	259.348
Closing NAV percentage of total fund NAV (%)	21,63	17,92	20,49
Number of shares	199.859.700	172.983.940	218.244.141
Highest share price (UK p)	124,29	119,78	119,82
Lowest share price (UK p)	115,91	106,95	113,22

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	1.029,25	1.079,91	1.103,19
Return before operating charges and after direct portfolio transaction costs	54,69	9,78	39,99
Operating charges	(4,30)	(8,34)	(8,82)
Return after operating charges	50,39	1,44	31,17
Distributions	(27,55)	(52,10)	(54,45)
Closing NAV	1.052,09	1.029,25	1.079,91
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,81	0,81	0,81
Return after operating charges	+4,90	+0,13	+2,83
Distribution yield ^[a]	5,37	4,83	4,74
Effect on yield of charges offset against capital	0,80	n/a	n/a
Other information			
Closing NAV (£'000)	120.013	116.951	62.265
Closing NAV percentage of total fund NAV (%)	10,62	10,32	4,92
Number of shares	11.407.036	11.362.754	5.765.751
Highest share price (UK p)	1.077,73	1.088,49	1.113,77
Lowest share price (UK p)	1.016,73	948,82	1.046,71

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	1.219,04	1.228,23	1.205,42
Return before operating charges and after direct portfolio transaction costs	64,99	12,56	44,77
Operating charges	(5,14)	(9,68)	(9,84)
Return after operating charges	59,85	2,88	34,93
Distributions	(31,22)	(60,35)	(60,60)
Retained distributions	24,97	48,28	48,48
Closing NAV	1.272,64	1.219,04	1.228,23
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,81	0,81	0,81
Return after operating charges	+4,91	+0,23	+2,90
Distribution yield ^[a]	4,57	4,83	4,74
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	90.070	82.839	64.383
Closing NAV percentage of total fund NAV (%)	7,97	7,31	5,09
Number of shares	7.077.411	6.795.435	5.241.897
Highest share price (UK p)	1.293,23	1.237,98	1.238,33
Lowest share price (UK p)	1.204,20	1.109,12	1.167,69

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	102,93	108,00	110,32
Return before operating charges and after direct portfolio transaction costs	5,47	0,98	4,01
Operating charges	(0,62)	(1,20)	(1,26)
Return after operating charges	4,85	(0,22)	2,75
Distributions	(2,63)	(4,85)	(5,07)
Closing NAV	105,15	102,93	108,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,16	1,16	1,16
Return after operating charges	+4,71	-0,20	+2,49
Distribution yield ^[a]	5,37	4,49	4,39
Effect on yield of charges offset against capital	1,15	n/a	n/a
Other information			
Closing NAV (£'000)	2.128	1.781	2.012
Closing NAV percentage of total fund NAV (%)	0,19	0,16	0,16
Number of shares	2.024.145	1.730.602	1.862.774
Highest share price (UK p)	107,77	108,85	111,36
Lowest share price (UK p)	101,66	94,88	104,66

M&G Global High Yield Bond 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 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	120,56	121,81	119,92
Return before operating charges and after direct portfolio transaction costs	6,43	1,23	4,38
Operating charges	(0,73)	(1,37)	(1,38)
Return after operating charges	5,70	(0,14)	3,00
Distributions	(2,86)	(5,56)	(5,55)
Retained distributions	2,29	4,45	4,44
Closing NAV	125,69	120,56	121,81
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,16	1,16	1,16
Return after operating charges	+4,73	-0,11	+2,50
Distribution yield ^[a]	4,22	4,50	4,39
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	167	119	72
Closing NAV percentage of total fund NAV (%)	0,01	0,01	0,01
Number of shares	132.883	98.597	58.988
Highest share price (UK p)	127,76	122,81	122,85
Lowest share price (UK p)	119,07	109,78	115,99

Sterling Class 'X' Income share performance

The share class was launched on 16 October 1998.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	48,74	51,14	52,24
Return before operating charges and after direct portfolio transaction costs	2,58	0,46	1,90
Operating charges	(0,35)	(0,69)	(0,73)
Return after operating charges	2,23	(0,23)	1,17
Distributions	(1,20)	(2,17)	(2,27)
Closing NAV	49,77	48,74	51,14
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,41	1,41	1,41
Return after operating charges	+4,58	-0,44	+2,24
Distribution yield ^[a]	5,37	4,24	4,14
Effect on yield of charges offset against capital	1,40	n/a	n/a
Other information			
Closing NAV (£'000)	474.779	481.413	578.873
Closing NAV percentage of total fund NAV (%)	42,03	42,47	45,75
Number of shares	953.878.164	987.667.099	1.131.908.928
Highest share price (UK p)	51,03	51,55	52,73
Lowest share price (UK p)	48,13	44,93	49,56

Sterling Class 'X' Accumulation share performance

The share class was launched on 16 October 1998.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	117,46	118,92	117,27
Return before operating charges and after direct portfolio transaction costs	6,26	1,20	4,35
Operating charges	(0,86)	(1,63)	(1,66)
Return after operating charges	5,40	(0,43)	2,69
Distributions	(2,64)	(5,14)	(5,18)
Retained distributions	2,11	4,11	4,14
Closing NAV	122,33	117,46	118,92
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,41	1,41	1,41
Return after operating charges	+4,60	-0,36	+2,29
Distribution yield ^[a]	3,97	4,24	4,14
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	81.414	134.345	133.239
Closing NAV percentage of total fund NAV (%)	7,21	11,85	10,53
Number of shares	66.551.019	114.371.357	112.043.235
Highest share price (UK p)	124,38	119,86	119,90
Lowest share price (UK p)	115,99	107,02	113,30

Swiss franc Class 'A-H' Accumulation share performance

The share class was launched on 25 September 2015.

	Six months to 30.11.16 Swiss ¢	Year to 31.05.16 Swiss ¢	Year to 31.05.15 Swiss ¢
Change in NAV per share			
Opening NAV	1.021,19	1.000,00	n/a
Return before operating charges and after direct portfolio transaction costs	43,23	30,78	n/a
Operating charges	(7,50)	(9,59)	n/a
Return after operating charges	35,73	21,19	n/a
Distributions	(22,32)	(33,37)	n/a
Retained distributions	22,32	33,37	n/a
Closing NAV	1.056,92	1.021,19	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	1,42	1,42	n/a
Return after operating charges	+3,50	+2,12	n/a
Distribution yield ^[a]	4,00	4,28	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	25	21	n/a
Closing NAV percentage of total fund NAV (%)	0,00	0,00	n/a
Number of shares	3.000	3.000	n/a
Highest share price (Swiss ¢)	1.075,38	1.023,49	n/a
Lowest share price (Swiss ¢)	1.009,48	933,37	n/a

M&G Global High Yield Bond Fund

Financial highlights

Specific share class performance

Swiss franc Class 'C-H' Accumulation share performance

The share class was launched on 25 September 2015.

	Six months to 30.11.16 Swiss ¢	Year to 31.05.16 Swiss ¢	Year to 31.05.15 Swiss ¢
Change in NAV per share			
Opening NAV	1,024,94	1,000,00	n/a
Return before operating charges and after direct portfolio transaction costs	44,32	30,51	n/a
Operating charges	(4,35)	(5,57)	n/a
Return after operating charges	39,97	24,94	n/a
Distributions	(25,64)	(37,85)	n/a
Retained distributions	25,64	37,85	n/a
Closing NAV	1,064,91	1,024,94	n/a
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	n/a
Operating charges	0,82	0,82	n/a
Return after operating charges	+3,90	+2,49	n/a
Distribution yield ^[a]	4,61	4,97	n/a
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	25	21	n/a
Closing NAV percentage of total fund NAV (%)	0,00	0,00	n/a
Number of shares	3,001	3,001	n/a
Highest share price (Swiss ¢)	1,082,65	1,027,11	n/a
Lowest share price (Swiss ¢)	1,014,51	935,25	n/a

US dollar Class 'A-H' Income share performance

The share class was launched on 8 August 2014.

	Six months to 30.11.16 US ¢	Year to 31.05.16 US ¢	Year to 31.05.15 US ¢
Change in NAV per share			
Opening NAV	1,238,31	1,299,63	1,307,22
Return before operating charges and after direct portfolio transaction costs	66,52	11,16	57,04
Operating charges	(9,17)	(17,86)	(17,50)
Return after operating charges	57,35	(6,70)	39,54
Distributions	(29,79)	(54,62)	(47,13)
Closing NAV	1,265,87	1,238,31	1,299,63
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,43	1,42	1,42
Return after operating charges	+4,63	-0,52	+3,02
Distribution yield ^[a]	5,38	4,29	4,00
Effect on yield of charges offset against capital	1,42	n/a	n/a
Other information			
Closing NAV (£'000)	329	203	46
Closing NAV percentage of total fund NAV (%)	0,03	0,02	0,00
Number of shares	32,324	23,944	5,423
Highest share price (US ¢)	1,297,30	1,309,98	1,332,32
Lowest share price (US ¢)	1,226,22	1,141,73	1,261,09

US dollar Class 'A-H' Accumulation share performance

The share class was launched on 10 December 2010.

	Six months to 30.11.16 US ¢	Year to 31.05.16 US ¢	Year to 31.05.15 US ¢
Change in NAV per share			
Opening NAV	1,336,10	1,347,24	1,319,76
Return before operating charges and after direct portfolio transaction costs	70,28	7,16	46,96
Operating charges	(9,96)	(18,30)	(19,48)
Return after operating charges	60,32	(11,14)	27,48
Distributions	(28,76)	(56,19)	(57,71)
Retained distributions	28,76	56,19	57,71
Closing NAV	1,396,42	1,336,10	1,347,24
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,43	1,48	1,42
Return after operating charges	+4,51	-0,83	+2,08
Distribution yield ^[a]	3,91	4,20	4,00
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	1,196	850	17,993
Closing NAV percentage of total fund NAV (%)	0,11	0,08	1,42
Number of shares	106,648	93,002	2,036,379
Highest share price (US ¢)	1,418,27	1,357,93	1,358,27
Lowest share price (US ¢)	1,321,57	1,214,46	1,279,48

US dollar Class 'C-H' Income share performance

The share class was launched on 8 August 2014.

	Six months to 30.11.16 US ¢	Year to 31.05.16 US ¢	Year to 31.05.15 US ¢
Change in NAV per share			
Opening NAV	1,265,98	1,328,97	1,333,60
Return before operating charges and after direct portfolio transaction costs	67,71	11,15	60,50
Operating charges	(5,39)	(10,59)	(10,19)
Return after operating charges	62,32	0,56	50,31
Distributions	(33,18)	(63,55)	(54,94)
Closing NAV	1,295,12	1,265,98	1,328,97
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,82	0,82	0,82
Return after operating charges	+4,92	+0,04	+3,77
Distribution yield ^[a]	5,38	4,90	4,59
Effect on yield of charges offset against capital	0,81	n/a	n/a
Other information			
Closing NAV (£'000)	47	39	13
Closing NAV percentage of total fund NAV (%)	0,00	0,00	0,00
Number of shares	4,499	4,499	1,500
Highest share price (US ¢)	1,326,36	1,339,58	1,359,84
Lowest share price (US ¢)	1,254,19	1,167,49	1,286,64

M&G Global High Yield Bond Fund

Financial highlights

Specific share class performance

US dollar Class 'C-H' Accumulation share performance

The share class was launched on 10 December 2010.

	Six months to 30.11.16 US ¢	Year to 31.05.16 US ¢	Year to 31.05.15 US ¢
Change in NAV per share			
Opening NAV	1,388,09	1,385,88	1,348,97
Return before operating charges and after direct portfolio transaction costs	85,96	13,46	47,99
Operating charges	(6,27)	(11,25)	(11,08)
Return after operating charges	79,69	2,21	36,91
Distributions	(33,85)	(66,88)	(67,80)
Retained distributions	33,85	66,88	67,80
Closing NAV	1,467,78	1,388,09	1,385,88
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,83	0,82	0,82
Return after operating charges	+5,74	+0,16	+2,74
Distribution yield ^[a]	4,54	4,88	4,59
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	28	151	15
Closing NAV percentage of total fund NAV (%)	0,00	0,01	0,00
Number of shares	2,414	15,877	1,700
Highest share price (US ¢)	1,477,85	1,396,41	1,396,70
Lowest share price (US ¢)	1,373,68	1,258,92	1,308,56

^[a] Following the change in charging structure outlined on page 1, you may see variances between the comparative and current year figures.

M&G Global High Yield Bond Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 30 November	2016		2015	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		27.619		(64.018)
Revenue	34.022		34.700	
Expenses	(7.610)		(8.039) ^[a]	
Net revenue / (expense) before taxation	26.412		26.661	
Taxation	(238)		(258)	
Net revenue / (expense) after taxation		26.174		26.403
Total return before distributions		53.793		(37.615)
Distributions		(27.630)		(26.402)
Change in net assets attributable to shareholders from investment activities		26.163		(64.017)

Statement of change in net assets attributable to shareholders

for the six months to 30 November	2016		2015	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		1.133.409		1.265.438
Amounts received on issue of shares	112.594		57.946 ^[a]	
Amounts paid on cancellation of shares	(151.484)		(125.159) ^[a]	
		(38.890)		(67.213)
Dilution adjustments		827		418 ^[a]
Change in net assets attributable to shareholders from investment activities (see above)		26.163		(64.017)
Retained distributions on Accumulation shares		8.186		7.970
Unclaimed distributions		8		7
Closing net assets attributable to shareholders		1.129.703		1.142.603

The opening net assets attributable to shareholders for 2016 differs to the closing position in 2015 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	30 November 2016	31 May 2016
	£'000	£'000
Assets		
Fixed assets		
Investments	1.116.215	1.118.326
Current assets		
Debtors	22.933	25.375
Cash and bank balances	8.288	15.111
Total assets	1.147.436	1.158.812
Liabilities		
Investment liabilities	(2.033)	(5.534)
Creditors		
Bank overdrafts	(4.769)	(3.034)
Distribution payable	(4.194)	(3.649)
Other creditors	(6.737)	(13.186)
Total liabilities	(17.733)	(25.403)
Net assets attributable to shareholders	1.129.703	1.133.409

^[a] Restated, please see notes to the financial statements.

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'accounting policies' set out on page 4.

The fund has adopted FRS 102 and the 2014 SORP. As a result there are some presentational changes to the classification of items in the financial statements. The following presentational changes are considered to be minimal and have no impact on the total return or net asset value in either the current or prior accounting period. In the 'Statement of change in net assets attributable to shareholders', 'Dilution adjustments' are now disclosed as a separate line item.

'Dilution adjustments' totalling £827,000 (2015: £418,000) have been reclassified from 'Amounts received on issue of shares' of £335,000 (2015: (£107,000)) and 'Amounts paid on cancellation of shares' of £492,000 (2015: £525,000).

Interest payable of £18,000 (2015: £7,000) has been reclassified from 'Distributions' into 'Expenses'.

Distribution policy

With effect from 1 October 2016 the distribution policy has been amended so that in determining the amount available for distribution to Income shares, the annual management charge, administration charge and where relevant the share class hedging charge are now 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.

M&G Index-Linked Bond Fund

Authorised Corporate Director's Report

Important information

Please note that from 1 October 2016, the M&G Index-Linked Bond Fund began taking the annual management charge and administration charge from capital in the case of Income shares. These charges continue to be charged to income for Accumulation shares.

The fund's objective and policy remain unchanged. All costs associated with introducing these changes will be borne by M&G Securities Limited.

In the 2016 Budget, the UK government announced that, effective from 6 April 2017, interest distributions from open-ended investment companies (OEICs) may be paid without deducting income tax (currently 20%).

As a result, prices for the sterling share classes of M&G's bond funds will be calculated without an accrual for the deduction of income tax. This change, for different funds, will be phased in between October 2016 and March 2017.

From 1 December 2016 the M&G Index-Linked Bond Fund's prices for the sterling share classes will be calculated without income tax deducted.

Investment objective

The Fund aims to secure the value of capital and income from the effects of inflation over a rolling five year period or longer with a total return consistent with investment in index-linked bonds. 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 portfolio will focus mainly on index-linked debt instruments which may be government and public securities or corporate debt instruments. Non-sterling denominated securities may be held and, if deemed appropriate by the investment manager, the associated currency risks hedged. The Fund's exposure to index-linked, government and public securities or corporate debt may be gained through the use of derivatives. The Fund may also invest in other assets including collective investment schemes, other transferable securities, cash and near cash, deposits, warrants, money market instruments and other derivative instruments.

Investment approach

The M&G Index-Linked Bond Fund aims to secure the value of capital and income from the effects of inflation using a long-term total return approach consistent with investment in index-linked bonds. In order to increase the fund's yield, the manager may, where appropriate, invest in index-linked corporate bonds and in index-linked overseas bonds, in addition to index-linked UK sterling government bonds. Foreign currency exposure is at least 95% hedged to sterling.

Risk profile

The fund invests mainly in fixed interest assets that would be expected to perform well in an inflationary environment, such as inflation-linked bonds issued by companies and governments. It is therefore subject to the price volatility of the global bond market as well as the performance of individual issuers.

The fund's focus is on investment grade, or high-quality, debt securities that are normally traded with relative ease. The fund's exposure to index-linked bonds may be achieved either directly or through derivatives. In association with the use of derivatives, including those instruments not traded through an exchange, collateral is deposited in order to mitigate the risk that a counterparty may default on its obligations or become insolvent.

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

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



The above number:

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

Investment review

As at 1 December 2016, for the six months ended 30 November 2016

Performance against objective

Between 1 June 2016 (the start of the review period) and 1 December 2016, the M&G Index Linked Bond Fund's Sterling Class 'A' and 'I' share classes delivered a total return (the combination of income and growth of capital) of 13,1% and 13,2%, respectively. This was broadly in line with the average return from the fund's peer group, the IA UK Index-Linked Gilts sector, which was 13,3% over the same period.

The fund aims to secure the value of capital and income from the effects of inflation. Over three- and five-year periods to 1 December 2016, the fund has delivered positive total returns of around 11% and 8%, respectively.^[a] The rate of inflation in the UK, as measured by the Consumer Prices Index, was 0,7% over three years and 1,4% over five years.

M&G Index-Linked Bond Fund

Authorised Corporate Director's Report

Investment review

Investment performance

The six months under review have been underpinned by geopolitical events. As we entered 2016 following an interest rate rise by the Federal Reserve, the US economy continued to perform well and investors expected further rises would follow during the year. However, several global economic factors led other major central banks to leave interest rates unchanged or even to reduce them. China's slowing economy remained a concern, for example, while inflation generally remained subdued. As 2016 progressed, concerns emerged that global economic growth was faltering, and interest rates are not typically increased in such an environment.

At the beginning of the review period in June, the UK held a referendum regarding its membership of the European Union (EU). The vote produced an unexpected 'leave' result (so-called Brexit), which most economists expected would weaken the economic outlook, not only in the UK but also in the EU.

For bond markets, there were some important knock-on effects from the referendum, as the expected timing of another US interest rate rise was pushed back and the performance of government bonds was supported by their perceived 'safe-haven' status among investors during times of uncertainty. (Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'.)

Subsequently in August, the Bank of England (BoE) cut interest rates and announced additional measures to counter the prospect of slower economic growth following the EU referendum result. These steps included using its own money to buy government bonds and certain types of corporate bond, a strategy known as 'quantitative easing' that largely aims to keep interest rates low and promote lending activity. The European Central Bank (ECB) already had similar measures in place as economic growth in the eurozone, while gradually improving, remained sluggish.

In the final months of the review period, however, sentiment towards bonds weakened and some of their gains from earlier in 2016 were offset as markets declined. In the UK, adverse considerations included rising inflation expectations, given that the size of sterling's decline since the EU referendum result is likely to push up import costs. Inflation expectations also began to rise in the US, while in Europe, some concerns emerged that the ECB might look to scale back its economic stimulus measures. Although the ECB did not change its monetary policies, the prospect of higher inflation (which typically makes fixed income investments less attractive) continued to weigh on global bond markets and they declined in September and October.

The surprise election result in the US saw global bonds generally react negatively as investors weighed up how US government debt and inflation might increase if the incoming Trump administration implements big infrastructure spending and tax-cutting policies, as it has indicated. In addition, the prospect of shifts towards trade protectionism is now a key concern. Amid the sell-off across bond markets, short-dated UK and German government bonds (bonds that are due to be repaid within five years) were among the few areas of the market that found support as prices fell, pushing up the yields. (Bond yields refer to the interest received from a fixed income security, which is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. Bond yields

typically move in the opposite direction to bond prices.) This sell-off affected the performance of longer dated government bonds (bonds that are due to be repaid in more than 10 years) in particular, given their greater sensitivity to changes in yields.

Nevertheless, over the six months as a whole, longer dated index-linked UK government bonds (gilts) generally outperformed those issues with a shorter repayment period. Index-linked bonds are 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. As the fund holds mostly index-linked gilts due to be repaid in over 25 years' time, its returns for the six-month period were positive.

Investment activities

One of the key drivers of the fund's performance is the ability to reduce or increase the portfolio's sensitivity to changes in bond yields, otherwise known as 'duration'. At the beginning of the review period, in light of the UK's referendum, we increased the duration of the fund as we were of the opinion that the result of the vote could have a negative impact on the economy and may lead to further interest rate cuts and increased stimulus measures. As a result, we decided to buy index-linked bonds maturing in 2037 and 2040.

We also invested in US index-linked bonds called Treasury inflation-protected securities (TIPS). We believe TIPS have been attractively priced relative to conventional bonds as we continue to search for 'relative value' within the index-linked bond markets.

In early August, the Bank of England announced an interest rate cut and a new stimulus package to help support the economy following the Brexit vote. Inflation expectations increased as sterling fell relative to other major currencies. We therefore bought longer dated index-linked gilts maturing in 2044 and 2055 given their relative value versus shorter dated index-linked gilts. We also sold our position in 10-year conventional gilts after a strong rally.

Outlook

As volatility continued to be high over the review period, generally the demand for index-linked gilts pushed up their prices, resulting in a fall in their yields over the six months under review.

Even though index-linked bond yields have increased from historical lows, we believe there will be continued demand for these assets. We believe that currently index-linked gilts are attractively priced relative to conventional gilts although this has reduced following the former's strong performance of late. As has been demonstrated over the review period, gilts and index-linked gilts tend to perform well during uncertain economic times as investors increase their demand for assets that are perceived to be low risk.

We are of the opinion that the UK economy should continue to grow, albeit at a slightly slower pace than initially expected. Although gilts and index-linked gilts have undergone a prolonged period of heightened demand, volatility in the financial markets appears set to remain high which may prove supportive.

Ben Lord

Fund manager

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

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

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

M&G Index-Linked Bond Fund

Authorised Corporate Director's Report

Investment review

Classification of investments



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

■ 30 November 2016

■ 31 May 2016

Source: M&G

Investments

Portfolio statement

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Debt securities	423.188	99,50	99,46
'AAA' credit rated bonds	0	0,00	97,50
'AA' credit rated bonds	418.945	98,51	0,72
£1.000.000 Network Rail Infrastructure Finance 1,9618% IL 2025	1.879	0,44	
£1.900.000 Toyota Motor Credit 2,413% IL 2017	2.514	0,59	
£11.615.000 Treasury 0,125% IL 2019	13.447	3,16	
£1.350.000 Treasury 0,125% IL 2024	1.718	0,40	
£16.500.000 Treasury 0,125% IL 2029	22.829	5,37	
£32.350.000 Treasury 0,125% IL 2036	45.648	10,73	
£9.920.000 Treasury 0,125% IL 2044	16.738	3,94	
£4.785.000 Treasury 0,125% IL 2046	7.801	1,83	
£5.290.000 Treasury 0,125% IL 2056	10.067	2,37	
£22.381.000 Treasury 0,125% IL 2065	51.384	12,08	
£4.890.000 Treasury 0,125% IL 2068	12.282	2,89	
£12.670.000 Treasury 0,5% IL 2050	29.329	6,90	
£93.000 Treasury 0,625% IL 2040	183	0,04	
£5.310.000 Treasury 0,625% IL 2042	11.171	2,63	
£450.000 Treasury 0,75% IL 2034	747	0,18	
£7.558.000 Treasury 0,75% IL 2047	18.190	4,28	

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
'AA' credit rated bonds (continued)			
£18.275.000 Treasury 1,125% IL 2037	39.754	9,35	
£15.275.000 Treasury 1,25% IL 2027	28.244	6,64	
£6.400.000 Treasury 1,25% IL 2055	21.906	5,15	
£2.365.000 Treasury 1,5% 2047	2.130	0,50	
£6.702.000 Treasury 1,875% IL 2022	10.938	2,57	
£5.500.000 Treasury 2,5% IL 2020	20.387	4,79	
£3.538.000 Treasury 2,5% IL 2024	12.869	3,03	
£6.675.000 Treasury 4,125% IL 2030	24.181	5,69	
\$5.280.000 US Treasury 0,125% 2021	4.329	1,02	
\$6.600.000 US Treasury 0,125% 2024	5.286	1,24	
\$2.525.000 US Treasury 0,125% 2026	1.977	0,46	
\$1.251.500 US Treasury 0,375% IL 2025	1.017	0,24	
'A' credit rated bonds	1.961	0,46	0,48
£450.000 DWR Cymru Financing 1,859% IL 2048	899	0,21	
£200.000 National Grid Electricity Transmission 2,817% IL 2032	448	0,11	
£319.000 Yorkshire Water Services Odsal Finance 3,30666% IL 2033	614	0,14	
'BBB' credit rated bonds	1.670	0,39	0,42
£400.000 London Power Networks 3,125% IL 2032	897	0,21	
£400.000 South East Water Finance 2,5329% IL 2041	773	0,18	
'BB' credit rated bonds	612	0,14	0,16
£500.000 Tesco 1,982% IL 2036	612	0,14	
Bonds with no credit rating	0	0,00	0,18
Forward currency contracts	(35)	(0,01)	0,00
\$2.286.922 Bought for £1.836.158 (expires 14.12.16)	(0)	0,00	
\$(18.509.425) Sold for £14.824.915 (expires 14.12.16)	(35)	(0,01)	
Interest rate futures contracts	(13)	0,00	0,00
(123) 10 Year US Treasury Note Mar 2017	(13)	0,00	
Portfolio of investments	423.140	99,49	99,46
'AAA' rated money market funds ^[a]	4.982	1,17	0,32
4.892.000 Northern Trust Global Fund - Sterling	4.982	1,17	
Total portfolio	428.122	100,66	99,78
Net other assets / (liabilities)	(2.806)	(0,66)	0,22
Net assets attributable to shareholders	425.316	100,00	100,00

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

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

Portfolio transactions

for the six months to 30 November	2016 £'000	2015 £'000
Portfolio transactions		
Total purchases	714.722	340.691
Total sales	697.158	357.370

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

M&G Index-Linked Bond Fund

Financial highlights

Fund performance

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

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

We show performance for these two share classes because:

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

The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (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			
as at	30.11.16 £'000	31.05.16 £'000	31.05.15 £'000
Fund net asset value (NAV)	425.316	350.272	375.744

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.

M&G Index-Linked Bond Fund

Financial highlights

Fund performance

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

Long-term performance by share class

	Six months 01.06.16 % ^[a]	Three years 02.12.13 % p.a.	Five years 01.12.11 % p.a.	Since launch % p.a.
Sterling^[b]				
Class 'A'	+13,1	+11,3	+7,6	+6,7 ^[c]
Class 'I'	+13,2	+11,4	n/a	+8,6 ^[d]

^[a] Absolute basis.

^[b] Price to price with income reinvested.

^[c] 4 October 1999, the end of the initial offer period of the predecessor unit trust.

^[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, comprised of operating charges and portfolio transaction costs.

Operating charges

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

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

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

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

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

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, method of execution and the quality of research provided. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission, taxes, and costs of research from brokers and other research providers.
- **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 wholly in fixed interest securities no direct portfolio transaction costs are applicable. To give an indication of the indirect portfolio dealing costs the table below shows the average portfolio dealing spread.

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

Portfolio transaction costs

	Six months to 30.11.16 %	Year to 31.05.16 %	Year to 31.05.15 %	Average ^[a] %
Indirect portfolio transaction costs				
Average portfolio dealing spread	0,16	0,09	0,21	0,15

^[a] Average of first three columns.

M&G Index-Linked Bond Fund

Financial highlights

Specific share class performance

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

Sterling Class 'A' Income share performance

The share class was launched on 4 October 1999.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	117,96	115,95	99,95
Return before operating charges and after direct portfolio transaction costs	19,31	2,77	16,71
Operating charges	(0,45)	(0,76)	(0,71)
Return after operating charges	18,86	2,01	16,00
Distributions	0,00	0,00	0,00
Closing NAV	136,82	117,96	115,95
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,66	0,66	0,66
Return after operating charges	+15,99	+1,73	+16,01
Distribution yield ^[a]	0,00	0,00	0,00
Effect on yield of charges offset against capital	0,65	n/a	n/a
Other information			
Closing NAV (£'000)	27.167	23.653	47.980
Closing NAV percentage of total fund NAV (%)	6,39	6,75	12,77
Number of shares	19.856.509	20.051.070	41.378.278
Highest share price (UK p)	148,28	120,40	118,63
Lowest share price (UK p)	117,95	111,15	98,64

Sterling Class 'A' Accumulation share performance

The share class was launched on 4 October 1999.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	135,52	133,21	114,82
Return before operating charges and after direct portfolio transaction costs	22,18	3,18	19,21
Operating charges	(0,52)	(0,87)	(0,82)
Return after operating charges	21,66	2,31	18,39
Distributions	0,00	0,00	0,00
Retained distributions	0,00	0,00	0,00
Closing NAV	157,18	135,52	133,21
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,66	0,66	0,66
Return after operating charges	+15,98	+1,74	+16,02
Distribution yield ^[a]	0,00	0,00	0,00
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	76.418	71.083	132.839
Closing NAV percentage of total fund NAV (%)	17,97	20,29	35,35
Number of shares	48.619.340	52.453.452	99.722.770
Highest share price (UK p)	170,34	138,32	136,28
Lowest share price (UK p)	135,50	127,69	113,32

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	1.261,18	1.238,45	1.066,40
Return before operating charges and after direct portfolio transaction costs	206,48	29,69	178,64
Operating charges	(4,13)	(6,96)	(6,59)
Return after operating charges	202,35	22,73	172,05
Distributions	0,00	0,00	0,00
Closing NAV	1.463,53	1.261,18	1.238,45
Direct portfolio transaction costs ^[b]	UK p	UK p	UK p
Costs before dilution adjustments	0,01	0,00	0,00
Dilution adjustments ^[c]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,01	0,00	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,56	0,56	0,56
Return after operating charges	+16,04	+1,84	+16,13
Distribution yield ^[a]	0,00	0,00	0,00
Effect on yield of charges offset against capital	0,55	n/a	n/a
Other information			
Closing NAV (£'000)	118.324	74.418	69.660
Closing NAV percentage of total fund NAV (%)	27,82	21,25	18,54
Number of shares	8.084.835	5.900.674	5.624.735
Highest share price (UK p)	1.585,87	1.286,86	1.266,83
Lowest share price (UK p)	1.261,04	1.187,22	1.052,55

M&G Index-Linked Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	1,262,85	1,240,08	1,067,81
Return before operating charges and after direct portfolio transaction costs	206,70	29,75	178,89
Operating charges	(4,11)	(6,98)	(6,62)
Return after operating charges	202,59	22,77	172,27
Distributions	0,00	0,00	0,00
Retained distributions	0,00	0,00	0,00
Closing NAV	1,465,44	1,262,85	1,240,08
Direct portfolio transaction costs ^[b]	UK p	UK p	UK p
Costs before dilution adjustments	0,01	0,00	0,00
Dilution adjustments ^[c]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,01	0,00	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,56	0,56	0,56
Return after operating charges	+16,04	+1,84	+16,13
Distribution yield ^[a]	0,00	0,00	0,00
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	203,407	181,118	125,265
Closing NAV percentage of total fund NAV (%)	47,82	51,71	33,34
Number of shares	13,880,257	14,342,071	10,101,361
Highest share price (UK p)	1,587,95	1,288,56	1,268,50
Lowest share price (UK p)	1,262,71	1,188,78	1,053,94

^[a] Following the change in charging structure outlined on page 1, you may see variances between the comparative and current year figures.

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

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

M&G Index-Linked Bond Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 30 November	2016		2015	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		55,367		(579)
Revenue	2,952		808	
Expenses	(1,247)		(1,103)	
Net revenue / (expense) before taxation	1,705		(295)	
Taxation	0		0	
Net revenue / (expense) after taxation		1,705		(295)
Total return before equalisation		57,072		(874)
Equalisation		11		51
Change in net assets attributable to shareholders from investment activities		57,083		(823)

Statement of change in net assets attributable to shareholders

for the six months to 30 November	2016		2015	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		350,272		375,744
Amounts received on issue of shares	63,918		35,497	
Amounts paid on cancellation of shares	(46,008)		(56,111)	
		17,910		(20,614)
Dilution adjustments		51		39
Change in net assets attributable to shareholders from investment activities (see above)		57,083		(823)
Closing net assets attributable to shareholders		425,316		354,346

The opening net assets attributable to shareholders for 2016 differs to the closing position in 2015 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	30 November 2016	31 May 2016
	£'000	£'000
Assets		
Fixed assets		
Investments	428,170	349,487
Current assets		
Debtors	1,556	585
Cash and bank balances	209	356
Total assets	429,935	350,428
Liabilities		
Investment liabilities	(48)	0
Creditors		
Bank overdrafts	(3,224)	0
Other creditors	(1,347)	(156)
Total liabilities	(4,619)	(156)
Net assets attributable to shareholders	425,316	350,272

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'accounting policies' set out on page 4.

Distribution policy

With effect from 1 October 2016 the distribution policy has been amended so that in determining the amount available for distribution to Income shares, the annual management charge and administration charge are now 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.

M&G Index Tracker Fund

Authorised Corporate Director's Report

Important information

Please note that from 1 October 2016, the M&G Index Tracker Fund began taking the annual management charge and administration charge from capital in the case of Income shares. These charges continue to be charged to income for Accumulation shares.

The fund's objective and policy remain unchanged. All costs associated with introducing these changes will be borne by M&G Securities Limited.

Investment objective and policy

The Fund is designed to track the FTSE All-Share Index. The fund manager has full discretionary investment management powers within the confines of this investment objective of the Fund.

Investment approach

The M&G Index Tracker Fund is a UK fund that broadly replicates the FTSE All-Share Index*. The fund holds nearly all of the companies in the index and closely matches the weight that each represents in the FTSE All-Share Index.

* FTSE® International. FTSE is a joint trademark of the London Stock Exchange Limited and the Financial Times Limited and is used by FTSE International Limited under licence. The FTSE All-Share Index is calculated by FTSE International Limited. FTSE International Limited does not sponsor, endorse or promote these products. All copyright in the index values and constituent lists rests with FTSE International Limited. M&G Securities Limited has obtained full licence from FTSE International Limited to use such copyright in the creation of this product.

Risk profile

The fund is designed to track the performance of the FTSE All-Share Index, which represents a broad spread of UK company shares. Its performance, therefore, reflects the price volatility of the UK stockmarket and the performance of individual companies.

The fund holds nearly all of the companies in the index and closely matches the weight that each represents in the FTSE All-Share Index. 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 December 2016, for the six months ended 30 November 2016

Performance against objective

The M&G Index Tracker Fund is designed to track the FTSE All-Share Index. Between 1 June 2016 (the start of the review period) and 1 December 2016, the fund's Sterling Class 'A' and 'C' share classes produced a total return (the combination of income and growth of capital) of 9,3% and 9,5%, respectively in sterling terms^[a]. The FTSE All-Share Index produced a total return of 9,9% over the same period.

Most of the fund's underperformance was due to a timing difference between the pricing of the fund and the index. The index is priced at the end of the day while the fund is priced at midday. To illustrate this point, if we revalue the fund using closing prices it would give a better comparison of performance. Using end of day prices for 1 June 2016 and 1 December 2016, the total return (gross of charges) of the fund would be 9,99%, compared with the FTSE All-Share Index's return of 9,91%. Past performance is not a guide to future performance.

Investment performance

As the fund tracks the index, its overall performance can largely be explained by market developments over the six months under review. In a global economy, the fates of individual markets are often closely connected to each other. As a result, the performance and prospects of the UK stockmarket tend to be affected by developments around the world.

Uncertainty ahead of the UK referendum on membership of the European Union (EU) on 23 June gave way briefly to near panic in UK and global stockmarkets and sterling fell sharply in the immediate aftermath of the shock 'Leave' decision (so-called Brexit). At home, the greatest falls were recorded by domestically focused small and mid-cap stocks, while the blue-chip FTSE 100 Index also declined. Nevertheless, the overall FTSE All-Share Index had recovered by the end of June. The rebound mainly reflected gains by large caps as most large UK companies within the index earn their revenues from overseas and benefited from the weaker sterling.

The swift appointment of a new prime minister in July and prompt action by the Bank of England (BoE) early the following month to support the economy did much to improve sentiment. The BoE's measures included a cut in interest rates to 0,25%, additional asset purchases and a scheme to encourage bank lending.

Downbeat releases on UK economic data in the immediate aftermath of the Brexit vote gave way to a more positive tone in August. The BoE subsequently revised upwards a gloomy forecast issued immediately after the 'Leave' vote, although near-term growth expectations at that time were still significantly lower.

The value of sterling dipped sharply in October as it became evident that a 'hard' Brexit strategy, or clean break with the EU, was looking increasingly likely. The weaker pound has been helpful for the UK's export business, which has become more competitive as a result. At the same time, inflation is creeping up due to higher import costs for raw materials and other goods.

M&G Index Tracker Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

In early November, the BoE revised its expectations again. The bank upgraded its forecasts for economic growth this year and in 2017 as the economy and confidence was stronger than the bank had expected back in August. However, it cut its forecast for 2018. The BoE also significantly increased its predictions for consumer prices index (CPI) inflation, which the central bank now believes will reach 2.7% by the end of next year, compared with 1.2% in the year to November.

Meanwhile, Prime Minister Theresa May has announced her intention to start the process of leaving the EU by the end of March. However, this depends on the government's successful appeal against a High Court ruling that it needs to seek parliamentary approval before taking this step. At the time of writing, the appeal is being heard and the outcome is expected early next year.

Further afield, Donald Trump's victory in the US presidential election on 8 November led to some volatility in financial markets initially, although many asset prices subsequently rallied.

The UK stockmarket was essentially flat after the Chancellor's Autumn statement in November, as investors were largely unfazed by reduced economic growth forecasts for 2017 and a considerable increase in government borrowing. Chancellor Philip Hammond also confirmed that the government would no longer seek a budget surplus in 2019-20. In other developments, the Chancellor revealed plans for significant infrastructure spending over five years in a bid to improve persistently weak productivity rates in the UK.

Against this tumultuous political and economic backdrop, resources stocks and miners generated strong returns thanks to improved commodity prices and a more benign outlook for the sector. Banks also performed well, despite Brexit-related uncertainty and worries about reduced profitability due to persistently low interest rates. Meanwhile, many defensive sectors (so-called as the businesses are considered to be more resilient in economic downturns), such as telecommunications, general retailers, food producers and utilities were out of favour with generally confident investors.

In terms of individual stocks, energy firms BP and Royal Dutch Shell featured among the leading contributors, as did miners Glencore, Rio Tinto and BHP Billiton. Banking groups HSBC and Barclays also performed well. At the other end of the scale, telecommunications firms Vodafone and BT lagged the wider market. Lloyds Banking Group and tobacco firm Imperial Brands were also among the underperformers.

Investment activities

A number of transactions were related to merger and acquisition activity. For example, pharmaceutical company Shire bought US firm Baxalta and we added to our holding in Shire to reflect the company's increased weighting in the index.

Meanwhile, other firms left the index, and therefore the fund, after being taken over by foreign companies. More specifically, brewer SAB Miller and technology firm ARM were taken over by Belgian firm Anheuser-Busch InBev and Japanese concern SoftBank, respectively.

Elsewhere, beverage can maker Rexam was bought by rival firm Ball and we received shares and cash in connection with the transaction. As Ball is a US enterprise and therefore not eligible for inclusion in the portfolio, we sold the new shares.

In other transactions, paper-packaging firm Smurfit Kappa has moved its main listing from the Irish Stock Exchange to the London Stock Exchange and we started a new position in the stock. Elsewhere, payments-processing firm Worldpay issued new shares in a secondary placing and we bought some of these.

Finally, some sales and purchases were undertaken for portfolio management purposes. Such transactions involved energy firm BP, British American Tobacco and pharmaceutical company GlaxoSmithKline.

Outlook

In an uncertain environment, further revisions to economic growth expectations may well occur in the short term. The weaker pound should continue to benefit the UK's exporters but importers will probably come under pressure, driving up inflation. While a recession in the UK in the near term now appears unlikely, the risk is that businesses and consumers may postpone investment and spending decisions until there is greater clarity about the realities of Brexit. Nevertheless, general confidence post the referendum has been more buoyant than had been expected, while interest rates remain at significantly low levels.

Meanwhile, corporate health in the UK is fairly sound, which should be generally supportive for the UK stockmarket, although swings in sentiment are anticipated at times. Furthermore, after the initial confusion about the implications of Donald Trump's victory, investors will be looking for indicators of US policy direction and this is expected to affect risk appetite at times. Against this unsettled backdrop, periodic volatility is likely at least until the political, economic and trading prospects for the post-Brexit UK become clearer.

Richard O'Connor
Fund manager

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

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

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

M&G Index Tracker Fund

Authorised Corporate Director's Report

Investments

Portfolio statement

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Equities	498,038	99,15	100,51
Oil & gas producers	60,534	12,05	10,11
4,402,353 BP	20,073	3,99	
133,505 Cairn Energy	257	0,05	
520,073 EnQuest	150	0,03	
171,134 Ophir Energy	136	0,03	
192,924 Premier Oil	104	0,02	
1,028,486 Royal Dutch Shell 'A'	20,811	4,14	
866,564 Royal Dutch Shell 'B'	18,332	3,65	
57,952 Soco International	80	0,02	
203,881 Tullow Oil	591	0,12	
Oil equipment, services & distribution	1,929	0,38	0,35
95,155 Amec Foster Wheeler	409	0,08	
28,743 Cape	44	0,01	
39,317 Hunting	206	0,04	
86,756 John Wood Group	710	0,14	
75,272 Lamprell	66	0,01	
62,084 Petrofac	494	0,10	
Chemicals	3,317	0,66	0,64
53,258 Carclo	65	0,01	
30,970 Croda International	1,019	0,20	
109,016 Elementis	275	0,06	
44,781 Johnson Matthey	1,414	0,28	
60,858 Synthomer	223	0,05	
18,711 Victrex	321	0,06	
Forestry & paper	1,411	0,28	0,25
85,913 Mondi	1,411	0,28	
Industrial metals & mining	238	0,05	0,03
75,589 Evraz	180	0,04	
42,743 Ferrexpo	58	0,01	
Mining	29,848	5,94	3,93
36,524 Acacia Mining	148	0,03	
305,256 Anglo American	3,614	0,72	
87,038 Antofagasta	600	0,12	
485,747 BHP Billiton	6,351	1,26	
260,758 Centamin	341	0,07	
40,289 Fresnillo	495	0,10	
29,397 Gem Diamonds	31	0,01	
2,685,643 Glencore	7,398	1,47	
59,009 Hochschild Mining	127	0,02	
66,302 KAZ Minerals	236	0,05	
3,132 Kenmare Resources	8	0,00	
56 Kenmare Resources Wts. 2019	0	0,00	
61,648 Lonmin	93	0,02	
95,780 Petra Diamonds	154	0,03	
61,066 Polymetal International	470	0,09	
21,546 Randgold Resources	1,256	0,25	
277,892 Rio Tinto	8,317	1,66	
24,685 Vedanta Resources	209	0,04	
Construction & materials	7,119	1,42	1,24
171,310 Balfour Beatty	460	0,09	
31,693 Costain Group	112	0,02	
192,498 CRH	5,199	1,04	
20,421 Galliford Try	257	0,05	
28,988 Henry Boot	57	0,01	
18,581 Keller Group	145	0,03	
23,339 Kier Group	324	0,07	
96,187 Low & Bonar	65	0,01	

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Construction & materials (continued)			
48,210 Marshalls	144	0,03	
9,357 Morgan Sindall	67	0,01	
21,082 Norcros	36	0,01	
46,055 Polypipe	137	0,03	
45,817 Tyman	116	0,02	
Aerospace & defence	9,579	1,91	1,78
6,707 Avon Rubber	68	0,01	
731,016 BAE Systems	4,434	0,88	
69,509 Chemring Group	118	0,02	
393,970 Cobham	649	0,13	
175,150 Meggitt	832	0,17	
151,544 QinetiQ Group	368	0,07	
382,948 Rolls-Royce Holdings	2,596	0,52	
100,908 Senior	185	0,04	
16,139 Ultra Electronics Holdings	329	0,07	
General industrials	3,194	0,64	0,80
208,253 DS Smith	823	0,17	
77,557 RPC Group	840	0,17	
89,728 Smiths Group	1,263	0,25	
67,840 Vesuvius	268	0,05	
Electronic & electrical equipment	2,237	0,45	0,46
7,665 Dialight	54	0,01	
84,873 e2v Technologies	146	0,03	
79,793 Halma	757	0,15	
69,363 Morgan Advanced Materials	195	0,04	
13,436 Oxford Instruments	84	0,02	
8,968 Renishaw	224	0,05	
28,089 Spectris	573	0,11	
55,780 TT electronics	76	0,02	
17,246 Xaar	65	0,01	
3,641 XP Power	63	0,01	
Industrial engineering	3,545	0,71	0,65
46,912 Bodycote	269	0,05	
46,004 Fenner	113	0,02	
3,042 Goodwin	56	0,01	
18,805 Hill & Smith Holdings	230	0,05	
65,393 IMI	632	0,13	
67,066 Renold	28	0,01	
211,840 Rotork	493	0,10	
69,710 Severfield	52	0,01	
17,443 Spirax-Sarco Engineering	751	0,15	
52,143 Weir Group	921	0,18	
Industrial transportation	2,168	0,43	0,46
251,576 BBA Aviation	666	0,13	
3,455 Braemar Shipping Services	11	0,00	
8,159 Clarkson	174	0,04	
10,291 James Fisher & Sons	164	0,03	
201,124 Royal Mail	949	0,19	
74,400 Stobart Group	115	0,02	
4,535 UK Mail Group	20	0,00	
30,574 Wincanton	69	0,02	
Support services	24,783	4,93	5,10
58,875 Aggreko	471	0,09	
116,617 Ashtead Group	1,838	0,37	
112,835 Babcock International Group	1,078	0,21	
41,651 Berendsen	368	0,07	
72,937 Brammer	123	0,02	
77,279 Bunzl	1,605	0,32	
148,909 Capita Group	782	0,16	
104,391 Carillion	259	0,05	
58,424 Connect Group	81	0,02	
20,441 DCC	1,256	0,25	
32,320 De La Rue	187	0,04	

M&G Index Tracker Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Support services (continued)			
26.590 Diploma	251	0,05	
102.107 Electrocomponents	459	0,09	
45.455 Equiniti	87	0,02	
63.414 Essentra	249	0,05	
220.937 Experian	3.343	0,67	
372.555 G4S	907	0,18	
52.000 Grafton Group Units	276	0,05	
347.564 Hays	483	0,10	
67.066 Hogg Robinson	44	0,01	
61.358 Homeserve	374	0,07	
148.528 Howden Joinery Group	535	0,11	
35.947 Interserve	107	0,02	
38.211 Intertek Group	1.278	0,25	
22.348 John Menzies	116	0,02	
39.138 Lavendon Group	85	0,02	
25.681 Mears Group	120	0,02	
75.070 Michael Page International	276	0,05	
85.169 Mitie Group	175	0,03	
31.624 Northgate	132	0,03	
15.904 PayPoint	162	0,03	
159.300 Regus	370	0,07	
436.491 Rentokil Initial	938	0,19	
13.784 Ricardo	122	0,02	
16.475 Robert Walters	54	0,01	
55.347 RPS Group	103	0,02	
273.336 Serco Group	362	0,07	
143.021 Shanks Group	127	0,03	
150.196 SIG	137	0,03	
54.496 Smurfit Kappa	996	0,20	
136.075 Speedy Hire	58	0,01	
32.807 St. Ives	40	0,01	
29.569 SThree	81	0,02	
58.870 Travis Perkins	795	0,16	
3.773 Vp	28	0,01	
23.860 W.S. Atkins	336	0,07	
58.371 Wolseley	2.729	0,54	
Automobiles & parts	1.225	0,24	0,23
396.542 GKN	1.225	0,24	
Beverages	13.109	2,61	4,65
20.044 A.G. Barr	100	0,02	
57.149 Britvic	336	0,07	
45.191 Coca-Cola Hellenic	768	0,15	
579.550 Diageo	11.794	2,35	
65.456 Stock Spirits Group	111	0,02	
Food producers	12.742	2,54	2,79
80.468 Associated British Foods	2.084	0,42	
12.147 Cranswick	278	0,06	
31.306 Dairy Crest Group	180	0,04	
37.445 Devro	56	0,01	
100.244 Greencore	296	0,06	
166.618 Premier Foods	73	0,01	
111.459 Tate & Lyle	769	0,15	
277.571 Unilever	9.006	1,79	

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Household goods & home construction			
234.321 Barratt Developments	1.100	0,22	
28.525 Bellway	702	0,14	
30.413 Berkeley Group Holdings	758	0,15	
32.574 Bovis Homes Group	266	0,05	
60.000 Crest Nicholson	262	0,05	
70.212 McBride	122	0,02	
66.833 McCarthy & Stone	112	0,02	
14.539 MJ Gleeson	79	0,02	
72.891 Persimmon	1.249	0,25	
144.965 Reckitt Benckiser	9.943	1,98	
51.209 Redrow	210	0,04	
767.022 Taylor Wimpey	1.137	0,23	
Leisure goods	105	0,02	0,02
73.700 Photo-Me International	105	0,02	
Personal goods			
105.383 Burberry Group	1.501	0,30	
72.948 PZ Cussons	225	0,04	
11.827 SuperGroup	184	0,04	
Tobacco	27.151	5,41	5,74
428.809 British American Tobacco	19.374	3,86	
221.680 Imperial Brands	7.777	1,55	
Healthcare equipment & services			
12.913 Consort Medical	136	0,03	
86.196 Mediclinical International	613	0,12	
11.103 NMC Health	149	0,03	
208.846 Smith & Nephew	2.372	0,47	
83.002 Spire Healthcare	294	0,06	
Pharmaceuticals & biotechnology			
291.488 AstraZeneca	12.352	2,46	
92.641 BTG	550	0,11	
22.028 Dechra Pharmaceuticals	282	0,06	
19.815 Genus	371	0,07	
1.123.569 GlaxoSmithKline	16.960	3,38	
31.760 Hikma Pharmaceuticals	545	0,11	
151.890 Indivior	499	0,10	
206.453 Shire	9.901	1,97	
180.540 Vectura Group	265	0,05	
Food & drug retailers			
378.804 Booker Group	661	0,13	
24.944 Greggs	226	0,05	
426.952 J Sainsbury	992	0,20	
95.804 Ocado Group	261	0,05	
1.890.411 Tesco	3.978	0,79	
64.324 UDG Healthcare	424	0,08	
480.266 WM Morrison Supermarkets	1.065	0,21	
General retailers			
146.475 AA	389	0,08	
155.052 B&M European Value Retail	389	0,08	
51.838 Card Factory	132	0,03	
33.414 Carpetright	61	0,01	
306.023 Debenhams	169	0,03	
16.773 DFS Furniture	36	0,01	
9.796 Dignity	243	0,05	
230.640 Dixons Carphone	769	0,15	
22.551 Dunelm Group	167	0,03	
21.315 Findel	40	0,01	
48.578 Halfords Group	166	0,03	
103.755 Inchcape	633	0,13	
95.780 JD Sports Fashion	319	0,06	
120.594 JUST EAT	708	0,14	

M&G Index Tracker Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
General retailers (continued)			
538.664 Kingfisher	1.927	0,38	
61.504 Laura Ashley Holdings	12	0,00	
81.746 Lookers	87	0,02	
369.253 Marks & Spencer Group	1.223	0,24	
35.146 Mothercare	39	0,01	
48.869 N Brown Group	97	0,02	
34.153 Next	1.679	0,34	
337.904 Pendragon	104	0,02	
75.000 Pets at home	160	0,03	
268.345 Saga	518	0,10	
60.566 Sports Direct International	190	0,04	
6.651 Ted Baker	170	0,03	
34.479 Topps Tiles	30	0,01	
25.853 WH Smith	391	0,08	
	18.463	3,68	3,96
Media			
9.581 4imprint Group	158	0,03	
30.552 Ascential	85	0,02	
228.805 Auto Trader Group	912	0,18	
11.581 Bloomsbury Publishing	18	0,00	
60.666 Entertainment One	133	0,03	
10.593 Euromoney Institutional Investor	106	0,02	
60.000 Gocompare.com	37	0,01	
196.405 Informa	1.292	0,26	
65.293 ITE Group	96	0,02	
897.377 ITV	1.507	0,30	
117.735 Moneysupermarket.com	319	0,06	
191.893 Pearson	1.526	0,30	
255.614 RELX	3.558	0,71	
21.086 Rightmove	793	0,16	
252.818 Sky	1.953	0,39	
58.726 Trinity Mirror	47	0,01	
93.279 UBM	668	0,13	
303.534 WPP	5.221	1,04	
10.000 Zoopla Property Group	34	0,01	
	21.792	4,34	4,72
Travel & leisure			
41.117 Carnival	1.704	0,34	
50.177 Cineworld	272	0,05	
381.989 Compass Group	5.313	1,06	
100.293 Domino's Pizza	353	0,07	
59.574 easyJet	589	0,12	
122.704 Enterprise Inns	130	0,03	
280.496 FirstGroup	294	0,06	
8.404 Fuller Smith & Turner 'A'	82	0,02	
53.000 Gaming VC Holdings	351	0,07	
9.796 Go-Ahead Group	205	0,04	
71.211 Greene King	492	0,10	
24.530 HostelWorld	54	0,01	
45.615 InterContinental Hotels Group	1.511	0,30	
405.092 International Consolidated Airlines Group	1.781	0,35	
29.673 J.D.Wetherspoon	242	0,05	
234.689 Ladbrokes	291	0,06	
130.101 Marston's	175	0,03	
158.541 Merlin Entertainment	698	0,14	
38.526 Millennium & Copthorne Hotels	165	0,03	
63.496 Mitchells & Butlers	145	0,03	
99.357 National Express	356	0,07	
19.545 Paddy Power Betfair	1.661	0,33	

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Travel & leisure (continued)			
56.272 Playtech	477	0,09	
64.084 Rank Group	129	0,03	
47.418 Restaurant Group	154	0,03	
92.480 SSP	346	0,07	
102.684 Stagecoach Group	210	0,04	
349.133 Thomas Cook Group	291	0,06	
103.145 TUI	1.096	0,22	
42.254 Whitbread	1.462	0,29	
211.957 William Hill	638	0,13	
7.457 Wizz Air Holdings	125	0,02	
	7.506	1,49	2,00
Fixed line telecommunications			
1.931.769 BT Group	6.992	1,39	
132.444 KCOM Group	136	0,03	
105.531 TalkTalk Telecom	166	0,03	
17.051 Telecom Plus	212	0,04	
	12.799	2,55	3,23
Mobile telecommunications			
106.048 Inmarsat	769	0,15	
6.111.218 Vodafone Group	12.030	2,40	
	3.743	0,75	0,82
Electricity			
97.507 Drax Group	280	0,06	
231.793 SSE	3.463	0,69	
	14.211	2,83	3,22
Gas, water & multi-utilities			
1.277.592 Centrica	2.711	0,54	
868.110 National Grid	8.089	1,61	
97.777 Pennon Group	807	0,16	
55.079 Severn Trent	1.222	0,24	
153.156 United Utilities	1.382	0,28	
	53.602	10,67	9,44
Banks			
57.704 Aldermore Group	121	0,02	
3.902.519 Barclays	8.357	1,66	
9.871 BGE0 Group	294	0,06	
209.000 CYBG	588	0,12	
4.663.212 HSBC Holdings	29.583	5,89	
14.806.888 Lloyds Banking Group	8.618	1,72	
17.000 Metro Bank	557	0,11	
745.059 Royal Bank of Scotland Group	1.422	0,28	
614.875 Standard Chartered	3.892	0,78	
55.000 Virgin Money Holdings (UK)	170	0,03	
	5.462	1,08	1,11
Non-life insurance			
46.723 Admiral Group	894	0,18	
124.169 Beazley	475	0,09	
325.674 Direct Line Insurance Group	1.149	0,23	
60.000 esure	119	0,02	
31.304 Hastings Group	67	0,01	
67.041 Hiscox	710	0,14	
34.469 Jardine Lloyd Thompson Group	334	0,07	
40.879 Lancashire Holdings	269	0,05	
13.566 Novae Group	113	0,02	
243.984 RSA Insurance Group	1.332	0,27	
	22.372	4,45	4,53
Life insurance			
941.831 Aviva	4.234	0,84	
32.423 Chesnara	110	0,02	
1.196 Chesnara (Subscription shares)	0	0,00	
61.474 JRP	81	0,02	
1.374.292 Legal & General Group	3.245	0,65	
1.137.657 Old Mutual	2.157	0,43	
94.456 Phoenix Group	675	0,13	
588.042 Prudential [a]	9.132	1,82	
122.443 St. James's Place	1.152	0,23	
453.737 Standard Life	1.586	0,31	

M&G Index Tracker Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Real estate investment & services	3,534	0,70	0,84
168.944 Capital & Counties Properties	482	0,10	
184.740 Capital & Regional	100	0,02	
5.332 CLS Holdings	85	0,02	
36.000 Countrywide	60	0,01	
983 Daejan Holdings	58	0,01	
123.795 F&C Commercial Property Trust	170	0,03	
59.655 F&C UK Real Estate	58	0,01	
55.000 Foxtons Group	55	0,01	
99.935 Grainger Trust	223	0,04	
29.362 Helical Bar	85	0,02	
27.203 Kennedy Wilson Europe Real Estate	267	0,05	
23.460 LSL Property Services	47	0,01	
83.472 Medicx Fund	75	0,02	
127.327 Picton Property Income	96	0,02	
109.425 Raven Russia	42	0,01	
335.117 Redefine International	123	0,02	
74.152 Safestore	252	0,05	
31.357 Savills	210	0,04	
85.961 Schroder Real Estate Investment Trust	50	0,01	
43.703 St. Modwen Properties	121	0,02	
92.278 Standard Life Investment Property Income Trust	80	0,02	
221.120 Tritax Big Box	290	0,06	
54.660 U and I	89	0,02	
147.517 UK Commercial Property Trust	120	0,02	
52.758 UNITE Group	296	0,06	
Real estate investment trusts	8,727	1,74	2,14
402.523 Assura Group	235	0,05	
31.055 Big Yellow Group	206	0,04	
241.920 British Land	1.447	0,29	
24.261 Derwent London	587	0,12	
82.924 Great Portland Estates	507	0,10	
188.423 Hammerson	1.037	0,21	
183.113 Hansteen Holdings	194	0,04	
210.191 Intu Properties	573	0,11	
186.787 Land Securities Group	1.829	0,36	
140.566 LondonMetric Property	202	0,04	
190.614 Primary Health Properties	210	0,04	
194.659 Segro	816	0,16	
68.328 Shaftesbury	628	0,13	
22.910 Town Centre Securities	63	0,01	
27.762 Workspace Group	193	0,04	
Financial services	14,669	2,92	2,98
223.236 3i Group	1.519	0,30	
237.247 Aberdeen Asset Management	635	0,13	
40.790 Allied Minds	148	0,03	
91.792 Ashmore Group	253	0,05	
69.960 Brewin Dolphin Holdings	192	0,04	
15.367 Charles Taylor Consulting	38	0,01	
35.971 Close Brothers Group	489	0,10	
52.018 Hargreaves Lansdown	616	0,12	
262.726 Henderson Group	611	0,12	
131.220 ICAP	639	0,13	
89.675 IG Group Holdings	759	0,15	
69.264 Intermediate Capital Group	475	0,10	
61.570 International Personal Finance	173	0,04	
147.000 Investec	769	0,15	
129.574 IP Group	188	0,04	

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Financial services (continued)			
103.664 Jupiter Fund Management	446	0,09	
72.866 London Stock Exchange	2.029	0,40	
314.877 Man Group	360	0,07	
72.188 Paragon Group of Companies	265	0,05	
104.276 Paysafe Group	411	0,08	
34.527 Provident Financial	1.010	0,20	
12.022 Rathbone Brothers	221	0,04	
27.758 Schroders	772	0,15	
52.276 SVG Capital	369	0,07	
52.033 Tullett Prebon	231	0,05	
386.746 Worldpay	1.051	0,21	
Equity investment instruments	20,775	4,14	3,90
175.411 3i Infrastructure	323	0,06	
49.232 Aberdeen Asian Income Fund	95	0,02	
14.869 Aberdeen Asian Smaller Companies Investment Trust	139	0,03	
13.112 Aberdeen Emerging Market	65	0,01	
35.696 Aberdeen New Dawn Investment Trust	66	0,01	
27.450 Aberdeen UK Tracker Trust	89	0,02	
23.204 Aberforth Smaller Companies Trust	230	0,05	
121.423 Alliance Trust	704	0,14	
11.508 Artemis Alpha Trust	27	0,01	
1.001 Artemis Alpha Trust (Subscription shares)	0	0,00	
129.668 BACIT Investment Trust	169	0,03	
40.947 BACIT Investment Trust (Subscription shares)	0	0,00	
16.767 Baillie Gifford Japan Trust	95	0,02	
36.648 Bankers Investment Trust	247	0,05	
5.733 Baring Emerging Europe	36	0,01	
7.235 BH Global	93	0,02	
10.152 BH Macro	211	0,04	
22.605 Biotech Growth Trust	166	0,03	
19.051 BlackRock Commodities Income Investment Trust	15	0,00	
36.406 BlackRock Frontier Investment Trust	48	0,01	
70.554 BlackRock Income Trust	76	0,02	
9.332 BlackRock Latin American Investment Trust	36	0,01	
15.746 BlackRock Smaller Companies Investment Trust	140	0,03	
19.967 BlackRock Throgmorton Trust	65	0,01	
44.057 BlackRock World Mining Trust	143	0,03	
81.569 Bluefield Solar Income Fund	84	0,02	
37.724 British Empire Securities & General Trust	235	0,05	
7.952 Brunner Investment Trust	47	0,01	
10.566 Caledonia Investments	262	0,05	
646 Capital Gearing Trust	24	0,00	
48.759 City Merchants High Yield Trust	91	0,02	
12.000 City of London Investment Group	41	0,01	
68.252 City of London Investment Trust	265	0,05	
51.879 Dragon Capital Vietnam Enterprise Investments	154	0,03	
36.288 Dunedin Income Growth Investment Trust	86	0,02	
19.162 Dunedin Smaller Companies Investment Trust	36	0,01	
52.621 Ecofin Global Utilities and Infrastructure	57	0,01	
49.418 Edinburgh Dragon Trust	145	0,03	
48.494 Edinburgh Investment Trust	333	0,07	
12.019 Edinburgh Worldwide Investment Trust	58	0,01	
13.155 EF Realisation	4	0,00	

M&G Index Tracker Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Equity investment instruments (continued)			
5.282 Electra Private Equity	243	0,05	
14.371 EP Global Opportunities	39	0,01	
21.354 F&C Capital & Income Investment Trust	59	0,01	
17.778 F&C Global Smaller Companies	210	0,04	
26.956 F&C Private Equity Trust	78	0,02	
12.948 Fidelity Asian Values	43	0,01	
156.951 Fidelity China Special Situations	283	0,06	
105.890 Fidelity European Values	183	0,04	
64.515 Fidelity Special Values	137	0,03	
30.229 Finsbury Growth & Income Trust	190	0,04	
138.001 Foreign & Colonial Investment Trust	716	0,14	
36.000 Foresight Solar Fund	38	0,01	
6.000 Fundsmith Emerging Equities Trust	64	0,01	
150.236 GCP Infrastructure	186	0,04	
31.754 Genesis Emerging Markets	185	0,04	
139.573 Greencoat UK Wind	163	0,03	
1.000 Hansa Trust	8	0,00	
13.000 Harbourvest Global Private Equity	144	0,03	
13.666 Henderson Alternative Strategies Trust	36	0,01	
96.266 Henderson Diversified Income	88	0,02	
7.185 Henderson European Focus Trust	74	0,01	
4.288 Henderson EuroTrust	39	0,01	
22.794 Henderson Far East Income	76	0,02	
28.474 Henderson High Income Trust	50	0,01	
20.599 Henderson Smaller Companies Investment Trust	127	0,02	
20.371 Herald Investment Trust	166	0,03	
9.684 HG Capital Trust	140	0,03	
318.318 HICL Infrastructure	506	0,10	
18.845 IGG Enterprise Trust	123	0,02	
64.010 Impax Environmental Markets	133	0,03	
234.717 International Public Partnerships	358	0,07	
18.633 INVESCO Asia Trust	42	0,01	
13.876 INVESCO Income Growth Trust	38	0,01	
11.694 INVESCO Perpetual UK Smaller Companies Investment Trust	46	0,01	
87.094 John Laing	239	0,05	
181.442 John Laing Infrastructure Fund	228	0,05	
64.465 JPMorgan American Investment	232	0,05	
24.860 JPMorgan Asian Investment Trust	67	0,01	
19.298 JPMorgan Chinese Investment Trust	39	0,01	
14.381 JPMorgan Claverhouse Investment Trust	85	0,02	
31.308 JPMorgan Emerging Markets Investment Trust	212	0,04	
30.134 JPMorgan European Investment Trust	72	0,01	
41.600 JPMorgan European Smaller Companies Investment Trust	115	0,02	
84.000 JPMorgan Global Convertibles Income Fund	76	0,02	
70.540 JPMorgan Global Emerging Market	80	0,02	
43.965 JPMorgan Global Growth Investment Trust (formerly JPMorgan Overseas Investment Trust)	114	0,02	
30.674 JPMorgan Indian Investment Trust	180	0,04	
9.427 JPMorgan Japan Smaller Companies Investment Trust	28	0,01	
37.340 JPMorgan Japanese Investment Trust	122	0,02	
5.749 JPMorgan Mid Cap Investment Trust	53	0,01	

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Equity investment instruments (continued)			
13.206 JPMorgan Russian Securities	62	0,01	
4.461 JPMorgan Smaller Companies Investment Trust	34	0,01	
892 JPMorgan Smaller Companies Investment Trust (Subscription shares)	0	0,00	
20.877 Jupiter European Opportunities Trust	109	0,02	
4.455 Jupiter US Smaller Companies	36	0,01	
4.407 Keystone Investment Trust	71	0,01	
28.440 Law Debenture	148	0,03	
9.558 Lowland Investment	131	0,03	
6.893 Majedie Investments	18	0,00	
6.477 Martin Currie Asia Unconstrained Trust	20	0,00	
30.524 Martin Currie Global Portfolio Trust	66	0,01	
22.110 Mercantile Investment Trust	364	0,07	
22.619 Merchants Trust	99	0,02	
44.162 Middlefield Canadian Income PCC	43	0,01	
49.929 Monks Investment Trust	272	0,05	
9.072 Montanaro UK Smaller Companies Investment Trust	39	0,01	
15.376 Murray Income Trust	109	0,02	
29.533 Murray International Trust	332	0,07	
250.550 NB Global Floating Rate Income Fund	240	0,05	
11.497 New India Investment Trust	41	0,01	
85.000 NextEnergy Solar Fund	89	0,02	
8.548 North American Income Trust	100	0,02	
2.919 North Atlantic Smaller Companies Investment Trust	72	0,01	
20.848 P2P Global Investments	154	0,03	
28.753 Pacific Assets Trust	66	0,01	
10.174 Pacific Horizon Investment Trust	21	0,00	
13.513 Pantheon International Participations	228	0,04	
57.585 Perpetual Income & Growth Investment Trust	208	0,04	
394 Personal Assets Trust	153	0,03	
23.952 Polar Capital Global Healthcare Growth and Income Trust	44	0,01	
32.466 Polar Capital Technology Trust	267	0,05	
32.591 RIT Capital Partners	591	0,12	
33.743 Ruffer Investment Company Red. Pref. shares	78	0,01	
36.469 Schroder Asia Pacific Fund	121	0,02	
18.284 Schroder Asian Total Return Investment Company (formerly Asian Total Return Investment Company)	46	0,01	
18.236 Schroder Income Growth Fund	47	0,01	
19.162 Schroder Japan Growth Fund	34	0,01	
46.527 Schroder Oriental Income Fund	104	0,02	
32.730 Schroder UK Growth Fund	52	0,01	
7.670 Schroder UK Mid & Small Cap Fund	32	0,01	
31.306 Scottish American Investment	97	0,02	
28.095 Scottish Investment Trust	210	0,04	
308.473 Scottish Mortgage Investment Trust	982	0,19	
8.864 Scottish Oriental Small Companies Trust	78	0,01	
20.541 Securities Trust of Scotland	32	0,01	
13.252 Standard Life Equity Income Trust	52	0,01	
19.011 Standard Life European Private Equity Trust	51	0,01	
29.578 Standard Life UK Smaller	104	0,02	
14.154 Temple Bar Investment Trust	164	0,03	

M&G Index Tracker Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Equity investment instruments (continued)			
61.258 Templeton Emerging Markets Investment Trust	349	0,07	
70.000 The Diverse Income Trust	62	0,01	
13.277 The European Investment Trust	97	0,02	
179.587 The Renewables Infrastructure Group	192	0,04	
12.510 TR European Growth Trust	91	0,02	
76.502 TR Property Investment Trust	220	0,04	
45.234 Troy Income & Growth Trust	33	0,01	
70.000 TwentyFour Income Fund	77	0,01	
53.319 Utilico Emerging Markets	105	0,02	
10.663 Utilico Emerging Markets (Subscription shares)	2	0,00	
17.183 Value & Income Trust	42	0,01	
45.659 Witan Investment Trust	388	0,08	
17.102 Witan Pacific Investment Trust	47	0,01	
193.141 Woodford Patient Capital Trust	176	0,03	
11.052 Worldwide Healthcare Trust	230	0,04	
Non-equity investment instruments	269	0,05	0,05
110.728 BBGI	153	0,03	
21.000 International Biotechnology Trust	116	0,02	
Software & computer services	3.884	0,77	0,74
17.445 AVEVA	295	0,06	
21.300 Computacenter	157	0,03	
11.560 Fidessa Group	264	0,05	
52.210 Micro Focus International	1.108	0,22	
63.268 NCC Group	117	0,02	
255.388 Sage Group	1.711	0,34	
22.606 SDL	94	0,02	
31.792 Servelec Group	74	0,02	
25.000 Sophos	64	0,01	
Technology hardware & equipment	402	0,08	0,80
62.171 Imagination Technologies Group	142	0,03	
63.899 Laird	99	0,02	
168.424 Sepura	34	0,01	
162.534 Spirent Communications	127	0,02	
Unquoted / unlisted	0	0,00	0,00
1.754 Alternative Investment Strategies ^[b]	0	0,00	
10.204 Bioscience Investment Trust ^[b]	0	0,00	
21.000 Dexion Equity Alternative ^[b]	0	0,00	
12.707 Electric & General Investment Trust ^[b]	0	0,00	
3.374 Gartmore Irish Growth Fund ^[b]	0	0,00	
Futures contracts	(18)	0,00	0,01
162 FTSE 100 Index December 2016	(18)	0,00	
Portfolio of investments	498.020	99,15	100,52

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
'AAA' rated money market funds ^[c]	8.876	1,77	0,30
8.876.000 Northern Trust Global Fund - Sterling	8.876	1,77	
Total portfolio	506.896	100,92	100,82
Net other assets / (liabilities)	(4.621)	(0,92)	(0,82)
Net assets attributable to shareholders	502.275	100,00	100,00

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

^[a] Related party to the fund.

^[b] Delisted.

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

Top ten portfolio transactions

for the six months to 30 November 2016

	£'000
Largest purchases	
Shire	3.109
HSBC Holdings	1.255
Smurfit Kappa	982
BP	975
Melrose Industries	701
Royal Dutch Shell 'A'	663
CYBG	572
BALL	555
GVC	381
Metro Bank	363
Other purchases	3.863
Total purchases	13.419
Largest sales	
SABMiller	10.140
Arm Holdings	5.717
Rexam	1.210
HSBC Holdings	1.150
Melrose Industries	996
BP	933
Royal Dutch Shell 'B'	725
British American Tobacco	706
GlaxoSmithKline	543
Vodafone Group	485
Other sales	12.713
Total sales	35.318

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

M&G Index Tracker 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 reflect the key financial information of a representative share class, Sterling Class 'A' (Accumulation) shares. As different share classes have different attributes, for example charging structures and minimum investments, please be aware that their performance may be different. 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.

Index tracking

The tracking difference between the fund's investment return and that of the FTSE All-Share Index for the 12 month period ending 30 November 2016 was +0,08% (30 November 2015: +0,16%). The investment returns are calculated gross of fees using end of day pricing in order to be comparable with the index.

The historic tracking error of the investment return of the fund relative to the FTSE All-Share Index for the period ending 30 November 2016 was +0,08% (30 November 2015: 0,07%), which falls within the predicted tracking error range of 0,00% to 0,30%. Historic tracking error is a measure of the monthly volatility of the investment returns relative to the index over a 36 month period.

The differences are due to the fund not fully replicating the FTSE All-Share Index.

Fund level performance

Fund net asset value			
as at	30.11.16 £'000	31.05.16 £'000	31.05.15 £'000
Fund net asset value (NAV)	502.275	479.024	533.642

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.



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 01.06.16 % [a]	Three years 02.12.13 % p.a.	Five years 01.12.11 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	+9,3	+4,5	+8,6	+4,6 [c]
Class 'C'	+9,5	+4,8	n/a	+7,8 [d]

[a] Absolute basis.

[b] Price to price with income reinvested.

[c] 27 February 1998, the launch date of the predecessor unit trust.

[d] 16 February 2012, the launch date of the share class.

M&G Index Tracker 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, comprised of operating charges and portfolio transaction costs.

Operating charges

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

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

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

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

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

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, method of execution and the quality of research provided. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission, taxes, and costs of research from brokers and other research providers.
- **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 30.11.16	Year to 31.05.16	Year to 31.05.15	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0,01	0,01	0,00	0,01
Taxes	0,01	0,01	0,01	0,01
Costs before dilution adjustments	0,02	0,02	0,01	0,02
Dilution adjustments ^[c]	(0,01)	(0,01)	(0,01)	(0,01)
Total direct portfolio transaction costs	0,01	0,01	0,00	0,01
as at	30.11.16	31.05.16	31.05.15	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0,10	0,11	0,11	0,11

^[a] Average of first three columns.

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

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

M&G Index Tracker Fund

Financial highlights

Specific share class performance

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

Sterling Class 'A' Income share performance

The share class was launched on 27 February 1998.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	63,91	71,27	68,13
Return before operating charges and after direct portfolio transaction costs	6,47	(4,90)	5,56
Operating charges	(0,16)	(0,30)	(0,31)
Return after operating charges	6,31	(5,20)	5,25
Distributions	(1,16)	(2,16)	(2,11)
Closing NAV	69,06	63,91	71,27
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,01	0,01	0,01
Dilution adjustments ^[b]	0,00	(0,01)	(0,01)
Total direct portfolio transaction costs	0,01	0,00	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,01	0,01	0,00
Operating charges	0,46	0,46	0,46
Return after operating charges	+9,87	-7,30	+7,71
Historic yield ^[c]	3,62	3,44	3,05
Effect on yield of charges offset against capital ^[c]	0,45	n/a	n/a

Other information

	30.11.16	31.05.16	31.05.15
Closing NAV (£'000)	322.522	304.040	333.720
Closing NAV percentage of total fund NAV (%)	64,21	63,47	62,54
Number of shares	466.983.955	475.765.937	468.218.074
Highest share price (UK p)	72,73	70,98	72,88
Lowest share price (UK p)	60,60	57,06	61,71

Sterling Class 'A' Accumulation share performance

The share class was launched on 27 February 1998.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	106,54	114,92	106,56
Return before operating charges and after direct portfolio transaction costs	10,82	(7,90)	8,85
Operating charges	(0,26)	(0,48)	(0,49)
Return after operating charges	10,56	(8,38)	8,36
Distributions	(1,86)	(3,52)	(3,33)
Retained distributions	1,86	3,52	3,33
Closing NAV	117,10	106,54	114,92
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,01	0,02	0,01
Dilution adjustments ^[b]	(0,01)	(0,01)	(0,01)
Total direct portfolio transaction costs	0,00	0,01	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,01	0,01	0,00
Operating charges	0,46	0,46	0,46
Return after operating charges	+9,91	-7,29	+7,85
Historic yield ^[c]	3,12	3,36	2,98
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	131.093	127.481	146.006
Closing NAV percentage of total fund NAV (%)	26,10	26,61	27,36
Number of shares	111.946.245	119.656.185	127.047.849
Highest share price (UK p)	121,27	114,47	115,68
Lowest share price (UK p)	101,05	93,48	96,50

Sterling Class 'C' Income share performance

Sterling Class 'C' shares are not generally available to all investors.

The share class was launched on 16 February 2012.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	64,18	71,58	68,41
Return before operating charges and after direct portfolio transaction costs	6,52	(4,93)	5,60
Operating charges	(0,06)	(0,10)	(0,11)
Return after operating charges	6,46	(5,03)	5,49
Distributions	(1,24)	(2,37)	(2,32)
Closing NAV	69,40	64,18	71,58
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,01	0,01	0,01
Dilution adjustments ^[b]	0,00	(0,01)	(0,01)
Total direct portfolio transaction costs	0,01	0,00	0,00
Performance and charges	%	%	%
Direct portfolio transaction costs	0,01	0,01	0,00
Operating charges	0,16	0,16	0,16
Return after operating charges	+10,07	-7,03	+8,03
Historic yield ^[c]	3,62	3,75	3,34
Effect on yield of charges offset against capital ^[c]	0,15	n/a	n/a
Other information			
Closing NAV (£'000)	48.660	47.503	53.916
Closing NAV percentage of total fund NAV (%)	9,69	9,92	10,10
Number of shares	70.115.194	74.016.121	75.324.364
Highest share price (UK p)	73,12	71,29	73,29
Lowest share price (UK p)	60,87	57,34	62,04

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

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

^[c] Following the change in charging structure outlined on page 1, you may see variances between the comparative and current year figures.

M&G Index Tracker Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 30 November	2016		2015	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		38.566		(47.072)
Revenue	9.597		8.959	
Expenses	(1.086)		(1.067) ^[a]	
Net revenue / (expense) before taxation	8.511		7.892	
Taxation	(50)		(58)	
Net revenue / (expense) after taxation		8.461		7.834
Total return before distributions		47.027		(39.238)
Distributions		(8.522)		(7.835)
Change in net assets attributable to shareholders from investment activities		38.505		(47.073)

Statement of change in net assets attributable to shareholders

for the six months to 30 November	2016		2015	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		479.024		533.642
Amounts received on issue of shares	6.426		9.975	
Amounts paid on cancellation of shares	(23.792)		(7.912)	
		(17.366)		2.063
Dilution adjustments		34		51
Change in net assets attributable to shareholders from investment activities (see above)		38.505		(47.073)
Retained distributions on Accumulation shares		2.077		2.126
Unclaimed distributions		1		1
Closing net assets attributable to shareholders		502.275		490.810

The opening net assets attributable to shareholders for 2016 differs to the closing position in 2015 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	30 November 2016	31 May 2016
	£'000	£'000
Assets		
Fixed assets		
Investments	506.914	482.934
Current assets		
Debtors	1.213	2.689
Cash and bank balances	942	779
Total assets	509.069	486.402
Liabilities		
Investment liabilities	(18)	0
Creditors		
Distribution payable	(6.305)	(6.306)
Other creditors	(471)	(1.072)
Total liabilities	(6.794)	(7.378)
Net assets attributable to shareholders	502.275	479.024

[a] Restated, please see notes to the financial statements.

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'accounting policies' set out on page 4.

The fund has adopted FRS 102 and the 2014 SORP. As a result there are some presentational changes to the classification of items in the financial statements. The following presentational changes are considered to be minimal and have no impact on the total return or net asset value in either the current or prior accounting period.

Interest payable of £1.000 (2015: £1.000) has been reclassified from 'Distributions' into 'Expenses'.

Distribution policy

With effect from 1 October 2016 the distribution policy has been amended so that in determining the amount available for distribution to Income shares, the annual management charge and administration charge are now 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.

M&G Short Dated Corporate Bond Fund

Authorised Corporate Director's Report

Important information

Please note that from 1 October 2016, the M&G Short Dated Corporate Bond Fund began taking the annual management charge, administration charge and where relevant, the share class hedging charge, from capital in the case of Income shares. These charges continue to be charged to income for Accumulation shares.

The fund's objective and policy remain unchanged. All costs associated with introducing these changes will be borne by M&G Securities Limited.

In the 2016 Budget, the UK government announced that, effective from 6 April 2017, interest distributions from open-ended investment companies (OEICs) may be paid without deducting income tax (currently 20%).

As a result, prices for the sterling share classes of M&G's bond funds will be calculated without an accrual for the deduction of income tax. This change, for different funds, will be phased in between October 2016 and March 2017.

From 1 December 2016 the M&G Short Dated Corporate Bond Fund's prices for the sterling share classes will be calculated without income tax deducted.

Investment objective

The Fund aims to provide income with stability of capital over a rolling three to five year period. There is no guarantee that the Fund will achieve its objective over this, or any other, period. The income distributions and the value of your investment may rise and fall and investors may not recoup the original amount they invested.

Investment policy

The Fund invests mainly in debt instruments (which include, but are not limited to: variable rate securities, fixed interest securities, gilts and corporate debt). The Fund's exposure to debt instruments may be gained through the use of derivatives. In certain market conditions the fund may have a high proportion of its portfolio in liquid assets such as cash and near cash, deposits, warrants and money market instruments. The Fund may also invest in other assets including collective investment schemes, other transferable securities and other derivative instruments.

Investment approach

Credit research is at the heart of the fund's investment process and is constantly monitored to ensure the portfolio is always well diversified. The fund maintains a short duration profile, typically between zero and three years (duration measures how sensitive the portfolio's price is to changes in interest rates) in order to minimise the effect of yield/interest rate movements on the fund's capital value. The fund manager believes the best approach for achieving this is in the selection of variable rate securities and corporate bonds that are short-dated. This is because shorter-dated assets tend to be less price-sensitive in a rising interest rate environment.

Risk profile

The fund invests in a range of typically low-risk debt instruments, or bonds, that are typically repaid over relatively short time periods. 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.

Investment review

As at 1 December 2016, for the six months ended 30 November 2016

Performance against objective

Between 1 June 2016 (the start of the review period) and 1 December 2016, the M&G Short Dated Corporate Bond Fund delivered a positive total return (the combination of income and growth of capital) across all its share classes^[a]. The fund's performance was behind the average return from its peer group, the (IA) £ Corporate Bond Sector over the same period.

The fund's objective is to provide income with stability of capital. Over both three- and five-year periods to 1 December 2016, the fund has provided income^[b] and positive total returns.^[a]

Investment performance

To meet its objective, the M&G Short Dated Corporate Bond Fund invests in a variety of fixed income securities, or bonds. Bonds are loans that are extended by an investor to an issuing entity – such as a company or government – in exchange for regular interest payments. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'.

M&G Short Dated Corporate Bond Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

The maturity of each bond – that is, the date on which the issuing company or government must repay the loan – is usually set at issue and can vary from less than one year to several decades. The M&G Short Dated Corporate Bond Fund tends to invest primarily in bonds that are due to be repaid in less than three years. It therefore has shorter average maturity, or duration, than a typical corporate bond fund.

The concept of duration measures how sensitive a bond's price (or the price of a portfolio comprised of bonds) is to changes in interest rates. Typically, a bond with a longer duration is more sensitive to interest rate movements and, therefore, as interest rates rise, its price will decrease more compared to a bond with a shorter duration.

In the current climate, we favour short-duration bonds because they tend to be less price-sensitive in a rising rate environment. In broad terms, two things that drive the performance of bonds are changes in interest rates and investor confidence. Interest rates are an important factor that drives performance because they can move up or down over time, which exposes the bonds (and in turn a bond fund) to 'interest rate risk'.

Interest rate risk reflects the fact that bond prices are inversely related to bond yields. (Bond yields refer to the interest received from a fixed income security and is usually expressed annually as a percentage based on the cost of the investment, its current market value, or its face value.) 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.

Investor confidence also drives performance because it too can change, and this exposes the bonds (and in turn a bond fund) to 'credit risk'. In other words, if investors begin to believe that the issuing entity has become more likely to default on, or not pay, the regular interest or final principal payments on the loan, investor confidence is likely to waver. As with rising interest rates, a deterioration in investor confidence would also tend to weigh on corporate bond prices.

The M&G Short Dated Corporate Bond Fund is very conservatively managed. In order to ensure that the fund's value and ability to provide an income stream does not fluctuate meaningfully with changes in the economic cycle, we closely monitor the amount of interest rate risk and credit risk that we take. Our interest rate risk is managed by investing mostly in short-dated bonds and those securities that pay a variable interest rate – known as floating rate notes (FRNs). This means that the fund has a short duration profile, and therefore changes in interest rates tend to have a smaller impact on the fund's value than for longer duration portfolios. As a result, the fund typically performs well relative to longer dated corporate bond funds in an environment of rising interest rates, while tending to benefit less from falling interest rates than such funds.

The six months under review were characterised by significant uncertainty in financial markets which resulted in a period of two distinct halves. In June, the UK held an In/Out referendum regarding its membership of the European Union (EU). The vote produced an unexpected 'leave' result, which most economists expected would weaken the economic outlook, not only in the UK but also in the EU. For bond markets, there were some important knock-on effects from

the referendum, as the expected timing of another US interest rate rise was pushed back and the performance of government bonds was supported by their perceived 'safe-haven' status among investors during times of uncertainty.

Core government bonds such as those issued by the UK, US and Germany, and higher quality corporate bonds, benefited more from this trend than riskier assets. Subsequently, the Bank of England (BoE) cut interest rates in August and announced additional monetary stimulus measures to counter the prospect of a slower economy following the EU referendum result. These steps included using its own money to buy government bonds and certain types of corporate bond, a strategy known as 'quantitative easing' that largely aims to keep interest rates low and promote lending activity. The European Central Bank (ECB) already had similar measures in place as economic growth in the eurozone, while gradually improving, remained sluggish.

In the second half of the review period, however, sentiment towards bonds weakened and some of their earlier gains were offset as markets declined. In the UK, adverse considerations included rising inflation expectations, given that the size of sterling's decline since the EU referendum result is likely to push up import costs. Inflation expectations also began to rise in the US, while in Europe, some concerns emerged that the ECB might look to scale back its economic stimulus measures. Although the ECB did not change its monetary policy, the prospect of higher inflation weighed on many types of fixed income investments, with yields on core government bonds rising from around the middle of September as bond prices fell.

Overall, the fund's performance was positive boosted by the portfolio's allocation to lower rated bonds, which performed better than higher rated assets during the period as a whole. On the other hand, the fund's significant weighting in US dollar-denominated FRNs was beneficial, as the prospect of higher US interest rates enhanced the appeal of these assets. The fund's high exposure to US assets also helped its performance as US corporate bonds generally performed better than their euro counterparts.

Investment activities

Investment activity during the period has largely been driven by the strong performance of corporate bond markets and improving valuations. As such, we took steps to lock in profits by closing or significantly reducing several of the attractively valued positions that were well placed to benefit from the market rally. In turn, this materially increased the fund's cash position, which is now ready to deploy as and when opportunities arise. We continue to have a broadly positive outlook on corporate bonds, although we have turned slightly more cautious. Towards the end of the period, we took steps to de-risk the portfolio and increase liquidity.

We reduced positions in bonds issued by Mexican petroleum company Pemex, technology giant Dell and cruise company Carnival. Elsewhere, a position in Luxembourg-based Adargh packaging group was reduced, whilst the exposure to the European iTraxx Crossover Index (an index of 75 sub-investment grade companies) was closed. Meanwhile, in primary markets, we bought bonds from single-family property rental company Home Partners America and Dutch pharmaceutical giant Pharma Mylan.

Given the healthy economic backdrop in the US and the attractive valuations available in that market, we started the period with a slight bias towards US corporate bonds. However, following the recent strong performance of these assets, and the prospect of US interest rate rises in the near term, this allocation was reduced over the last two months of the period in favour of euro- or sterling-denominated

M&G Short Dated Corporate Bond Fund

Authorised Corporate Director's Report

Investment review

Investment activities (continued)

corporate bonds. Following these adjustments, the fund was more or less evenly weighted across the US, Europe and the UK as at the end of the period.

The fund's net allocation to financials was increased and its geographical exposure within this sector was materially changed. Notably, we reduced US dollar-denominated bonds from US Bancorp, the Bank of America and ING Groep. In their place, senior bonds from Royal Bank of Scotland, a euro-denominated FRN from Morgan Stanley and a subordinated debt position with French insurer AXA were added. Meanwhile, we switched out of the US dollar-denominated Credit Suisse and Lloyds positions into their euro- and sterling-denominated counterparts.

Outlook

We hold the view that the global economic picture is encouraging. For example, with full employment, wage growth and inflation there is evidence to indicate that the US economy is strong, Prior to the UK's referendum result to leave the EU (so-called Brexit), the economy was going along the right track. However, the result has brought many unknowns, leaving the UK – and the rest of the world – concerned about the logistics and the long-term implications of the exit. In Europe, the picture is less clear. With continued help from the ECB, fundamentals are improving; however, we are mindful that Europe's heavy political calendar will bring much uncertainty to markets. In the longer term, we aim to add exposure to regions, industries and companies that we think are likely to benefit from the improving economic picture.

Looking to 2017, we feel the fundamental outlook remains positive as the non-repayment of loans (that is, defaults) are likely to stay low, given the recovery in developed economies. We believe the improving backdrop should support businesses and, in turn, corporate bond valuations. However, at a broad level, we do think that uncertainty is set to continue. In particular, we expect to see some movements across bond markets as the debate over Brexit rumbles on alongside the numerous elections across Europe. Meanwhile, the election of Donald Trump as US president has led many to worry that 2017 will see inflation creep up, interest rates rise and the US dollar strengthen further against sterling.

Over the course of next few months, we plan to position the fund defensively. We will continue to invest in higher quality assets that deliver a modest income, while using short-duration assets to smooth the journey. Since short-duration corporate bonds, by their very nature, have a low level of interest rate risk, they can offer greater capital protection in times of fluctuating markets and rising interest rates.

Matthew Russell
Fund manager

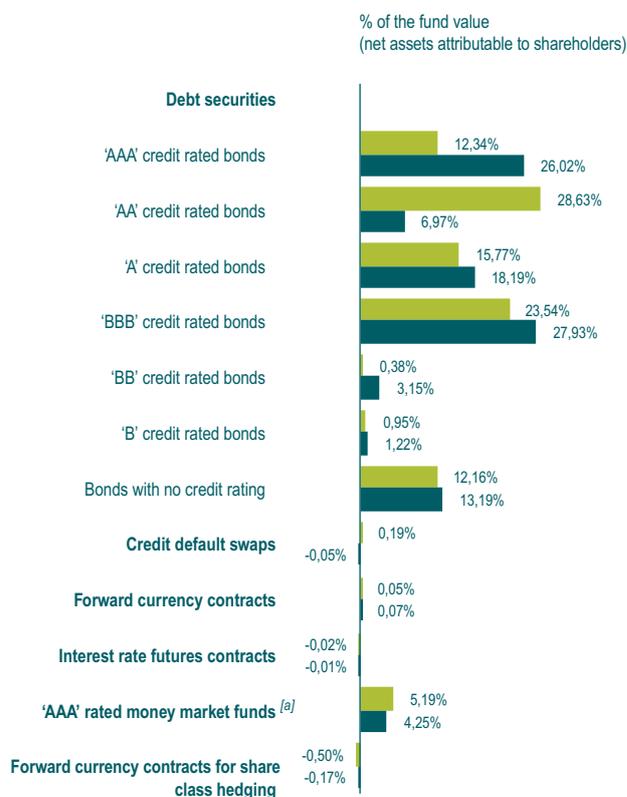
An employee of M&G Limited which is an associate of M&G Securities Limited.

^[a] 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.

^[b] The fund's distribution and distribution yield are as shown in the 'Specific share class performance' tables in the 'Fund performance' section of this report. This fund provides a variable level of income.

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



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

■ 30 November 2016
■ 31 May 2016

Source: M&G

M&G Short Dated Corporate Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Debt securities	321,330	93,77	96,67
'AAA' credit rated bonds	42,282	12,34	26,02
£522,412 Alba FRN 2037	484	0,14	
£2,184,575 Alba FRN 2042	1,995	0,58	
€5,000,000 Germany (Federal Republic of) 0% 2021	4,369	1,28	
€2,170,000 Johnson & Johnson 0,25% 2022	1,848	0,54	
£4,000,000 KfW 1,125% 2019	4,068	1,19	
£3,014,922 Moorgate Funding FRN 2050	2,973	0,87	
£2,264,000 Nationwide Building Society FRN 2019	2,277	0,66	
\$1,116,752 Paragon Mortgages No.14 FRN 2039	830	0,24	
£894,988 Precise Mortgage Funding FRN 2047	893	0,26	
£2,522,381 Precise Mortgage Funding FRN 2048	2,522	0,74	
£1,180,787 Residential Mortgage Securities No. 26 FRN 2041	1,220	0,36	
£3,237,545 Residential Mortgage Securities No. 28 FRN 2046	3,247	0,95	
£1,616,884 Rochester Financing No. 1 FRN 2046	1,623	0,47	
£1,905,455 Slate FRN 2052	1,906	0,56	
£1,251,972 Slate No. 2 FRN 2044	1,247	0,36	
£545,246 Tenterden Funding FRN 2044	547	0,16	
£4,194,801 Thrones FRN 2050	4,087	1,19	
£2,427,496 Trinity Square FRN 2051	2,435	0,71	
£3,722,907 Warwick Finance Residential Mortgage FRN 2049	3,711	1,08	
'AA' credit rated bonds	98,098	28,63	6,97
€4,000,000 Apple 1% 2022	3,539	1,03	
\$6,000,000 Exxon Mobil FRN 2022	4,725	1,38	
\$2,625,000 New York Life Global Funding 1,95% 2020	2,084	0,61	
€4,000,000 Oracle Group 2,25% 2021	3,705	1,08	
€2,200,000 Pacific Life FRN 2021	1,772	0,52	
£1,046,782 Paragon Mortgages No. 8 FRN 2035	982	0,29	
£499,863 Paragon Mortgages No. 13 FRN 2039	470	0,14	
\$2,999,179 Paragon Mortgages No. 13 FRN 2039 REGS	2,213	0,65	
\$2,976,000 Procter & Gamble 1,7% 2021	2,337	0,68	
€2,700,000 Sanofi 0% 2020	2,310	0,67	
£4,500,000 SLM Student Loan Trust 5,15% 2039	3,881	1,13	
£3,610,000 Towd Point Mortgage Funding FRN 2046	3,610	1,05	
£4,000,000 Toyota Motor Credit 1% 2022	3,903	1,14	
£20,000,000 Treasury 1% 2017	20,141	5,88	
£25,000,000 Treasury 1,5% 2021	25,968	7,58	
£12,500,000 Treasury 2% 2020	13,207	3,85	
£3,133,479 Virgil Mortgage No. 1 FRN 2045	3,251	0,95	
'A' credit rated bonds	54,033	15,77	18,19
\$3,733,000 ABN AMRO Bank 1,8% 2018	2,993	0,87	
£1,514,580 Alba FRN 2038	1,407	0,41	
\$5,000,000 Anheuser-Busch InBev 7,75% 2019	4,474	1,31	
€4,000,000 Daimler 0,5% 2019	3,465	1,01	
£1,000,000 Eddystone Finance FRN 2021	991	0,29	
€239,098 GAMMA - Sociedade de Titularização de Créditos FRN 2033	205	0,06	
\$2,580,087 Great Hall Mortgages FRN 2039	1,971	0,58	
£4,121,000 Greene King Finance FRN 2033	4,018	1,17	
\$5,000,000 JPMorgan Chase FRN 2023	4,030	1,18	
€3,757,581 Magellan Mortgages No. 4 FRN 2059	2,684	0,78	

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
'A' credit rated bonds (continued)			
\$1,515,700 Mitchells & Butlers Finance FRN 2030	1,047	0,31	
£1,818,840 Mitchells & Butlers Finance FRN 2030 A1N	1,554	0,46	
£1,350,000 Mitchells & Butlers Finance FRN 2033	1,006	0,29	
£496,589 Newgate Funding FRN 2050 A2	491	0,14	
£393,066 Newgate Funding FRN 2050 A3	369	0,11	
£807,146 Newgate Funding FRN 2050 A4	767	0,22	
€3,000,000 Paragon Mortgages No. 13 FRN 2039	2,105	0,61	
\$7,000,000 PNC Bank 2,3% 2020	5,603	1,64	
\$1,042,454 RMAC 2005-Nsp2 FRN 2037	784	0,23	
£4,000,000 Thames Water Utilities Cayman 7,241% 2058	4,331	1,26	
\$7,000,000 UBS Stamford FRN 2018	5,636	1,64	
\$5,000,000 Wells Fargo FRN 2021	4,102	1,20	
'BBB' credit rated bonds	80,668	23,54	27,93
£4,000,000 AA Bond Company 4,7201% 2043	4,204	1,23	
\$5,000,000 AT&T 2,8% 2021	3,987	1,16	
£4,000,000 AXA Var. Rate Perp. (6,772%)	4,174	1,22	
£3,000,000 Bank of America 6,125% 2021	3,569	1,04	
€5,000,000 Channel Link Enterprises Finance FRN 2050	4,284	1,25	
€4,000,000 Citigroup FRN 2017 (3,625%)	3,425	1,00	
€4,000,000 Credit Suisse Group Funding 1,25% 2022	3,402	0,99	
\$5,000,000 Ford Motor Credit FRN 2019	4,014	1,17	
€2,428,995 GAMMA - Sociedade de Titularização de Créditos FRN 2060	1,833	0,54	
\$4,000,000 Goldman Sachs Group FRN 2027	3,243	0,95	
£4,000,000 HSBC Var. Rate 2022 (6,375%)	4,146	1,21	
£2,500,000 JPMorgan Chase Var. Rate 2017 (6,125%)	2,498	0,73	
£2,000,000 Lloyds Bank Var. Rate 2021 (10,75%)	2,017	0,59	
£2,000,000 Lloyds Bank Var. Rate 2025 (5,75%)	2,172	0,63	
\$5,000,000 Mellon Capital Var. Rate Perp. (6,244%)	3,327	0,97	
€4,000,000 Morgan Stanley 1% 2022	3,413	1,00	
\$5,000,000 Morgan Stanley FRN 2021	4,090	1,19	
€929,000 Mylan 1,25% 2020	802	0,23	
€3,000,000 Nationwide Building Society Var. Rate 2023 (4,125%)	2,666	0,78	
£4,000,000 Royal Bank of Scotland 6,625% 2018	4,391	1,28	
£1,680,000 RSA Insurance Var. Rate 2039 (9,375%)	1,941	0,57	
\$7,000,000 USB Capital IX FRN 2099	4,590	1,34	
€4,000,000 Verizon Communications 2,375% 2022	3,723	1,09	
€2,500,000 Vonovia Finance 0,875% 2020	2,171	0,63	
£2,359,000 Wales & West Utilities Finance Var. Rate 2036 (6,75%)	2,586	0,75	
'BB' credit rated bonds	1,301	0,38	3,15
€1,972,939 Lusitano Mortgages No. 5 FRN 2059	1,301	0,38	
'B' credit rated bonds	3,269	0,95	1,22
\$4,000,000 Ardagh Packaging FRN 2019	3,269	0,95	
Bonds with no credit rating	41,679	12,16	13,19
\$3,247,526 American Homes 4 Rent FRN 2031	2,602	0,76	
€1,862,000 Arbour Clo FRN 2030 A-2	1,598	0,47	
€4,779,521 Bavarian Sky FRN 2023	4,091	1,19	
€466,092 Deco 14 Gondola FRN 2026	399	0,12	
€4,000,000 Deutsche Pfandbriefbank FRN 2017	4,000	1,17	
€5,000,000 Dubai Holding Commercial Operations 6% 2017	5,012	1,46	
£2,897,296 Duncan Funding FRN 2063	2,919	0,85	
£1,610,271 Gemgarto 2015-1 FRN 2047	1,614	0,47	

M&G Short Dated Corporate Bond Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Bonds with no credit rating (continued)			
\$2,077,973 Home Partners of America Trust Var. Rate 2033 (1,67%)	1,644	0,48	
\$4,858,523 Invitation Homes FRN 2031	3,887	1,14	
£3,571,000 Logistics UK FRN 2025	3,570	1,04	
£2,098,000 Orbita Funding FRN 2023	2,105	0,61	
€2,000,000 Phoenix Park FRN 2027	1,680	0,49	
€2,720,000 Phoenix Park FRN 2027 A1	2,333	0,68	
£769,000 Places for People 5% 2016	770	0,22	
£3,468,000 Westfield Stratford FRN 2024	3,455	1,01	
Credit default swaps	654	0,19	(0,05)
€(4,500,000) EDF Jun 2023	(21)	(0,01)	
€(6,000,000) Koninklijke Sep 2020	80	0,02	
\$(2,940,000) Markit CDX North American High Yield Series 24 5 Year Jun 2020	178	0,05	
\$(10,000,000) Markit CDX North American Investment Grade Series 23 5 Year Dec 2019	117	0,03	
\$(5,000,000) Markit CDX North American Investment Grade Series 26 5 Year Jun 2021	60	0,02	
€(5,000,000) Markit iTraxx Europe Series 23 5 Year Jun 2020	58	0,02	
€(15,000,000) Markit iTraxx Europe Series 25 5 Year Jun 2021	159	0,05	
\$(4,500,000) Rio Tinto Mar 2020	17	0,01	
\$(2,500,000) Rio Tinto Jun 2020	6	0,00	
Forward currency contracts	172	0,05	0,07
€(75,335,564) Sold for £64,813,904 (expires 14.12.16)	385	0,11	
\$5,509,682 Bought for £4,439,922 (expires 14.12.16)	(17)	0,00	
\$(102,843,137) Sold for £82,371,048 (expires 14.12.16)	(196)	(0,06)	
Interest rate futures contracts	(85)	(0,02)	(0,01)
360 Euro Bobl Dec 2016	(85)	(0,02)	
Portfolio of investments	322,071	93,99	96,68
'AAA' rated money market funds [a]	17,784	5,19	4,25
17,784,000 Northern Trust Global Fund - Sterling	17,784	5,19	
Forward currency contracts for share class hedging	(1,700)	(0,50)	(0,17)
€47,318,599 Bought for £42,181,682 (expires 14.12.16)	(1,713)	(0,50)	
€(586,817) Sold for £517,800 (expires 14.12.16)	16	0,00	
CHF72,197 Bought for £59,639 (expires 14.12.16)	(2)	0,00	
CHF(65) Sold for £54 (expires 14.12.16)	0	0,00	
\$1,883,285 Bought for £1,513,164 (expires 14.12.16)	(1)	0,00	
\$(84,108) Sold for £67,494 (expires 14.12.16)	0	0,00	
Total portfolio	338,155	98,68	100,76
Net other assets / (liabilities)	4,509	1,32	(0,76)
Net assets attributable to shareholders	342,664	100,00	100,00

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

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

Portfolio transactions

for the six months to 30 November	2016 £'000	2015 £'000
Portfolio transactions		
Total purchases	116,907	45,293
Total sales	141,849	120,541

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

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

We show performance for these two share classes because:

- The performance of the Sterling Class 'A' (Income) 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' (Income) 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.

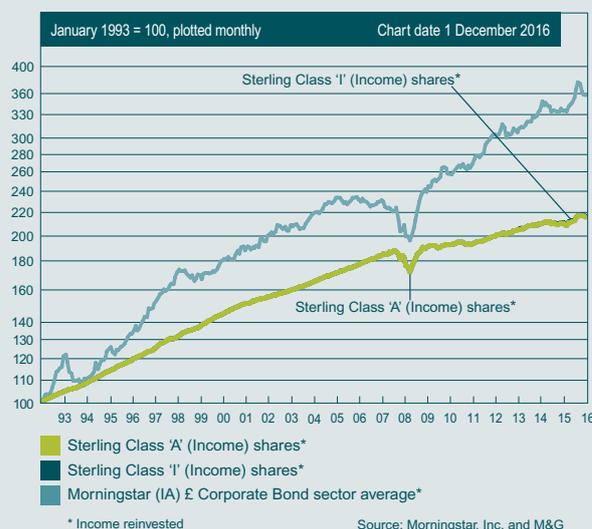
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at	30.11.16 £'000	31.05.16 £'000	31.05.15 £'000
Fund net asset value (NAV)	342.664	336.016	440.800

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 and Sterling Class 'I' (Income) shares.



The fund's Sterling Class 'I' (Income) shares were launched on 9 November 2012. Performance data shown prior to this date is that of the fund's Sterling Class 'A' (Income) 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 01.06.16 % ^[a]	Three years 02.12.13 % p.a.	Five years 01.12.11 % p.a.	Since launch % p.a.
Euro^[b]				
Class 'A-H'	+1,1	+1,1	n/a	+1,3 ^[c]
Class 'C-H'	+1,3	+1,6	n/a	+1,8 ^[c]
Sterling^[d]				
Class 'A'	+1,7	+1,9	+2,3	+3,3 ^[e]
Class 'I'	+1,8	+2,0	n/a	+2,1 ^[f]
Swiss franc^[b]				
Class 'A-H'	+0,9	+0,6	n/a	+0,9 ^[c]
Class 'C-H'	+1,1	+1,1	n/a	+1,4 ^[c]
US dollar^[b]				
Class 'A-H'	+1,8	+1,7	n/a	+1,9 ^[c]
Class 'C-H'	+2,0	+2,2	n/a	+2,4 ^[c]

^[a] Absolute basis.

^[b] Price to price with gross income reinvested.

^[c] 26 July 2013, the launch date of the share class.

^[d] Price to price with income reinvested.

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

^[f] 9 November 2012, the launch date of the share class.

M&G Short Dated Corporate Bond Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

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, method of execution and the quality of research provided. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission, taxes, and costs of research from brokers and other research providers.
- **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 wholly in fixed interest securities no direct portfolio transaction costs are applicable. To give an indication of the indirect portfolio dealing costs the table below shows the average portfolio dealing spread.

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

Portfolio transaction costs

	Six months to 30.11.16	Year to 31.05.16	Year to 31.05.15	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0,31	0,40	0,40	0,37

[a] Average of first three columns.

M&G Short Dated Corporate Bond Fund

Financial highlights

Specific share class performance

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

Euro Class 'A-H' Income share performance

The share class was launched on 26 July 2013.

	Six months to 30.11.16 Euro ¢	Year to 31.05.16 Euro ¢	Year to 31.05.15 Euro ¢
Change in NAV per share			
Opening NAV	988,29	1.005,35	1.009,64
Return before operating charges and after direct portfolio transaction costs	17,96	6,91	24,66
Operating charges	(5,44)	(10,67)	(10,86)
Return after operating charges	12,52	(3,76)	13,80
Distributions	(7,26)	(13,30)	(18,09)
Closing NAV	993,55	988,29	1.005,35
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,01	0,01	0,01
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,01	0,01	0,01
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,09	1,07	1,07
Return after operating charges	+1,27	-0,37	+1,37
Distribution yield ^[c]	1,80	1,47	1,46
Effect on yield of charges offset against capital	1,07	n/a	n/a
Other information			
Closing NAV (£'000)	1.659	1.276	998
Closing NAV percentage of total fund NAV (%)	0,48	0,38	0,23
Number of shares	195.273	169.241	138.033
Highest share price (Euro ¢)	1.006,21	1.008,75	1.018,39
Lowest share price (Euro ¢)	988,43	973,94	1.000,77

Euro Class 'A-H' Accumulation share performance

The share class was launched on 26 July 2013.

	Six months to 30.11.16 Euro ¢	Year to 31.05.16 Euro ¢	Year to 31.05.15 Euro ¢
Change in NAV per share			
Opening NAV	1.032,41	1.036,21	1.021,03
Return before operating charges and after direct portfolio transaction costs	18,59	7,23	26,25
Operating charges	(5,69)	(11,03)	(11,07)
Return after operating charges	12,90	(3,80)	15,18
Distributions	(5,72)	(13,77)	(18,41)
Retained distributions	5,72	13,77	18,41
Closing NAV	1.045,31	1.032,41	1.036,21
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,01	0,01	0,01
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,01	0,01	0,01
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,09	1,07	1,07
Return after operating charges	+1,25	-0,37	+1,49
Distribution yield ^[c]	0,73	1,47	1,46
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	6.031	4.167	4.750
Closing NAV percentage of total fund NAV (%)	1,76	1,24	1,08
Number of shares	674.847	528.990	637.787
Highest share price (Euro ¢)	1.053,08	1.039,70	1.042,30
Lowest share price (Euro ¢)	1.032,36	1.010,26	1.019,35

Euro Class 'C-H' Income share performance

The share class was launched on 26 July 2013.

	Six months to 30.11.16 Euro ¢	Year to 31.05.16 Euro ¢	Year to 31.05.15 Euro ¢
Change in NAV per share			
Opening NAV	988,18	1.005,08	1.009,58
Return before operating charges and after direct portfolio transaction costs	18,07	7,21	24,27
Operating charges	(2,89)	(5,66)	(5,76)
Return after operating charges	15,18	1,55	18,51
Distributions	(8,99)	(18,45)	(23,01)
Closing NAV	994,37	988,18	1.005,08
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,01	0,01	0,01
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,01	0,01	0,01
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,58	0,57	0,57
Return after operating charges	+1,54	+0,15	+1,83
Distribution yield ^[c]	1,80	1,98	1,98
Effect on yield of charges offset against capital	0,57	n/a	n/a
Other information			
Closing NAV (£'000)	21	19	18
Closing NAV percentage of total fund NAV (%)	0,01	0,01	0,00
Number of shares	2.428	2.428	2.428
Highest share price (Euro ¢)	1.007,44	1.008,50	1.019,75
Lowest share price (Euro ¢)	988,64	974,83	1.001,06

M&G Short Dated Corporate Bond Fund

Financial highlights

Specific share class performance

Euro Class 'C-H' Accumulation share performance

The share class was launched on 26 July 2013.

	Six months to 30.11.16	Year to 31.05.16	Year to 31.05.15
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	1.047,37	1.046,29	1.025,70
Return before operating charges and after direct portfolio transaction costs	19,05	7,04	26,42
Operating charges	(3,10)	(5,96)	(5,83)
Return after operating charges	15,95	1,08	20,59
Distributions	(8,47)	(19,13)	(23,60)
Retained distributions	8,47	19,13	23,60
Closing NAV	1.063,32	1.047,37	1.046,29
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	0,01	0,01	0,01
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,01	0,01	0,01
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,58	0,57	0,57
Return after operating charges	+1,52	+0,10	+2,01
Distribution yield ^[c]	1,23	1,98	1,98
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	38.938	30.849	37.227
Closing NAV percentage of total fund NAV (%)	11,37	9,18	8,45
Number of shares	4.282.944	3.860.547	4.950.464
Highest share price (Euro ¢)	1.069,76	1.049,84	1.051,71
Lowest share price (Euro ¢)	1.047,70	1.023,39	1.025,08

Sterling Class 'A' Income share performance

The share class was launched on 29 January 1993.

	Six months to 30.11.16	Year to 31.05.16	Year to 31.05.15
Change in NAV per share	UK p	UK p	UK p
Opening NAV	25,27	25,50	25,41
Return before operating charges and after direct portfolio transaction costs	0,61	0,39	0,81
Operating charges	(0,09)	(0,17)	(0,17)
Return after operating charges	0,52	0,22	0,64
Distributions	(0,23)	(0,45)	(0,55)
Closing NAV	25,56	25,27	25,50
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,67	0,65	0,65
Return after operating charges	+2,06	+0,86	+2,52
Distribution yield ^[c]	1,80	1,84	1,88
Effect on yield of charges offset against capital	0,65	n/a	n/a
Other information			
Closing NAV (£'000)	108.341	129.225	217.343
Closing NAV percentage of total fund NAV (%)	31,62	38,46	49,31
Number of shares	423.821.114	511.362.901	852.416.997
Highest share price (UK p)	25,82	25,58	25,73
Lowest share price (UK p)	25,29	24,83	25,29

Sterling Class 'I' Income share performance

The share class was launched on 9 November 2012.

	Six months to 30.11.16	Year to 31.05.16	Year to 31.05.15
Change in NAV per share	UK p	UK p	UK p
Opening NAV	1.013,17	1.022,28	1.018,78
Return before operating charges and after direct portfolio transaction costs	24,19	15,60	32,40
Operating charges	(2,92)	(5,62)	(5,69)
Return after operating charges	21,27	9,98	26,71
Distributions	(9,39)	(19,09)	(23,21)
Closing NAV	1.025,05	1.013,17	1.022,28
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,01	0,01	0,01
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,01	0,01	0,01
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,57	0,55	0,55
Return after operating charges	+2,10	+0,98	+2,62
Distribution yield ^[c]	1,80	1,94	1,98
Effect on yield of charges offset against capital	0,55	n/a	n/a
Other information			
Closing NAV (£'000)	186.170	169.319	177.897
Closing NAV percentage of total fund NAV (%)	54,33	50,39	40,36
Number of shares	18.162.125	16.711.914	17.402.016
Highest share price (UK p)	1.035,45	1.025,76	1.031,99
Lowest share price (UK p)	1.013,86	995,83	1.014,08

Swiss franc Class 'A-H' Accumulation share performance

The share class was launched on 26 July 2013.

	Six months to 30.11.16	Year to 31.05.16	Year to 31.05.15
Change in NAV per share	Swiss ¢	Swiss ¢	Swiss ¢
Opening NAV	1.019,53	1.031,22	1.020,12
Return before operating charges and after direct portfolio transaction costs	15,97	(0,75)	22,39
Operating charges	(5,59)	(10,94)	(11,29)
Return after operating charges	10,38	(11,69)	11,10
Distributions	(5,60)	(13,78)	(18,13)
Retained distributions	5,60	13,78	18,13
Closing NAV	1.029,91	1.019,53	1.031,22
Direct portfolio transaction costs ^[a]	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0,01	0,01	0,01
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,01	0,01	0,01
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,08	1,07	1,07
Return after operating charges	+1,02	-1,13	+1,09
Distribution yield ^[c]	0,74	1,47	1,46
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	49	42	43
Closing NAV percentage of total fund NAV (%)	0,01	0,01	0,01
Number of shares	6.000	6.000	6.000
Highest share price (Swiss ¢)	1.038,02	1.034,67	1.038,10
Lowest share price (Swiss ¢)	1.019,52	999,35	1.018,51

M&G Short Dated Corporate Bond Fund

Financial highlights

Specific share class performance

Swiss franc Class 'C-H' Accumulation share performance

The share class was launched on 26 July 2013.

	Six months to 30.11.16 Swiss ¢	Year to 31.05.16 Swiss ¢	Year to 31.05.15 Swiss ¢
Change in NAV per share			
Opening NAV	1.034,60	1.040,85	1.024,46
Return before operating charges and after direct portfolio transaction costs	16,41	(0,33)	22,24
Operating charges	(2,89)	(5,92)	(5,85)
Return after operating charges	13,52	(6,25)	16,39
Distributions	(8,46)	(19,12)	(23,49)
Retained distributions	8,46	19,12	23,49
Closing NAV	1.048,12	1.034,60	1.040,85
Direct portfolio transaction costs ^[a]	Swiss ¢	Swiss ¢	Swiss ¢
Costs before dilution adjustments	0,01	0,01	0,01
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,01	0,01	0,01
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,55	0,57	0,56
Return after operating charges	+1,31	-0,60	+1,60
Distribution yield ^[c]	1,24	1,97	1,96
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	8	7	7
Closing NAV percentage of total fund NAV (%)	0,00	0,00	0,00
Number of shares	1.000	1.000	1.000
Highest share price (Swiss ¢)	1.055,56	1.044,45	1.047,23
Lowest share price (Swiss ¢)	1.035,06	1.012,28	1.023,99

US dollar Class 'A-H' Income share performance

The share class was launched on 8 August 2014.

	Six months to 30.11.16 US ¢	Year to 31.05.16 US ¢	Year to 31.05.15 US ¢
Change in NAV per share			
Opening NAV	1.014,07	1.023,44	1.021,29
Return before operating charges and after direct portfolio transaction costs	24,77	15,14	28,79
Operating charges	(5,59)	(10,90)	(9,17)
Return after operating charges	19,18	4,24	19,62
Distributions	(7,44)	(13,61)	(17,47)
Closing NAV	1.025,81	1.014,07	1.023,44
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0,01	0,01	0,01
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,01	0,01	0,01
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,08	1,07	1,07
Return after operating charges	+1,89	+0,41	+1,92
Distribution yield ^[c]	1,80	1,44	1,41
Effect on yield of charges offset against capital	1,07	n/a	n/a
Other information			
Closing NAV (£'000)	187	180	189
Closing NAV percentage of total fund NAV (%)	0,05	0,05	0,04
Number of shares	22.690	25.948	28.206
Highest share price (US ¢)	1.036,26	1.026,92	1.033,83
Lowest share price (US ¢)	1.014,64	996,04	1.015,94

US dollar Class 'A-H' Accumulation share performance

The share class was launched on 26 July 2013.

	Six months to 30.11.16 US ¢	Year to 31.05.16 US ¢	Year to 31.05.15 US ¢
Change in NAV per share			
Opening NAV	1.043,73	1.039,28	1.022,49
Return before operating charges and after direct portfolio transaction costs	26,23	15,48	28,01
Operating charges	(5,79)	(11,03)	(11,22)
Return after operating charges	20,44	4,45	16,79
Distributions	(5,76)	(13,86)	(17,78)
Retained distributions	5,76	13,86	17,78
Closing NAV	1.064,17	1.043,73	1.039,28
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0,01	0,01	0,01
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,01	0,01	0,01
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	1,09	1,07	1,07
Return after operating charges	+1,96	+0,43	+1,64
Distribution yield ^[c]	0,73	1,44	1,41
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	1.162	770	1.729
Closing NAV percentage of total fund NAV (%)	0,34	0,23	0,39
Number of shares	135.979	107.779	253.699
Highest share price (US ¢)	1.069,86	1.043,84	1.044,40
Lowest share price (US ¢)	1.044,19	1.017,71	1.021,27

M&G Short Dated Corporate Bond Fund

Financial highlights

Specific share class performance

US dollar Class 'C-H' Income share performance

The share class was launched on 8 August 2014.

	Six months to 30.11.16 US ¢	Year to 31.05.16 US ¢	Year to 31.05.15 US ¢
Change in NAV per share			
Opening NAV	1,018,05	1,027,65	1,026,71
Return before operating charges and after direct portfolio transaction costs	25,39	15,02	28,62
Operating charges	(3,04)	(5,83)	(4,90)
Return after operating charges	22,35	9,19	23,72
Distributions	(9,14)	(18,79)	(22,78)
Closing NAV	1,031,26	1,018,05	1,027,65
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0,01	0,01	0,01
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,01	0,01	0,01
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,59	0,57	0,57
Return after operating charges	+2,20	+0,89	+2,31
Distribution yield ^[c]	1,80	1,95	1,91
Effect on yield of charges offset against capital	0,57	n/a	n/a
Other information			
Closing NAV (£'000)	12	10	10
Closing NAV percentage of total fund NAV (%)	0,00	0,00	0,00
Number of shares	1,454	1,454	1,454
Highest share price (US ¢)	1,041,01	1,031,17	1,039,28
Lowest share price (US ¢)	1,018,63	1,001,11	1,020,53

US dollar Class 'C-H' Accumulation share performance

The share class was launched on 26 July 2013.

	Six months to 30.11.16 US ¢	Year to 31.05.16 US ¢	Year to 31.05.15 US ¢
Change in NAV per share			
Opening NAV	1,060,37	1,050,16	1,026,76
Return before operating charges and after direct portfolio transaction costs	26,15	16,13	29,60
Operating charges	(3,10)	(5,92)	(6,20)
Return after operating charges	23,05	10,21	23,40
Distributions	(8,42)	(19,24)	(23,08)
Retained distributions	8,42	19,24	23,08
Closing NAV	1,083,42	1,060,37	1,050,16
Direct portfolio transaction costs ^[a]	US ¢	US ¢	US ¢
Costs before dilution adjustments	0,01	0,01	0,01
Dilution adjustments ^[b]	0,00	0,00	0,00
Total direct portfolio transaction costs	0,01	0,01	0,01
Performance and charges	%	%	%
Direct portfolio transaction costs	0,00	0,00	0,00
Operating charges	0,58	0,57	0,57
Return after operating charges	+2,17	+0,97	+2,28
Distribution yield ^[c]	1,23	1,95	1,91
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	86	152	589
Closing NAV percentage of total fund NAV (%)	0,03	0,05	0,13
Number of shares	9,831	20,925	85,496
Highest share price (US ¢)	1,088,56	1,060,39	1,054,14
Lowest share price (US ¢)	1,060,97	1,032,44	1,026,71

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

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

^[c] Following the change in charging structure outlined on page 1, you may see variances between the comparative and current year figures.

M&G Short Dated Corporate Bond Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 30 November	2016		2015	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		8,463		(5,567)
Revenue	3,669		5,167	
Expenses	(1,020)		(1,321) ^[a]	
Net revenue / (expense) before taxation	2,649		3,846	
Taxation	(29)		(111)	
Net revenue / (expense) after taxation		2,620		3,735
Total return before distributions		11,083		(1,832)
Distributions		(2,916)		(3,737)
Change in net assets attributable to shareholders from investment activities		8,167		(5,569)

Statement of change in net assets attributable to shareholders

for the six months to 30 November	2016		2015	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		336,016		440,800
Amounts received on issue of shares	41,343		32,333	
Amounts paid on cancellation of shares	(43,307)		(84,685)	
		(1,964)		(52,352)
Dilution adjustments		116		187
Change in net assets attributable to shareholders from investment activities (see above)		8,167		(5,569)
Retained distributions on Accumulation shares		329		302
Closing net assets attributable to shareholders		342,664		383,368

The opening net assets attributable to shareholders for 2016 differs to the closing position in 2015 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	30 November 2016	31 May 2016
	£'000	£'000
Assets		
Fixed assets		
Investments	340,190	340,861
Current assets		
Debtors	12,897	4,059
Cash and bank balances	559	3,297
Total assets	353,646	348,217
Liabilities		
Investment liabilities	(2,035)	(2,284)
Creditors		
Distribution payable	(1,592)	(1,693)
Other creditors	(7,355)	(8,224)
Total liabilities	(10,982)	(12,201)
Net assets attributable to shareholders	342,664	336,016

[a] Restated, please see notes to the financial statements.

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'accounting policies' set out on page 4.

The fund has adopted FRS 102 and the 2014 SORP. As a result there are some presentational changes to the classification of items in the financial statements. The following presentational changes are considered to be minimal and have no impact on the total return or net asset value in either the current or prior accounting period.

Interest payable of £5,000 (2015: £4,000) has been reclassified from 'Distributions' into 'Expenses'.

Distribution policy

With effect from 1 October 2016 the distribution policy has been amended so that in determining the amount available for distribution to Income shares, the annual management charge, administration charge and where relevant the share class hedging charge are now 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.

M&G UK Income Distribution Fund

Authorised Corporate Director's Report

Important information

With effect from 16 December 2016 the M&G Extra Income Fund changed its name to M&G UK Income Distribution Fund, and the funds' investment objective and policy was also amended. This change has no impact on the funds' investment approach and there will be no change to the way the fund is managed.

Please note that from 1 October 2016, the M&G UK Income Distribution Fund began taking the annual management charge and administration charge from income in the case of Accumulation shares. These charges continue to be charged to capital for Income shares. In addition to these changes, the annual management charge was reduced on Sterling 'R' and 'I' share classes.

Investment objective and policy up to 15 December 2016

Investment objective and policy

The Fund invests mainly in a range of UK equities with the aim of achieving a high income stream which also increases over time. The target yield is 50% higher than that of the FTSE All-Share Index but this may vary in the shorter term. Although income will be the primary consideration, the investment manager will also be mindful of total return (the combination of income and growth of capital).

Investment objective and policy from 16 December 2016

Investment objective

The Fund aims to increase income distributions over time and targets a yield greater than that of the FTSE All-Share Index. Although income will be the primary consideration, the investment manager will also aim for capital growth.

Investment policy

At least 70% of the Fund will be invested in UK equities. Exposure to UK equities may be gained by investing in other collective investment schemes. The Fund focuses on good-quality but undervalued stocks that offer a higher income than the FTSE All-Share Index by identifying those companies that exhibit the following qualities: strong business operations, good cash flows and attractive dividend growth prospects. The Fund may also invest in sterling-denominated fixed income securities. Cash and near cash may be held for ancillary purposes and derivatives may be used for efficient portfolio management and hedging purposes.

Investment approach

The M&G UK Income Distribution Fund is managed to provide investors with a high income through a portfolio of UK equities and high quality corporate bonds (in order to aid income generation). The fund targets a yield that is higher than that of the FTSE All-Share Index. Although this gives the fund a bias towards the higher yielding sectors of the market, it aims to have a broadly diversified portfolio within these yield constraints.

The equity component of the fund has a bias towards good value, out of favour stocks. Good quality investments are selected from the available universe of higher yielding equities by identifying those companies that exhibit the following qualities: strong business franchise, good cashflow characteristics and attractive dividend growth prospects.

Stocks will generally be sold if these criteria no longer apply, but the specific sell discipline is triggered by over-valuation, falling yield or better opportunities elsewhere.

The fixed income exposure will be comprised of issues chosen for high quality and broad diversification. Corporate bonds are typically favoured versus the risk-free rate (as proxied by gilts in the long term) in pursuit of income.

Risk profile

The fund invests mainly in the shares of UK-listed companies. It is also invested in high-quality, sterling-denominated fixed income securities, or bonds. The fund is, therefore, subject to the price volatility of the global bond and stockmarkets as well as the performance of individual companies. The fund is also subject to fluctuations in currency exchange rates. The fund has a bias towards the higher yielding sectors of the market, although it seeks to have a broadly diversified portfolio at the same time. Income distributions from the fund's holdings, however, are not guaranteed and may vary.

Diversification across industries and company sizes is therefore key in managing liquidity risk and reducing market risk. The fund's risks are measured and managed as an integral part of the investment process.

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



The above number:

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

Investment review

As at 1 December 2016, for the six months ended 30 November 2016

Performance against objective

The fund achieved the objective of growing its income over the six-month period. However, as at 30 November 2016, the yield on the fund's Sterling Class 'A' (Income) shares was 4.47%, which was 22.8% above the broad market FTSE All-Share Index yield of 3.64%, below the target yield of a 50% premium to the index.^[a]

M&G UK Income Distribution Fund

Authorised Corporate Director's Report

Investment review

Performance against objective (continued)

Two quarterly distributions of 6,10p per Sterling Class 'A' (Income) share were declared in respect of the review period, making a total distribution of 12,20p per Income share. This represents an increase of 1,7% on the corresponding period last year. The latest annual inflation rate, as measured by the Retail Prices Index (RPI), was 2,2% in November.

For details of the fund's historic yields for your specific share class, please refer to the 'Specific share class performance' tables in this report.

Between 1 June 2016 (the start of the review period) and 1 December 2016, the fund delivered a positive total return (the combination of income and growth of capital) across all of its share classes.^[b] Accordingly, over this short time frame, the fund grew its capital, which is a secondary consideration after the income growth requirement. The fund's performance reflected the overall market trend, but it ended the six-month period behind a comparable composite index that comprises two-thirds the FTSE All-Share Index and one third the FTSE Government UK Gilts All Stocks Index. Nevertheless, the fund is ahead of the composite index over three, five and seven years to 30 November 2016, and just behind it over one and 10 years.

Investment performance

The defining events of the six-month period for the domestic stockmarket were June's referendum on the UK's membership of the European Union (EU) and November's presidential election in the US – both of which delivered surprise outcomes – as well as the Brexit-related 14% decline in sterling against the US dollar and a sharp rise in bond yields. (Bond yield refers to the interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'.)

After June's Brexit vote, the sharpest falls were recorded by domestically focused small and medium-sized companies. However, the broad market FTSE All-Share Index had recovered by the month end, with the rebound mainly reflecting gains by larger companies with overseas revenues.

The swift appointment of a new prime minister in July and prompt action in early August by the Bank of England (BoE) to support the economy did much to improve sentiment. The BoE's measures included a cut in interest rates to 0,25%, additional quantitative easing (bond purchases to reduce long-term borrowing costs) and a scheme to encourage bank lending.

Sterling had been weak ahead of the UK referendum and fell further afterwards; in particular, the currency dipped sharply in October as it became evident from speeches at the Conservative Party conference that a 'hard' Brexit strategy, or clean break from the EU outside the single market, was looking increasingly likely. The weaker pound has provided a fillip for UK exporters, boosting the stockmarket, but inflation is expected to creep up due to higher import costs for raw materials and other goods.

Investors largely took Donald Trump's election win in their stride, ignoring talk of protectionism and cancelling international trade treaties, and focused instead on the boost to the US economy from the president-elect's promise to increase government spending and reduce taxes.

Despite the action by the BoE, bond yields started rising from ultra-low levels in September, reflecting concerns about the possibility of a 'hard' Brexit as well as higher inflation. The upward trend in yields continued after the US election, owing to expectations that Trump's policies would exacerbate inflation trends and lead to higher interest rates.

Over the six months, shares in small and medium-sized companies trailed the wider market, while the blue chip FTSE 100 Index of larger companies outperformed the FTSE All-Share Index, as they benefited from the weaker pound.

At a sector level, resources companies continued to recover from very depressed levels at the start of 2016, due to improved commodity prices and the prospect of increased infrastructure spending. Oil stocks in particular were boosted in late November after OPEC countries agreed to reduce production. These trends also assisted some of the industrial sectors. Within financials, the bank sector was well supported, albeit mostly reflecting a strong performance from emerging-market-focused banking group HSBC, which benefited from its overseas exposure. Meanwhile, higher bond yields weighed on parts of the equity (company shares) market that were deemed to be low risk, such as utilities, telecommunications, insurance, healthcare and consumer goods companies.

The fund ended the six-month period behind the comparable composite index. This was due to lower returns from the fund's equity segment than the UK stockmarket, combined with a cautious stance in the bond segment.

Against this background, the fund benefited from having a larger weighting in UK equities than the Composite Index, at almost 73%, as these outperformed the sterling bond market. However, within the equity segment of the portfolio, some performance was surrendered because of the fund's holdings in medium-sized and smaller companies. In this environment, larger multinational companies, where the fund has a significant exposure, but lower than the Composite Index, were stronger.

The fund's fixed income (bond) holdings, representing approximately 27% of the portfolio, assisted the fund's overall performance; however, although these were primarily weighted towards good-quality corporate bonds that pay a slightly higher coupon than UK government bonds (gilts), and they outperformed the latter, overall returns were relatively subdued.

Within the equity segment, sector allocation also detracted value, primarily as a result of below-market positions in mining companies, banks and technology companies, set against above-market positions in telecommunications and utility companies. On the other hand, there were positive contributions from the fund's above-market position in the industrials sector, as well as its long-term below-market position in consumer staples companies, where valuations were high.

Stock selection had a neutral effect overall. Amongst the most notable performers for the fund were electronic parts distributors Premier Farnell and Electrocomponents, Anglo-Australian miner Rio Tinto and camera manufacturer Vitec. Premier Farnell was the subject of competing bids, eventually succumbing to a US rival. Electrocomponents confirmed previous very positive estimates for first-half results, driven by a combination of cost cutting and sales growth. Rio Tinto's shares participated in the general recovery by the mining sector. Vitec also produced market-pleasing results, and in particular, benefited from the Rio Olympics. The holdings that subtracted the most value were primarily Brexit-driven and included water companies, brewers and housebuilders.

M&G UK Income Distribution Fund

Authorised Corporate Director's Report

Investment review

Investment activities

The broad thrust of the fund was unchanged over the six months under review. Most of the portfolio's weighting remains above-index in the more defensive and higher income-earning sectors of the market, while generally avoiding the lower quality areas. However, there was a continued preference for medium-sized and smaller companies over larger, blue chip shares, and this tended to reflect the fund's holdings in the industrials and chemicals sectors.

Given the fund's income objective, much of the activity over the review period was concentrated on growing the distribution. Profits were realised in some of the medium-sized company holdings, such as Electrocomponents, UBM and Halma. The improved market sentiment was also used as an opportunity to reduce some of the fund's larger company holdings, including RELX (formerly Reed Elsevier), British American Tobacco, BHP Billiton, AstraZeneca and SSE.

New positions were started in sweeteners manufacturer Tate & Lyle and home furnishings retailer Dunelm. Both companies offered an attractive level of income and have a history of increasing their dividends. (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.) Dunelm is embarking on a self-help programme and is planning a substantial increase in its store count across the UK.

In addition, a number of existing holdings were increased, including media group Informa which had a rights issue, while retailer DFS Furniture, property company Redefine International, emerging market-focused bank HSBC and Lloyds Banking Group all offered attractive yields.

There was limited trading activity within the fixed income portion of the portfolio, which mainly revolved around recycling the proceeds from maturing bonds back into the market. This segment of the fund continues to be defensively positioned from a quality perspective, and at a sector level through an emphasis on more defensive areas such as utilities, telecommunications and consumer goods.

Outlook

Whilst noting that they are backward-looking, there have been more positive economic data releases in the UK, with continued strength from the dominant services sector reflecting surging consumer confidence. The BoE has more than once revised upwards a gloomy forecast issued immediately after the referendum. However, expectations for 2017 and 2018 gross domestic product (GDP) growth have still been revised downwards. Meanwhile, the unemployment rate dipped slightly to 4.8% in the three months ended September 2016, to the lowest level since 2005, although there are indications that employment growth may be slowing.

Inflation remains low for the time being, but the combination of a weak domestic currency, a strong US dollar and rising oil prices means that consumer prices could rise in the UK. The BoE has significantly increased its predictions for consumer price inflation, which it expects to reach 2.7% next year, breaching the 2% target, compared with a current level of 1.2%. However, notwithstanding this, interest rates are expected to remain low for the foreseeable future in support of the UK economy. The impact of Brexit is unclear, but in the short term it has created a climate of uncertainty. For now, though, domestic demand remains strong and the weak currency is providing a boost to exports.

A more protectionist stance in the US appears likely, following president-elect Trump's victory, while the Federal Reserve has reacted to strong

growth in the US economy and falling unemployment by increasing interest rates for the second time in the current cycle in December.

Despite the uncertain backdrop, prospects for UK companies over the longer term appear reasonably positive; corporate health is generally sound and dividend growth is encouraging. As a substantial part of the stockmarket's earnings are derived from overseas, much will depend on the post-Brexit reality, particularly the economic and trade implications of the UK's new position in the world, together with how the Trump presidency evolves.

In this environment, the main strength of the fund's investment portfolio is its broad structure, with its emphasis on equities offering above-average income based on sustainable dividends, together with a substantial weighting in good-quality corporate bonds and a small exposure to government bonds. At current valuation levels, though, the bond portfolio's static contribution to the income stream is below what might be expected over the longer term. However, the bond element continues to provide a degree of stability when equity markets suffer from risk aversion.

Distribution prospects

After a downbeat outlook for dividends at the start of the year, the fund's income generation was better than expected in 2016 and assisted by the significant devaluation in sterling from the summer. The currency boost is expected to last until late in 2017 – assuming sterling remains at current levels. Outside the FTSE 100, there has also been good progress in dividends from many companies in the past 12 months and this is expected to continue, albeit perhaps at a lower level of growth.

After the currency move, the biggest single risk to dividends remains the impact of the oil price on the capacity of the energy companies to continue with their payout policies. If the oil price remains at US\$50 per barrel or higher, the oil majors should be able to maintain their dividend payouts, and certainly Shell and BP have expressed a desire to hold them. However, if the oil price falls back towards US\$40, or if there are stock-specific problems (for example, if Shell is unable to make progress on its US\$30 billion of planned disposals), then dividend cuts are more likely and this would affect the fund's future level of distributions.

The other factor is special dividends, which represented a substantial proportion of the dividends paid out in 2016. These are normally irregular dividends, but some companies adopt this method of paying some of their profits back to investors annually. Although they cannot be relied upon, it is not unreasonable, therefore, to expect a continuation of this pattern of payments in the year ahead.

Against this backdrop, therefore, and in the absence of unforeseen circumstances, we are aiming for a further increase in the distribution in 2017.

Richard Hughes Fund manager

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

[a] On 16 December 2016, the fund's name was changed to the M&G UK Income Distribution Fund and the investment policy and objective were clarified, which included reducing the target yield premium from 50% to greater than that of the FTSE All-Share Index. All shareholders were informed about the changes.

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

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

M&G UK Income Distribution Fund

Authorised Corporate Director's Report

Investments

Portfolio statement

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Equities	316.174	79,21	79,40
Oil & gas producers	31.326	7,85	6,23
3.563.694 BP	16.248	4,07	
13.292 Royal Dutch Shell 'A'	269	0,07	
700.000 Royal Dutch Shell 'B'	14.809	3,71	
Chemicals	6.298	1,58	1,59
750.000 Elementis	1.893	0,47	
35.000 Johnson Matthey	1.105	0,28	
900.000 Synthomer	3.300	0,83	
Mining	11.078	2,78	2,00
275.000 BHP Billiton	3.596	0,90	
250.000 Rio Tinto	7.482	1,88	
Construction & materials	1.796	0,45	0,56
600.000 Marshalls	1.796	0,45	
Aerospace & defence	2.729	0,68	0,56
450.000 BAE Systems	2.729	0,68	
General industrials	3.243	0,81	0,73
375.000 DS Smith	1.483	0,37	
125.000 Smiths Group	1.760	0,44	
Electronic & electrical equipment	6.846	1,71	1,74
425.000 Halma	4.033	1,01	
1.000.000 Morgan Advanced Materials	2.813	0,70	
Industrial engineering	3.369	0,84	0,74
90.000 IMI	869	0,22	
400.000 Vitec Group	2.500	0,62	
Support services	8.151	2,04	2,42
500.000 Carillion	1.241	0,31	
1.450.000 Connect Group	2.001	0,50	
150.000 De La Rue	866	0,22	
900.000 Electrocomponents	4.043	1,01	
Automobiles & parts	1.544	0,39	0,35
500.000 GKN	1.544	0,39	
Food producers	5.628	1,41	0,94
275.000 Tate & Lyle	1.897	0,48	
115.000 Unilever	3.731	0,93	
Household goods & home construction	4.507	1,13	1,36
100.000 Bellway	2.462	0,62	
250.000 Bovis Homes Group	2.045	0,51	
Tobacco	34.124	8,55	8,93
600.000 British American Tobacco	27.108	6,79	
200.000 Imperial Brands	7.016	1,76	
Pharmaceuticals & biotechnology	22.974	5,76	5,92
275.000 AstraZeneca	11.653	2,92	
750.000 GlaxoSmithKline	11.321	2,84	
General retailers	3.095	0,77	0,71
500.000 DFS Furniture	1.080	0,27	
150.000 Dunelm Group	1.108	0,28	
60.000 WH Smith	907	0,22	
Media	14.672	3,68	3,84
437.500 Informa	2.879	0,72	
300.000 Moneysupermarket.com	812	0,20	
200.000 Pearson	1.590	0,40	
175.000 RELX	2.436	0,61	
200.000 Sky	1.545	0,39	
755.555 UBM	5.410	1,36	

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Travel & leisure	13.543	3,39	3,69
300.000 Compass Group	4.173	1,05	
400.000 Greene King	2.762	0,69	
1.500.000 Marston's	2.021	0,51	
650.000 National Express	2.331	0,58	
750.000 William Hill	2.256	0,56	
Fixed line telecommunications	6.233	1,56	2,05
1.000.000 BT Group	3.620	0,90	
1.400.000 KCOM Group	1.435	0,36	
750.000 TalkTalk	1.178	0,30	
Mobile telecommunications	10.335	2,59	3,15
5.250.000 Vodafone Group	10.335	2,59	
Electricity	3.026	0,76	0,83
202.572 SSE	3.026	0,76	
Gas, water & multi-utilities	25.920	6,49	7,56
1.250.000 Centrica	2.653	0,66	
500.000 National Grid	4.659	1,17	
800.000 Pennon Group	6.604	1,65	
175.000 Severn Trent	3.881	0,97	
900.000 United Utilities	8.123	2,04	
Banks	13.152	3,29	2,23
1.797.923 HSBC Holdings	11.406	2,86	
3.000.000 Lloyds Banking Group	1.746	0,43	
Non-life insurance	2.470	0,62	0,68
700.000 Direct Line Insurance Group	2.470	0,62	
Life insurance	23.538	5,90	5,82
1.250.000 Aviva	5.620	1,41	
900.000 Chesnara	3.060	0,77	
33.210 Chesnara (rights issue)	0	0,00	
2.500.000 Legal & General Group	5.902	1,48	
750.000 Old Mutual	1.422	0,36	
350.000 Prudential ^[a]	5.436	1,35	
600.000 Standard Life	2.098	0,53	
Real estate investment & services	6.199	1,55	1,63
2.000.000 Channel Islands Property Fund	1.920	0,48	
6.220.393 Redefine International	2.284	0,57	
2.300.000 Standard Life Investment Property Income Trust	1.995	0,50	
Real estate investment trusts	7.416	1,86	2,08
175.000 A&J Mucklow Group	814	0,20	
202.127 British Land	1.209	0,30	
1.500.000 Hansteen Holdings	1.589	0,40	
125.000 Land Securities Group	1.224	0,31	
615.615 Segro	2.580	0,65	
Financial services	9.771	2,45	2,44
700.000 Ashmore Group	1.930	0,48	
200.000 Close Brothers Group	2.720	0,68	
275.000 Intermediate Capital Group	1.885	0,48	
50.000 Provident Financial	1.462	0,37	
400.000 Tullett Prebon	1.774	0,44	
Equity investment instruments	3.895	0,98	1,12
1.498.400 Carador Income Fund	830	0,21	
1.110.000 Ecofin Water & Power Opportunities	1.202	0,30	
462.500 EF Realisation	148	0,04	
1.750.000 Middlefield Canadian Income PCC	1.715	0,43	
Software & computer services	1.508	0,38	0,35
225.000 Sage Group	1.508	0,38	

M&G UK Income Distribution Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)				
as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %	
Non-convertible preference shares				
£1,500,000 Aviva 8,375% Cum. Irrd. Pref.	2,055	0,51		
£3,800,000 General Accident 7,875% Cum. Irrd. Pref.	4,921	1,23		
£5,000,000 General Accident 8,875% Cum. Irrd. Pref.	7,300	1,83		
£7,725,000 Lloyds Banking Group 9,25% Non-cum. Irrd. Pref.	10,699	2,68		
£6,250 Nationwide Building Society 10,25% CCD Non-cum. Irrd. Pref.	813	0,21		
£1,600,000 Standard Chartered 8,25% Non-cum. Irrd. Pref.	2,000	0,50		
	77,483	19,41	20,23	
Debt securities				
'AAA' credit rated bonds				
£4,485,000 European Investment Bank FRN 2020	4,500	1,13		
£400,000 Johnson & Johnson 5,5% 2024	513	0,13		
£2,400,000 KfW 5,55% 2021	2,899	0,73		
£1,535,538 Paragon Mortgages No.14 FRN 2039	1,449	0,36		
£2,000,000 Towd Point Mortgage Funding FRN 2045	2,001	0,50		
	14,399	3,61	0,56	
'AA' credit rated bonds				
£1,300,000 Land Securities Capital Markets Var. Rate 2025 (4,875%)	1,543	0,39		
£510,000 MetLife Global Funding 2,625% 2022	533	0,13		
£315,000 SLM Student Loan Trust 5,15% 2039	272	0,07		
£525,000 Treasury 1,25% 2018	535	0,14		
£3,360,000 Treasury 1,875% IL 2022	5,484	1,37		
£1,500,000 Treasury 3,75% 2019	1,648	0,41		
£2,490,000 Treasury 4% 2022	2,922	0,73		
£1,330,000 Treasury 4,5% 2019	1,462	0,37		
	17,340	4,34	5,35	
'A' credit rated bonds				
£650,000 Anheuser-Busch InBev 9,75% 2024	992	0,25		
£1,000,000 ASIF III Jersey 5% 2018	1,079	0,27		
£250,000 EDF 6,125% 2034	335	0,09		
£1,950,000 EDF 6,875% 2022	2,512	0,63		
£1,473,000 Heathrow Funding Var. Rate 2025 (5,225%)	1,735	0,43		
£845,000 London Merchant Securities 6,5% 2026	1,070	0,27		
£250,000 Motability Operations Group 6,625% 2019	292	0,07		
£1,000,000 Munich Re Finance Var. Rate 2042 (6,625%)	1,154	0,29		
£1,050,000 Rabobank Nederland 3,25% 2017	1,074	0,27		
£1,001,410 RMAC 2003-Nsp4 Var. Rate 2026 (1,33063%)	972	0,24		
£990,000 Rolls-Royce 3,375% 2026	1,057	0,26		
£1,000,000 Standard Life Var. Rate Perp. (6,546%)	1,036	0,26		
£1,550,000 Wells Fargo 5,25% 2023	1,809	0,45		
£1,750,000 Yorkshire Water Services Odsal Finance 6,5876% 2023	2,223	0,56		
	23,045	5,77	6,48	
'BBB' credit rated bonds				
£2,100,000 AT&T 5,875% 2017	2,142	0,54		
£1,500,000 Bank of America 5,5% 2021	1,705	0,43		
£2,180,000 Deutsche Telekom International Finance Var. Rate 2019 (7,375%)	2,587	0,65		
£1,173,000 FCE Bank 2,625% 2018	1,204	0,30		
£300,000 FirstGroup 6,875% 2024	381	0,10		
£3,000 Glencore Canada 7,375% 2020	3	0,00		
£850,000 Glencore Finance Europe 6,5% 2019	929	0,23		

Portfolio statement (continued)

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
'BBB' credit rated bonds (continued)			
£200,000 Go-Ahead Group 5,375% 2017	207	0,05	
£1,000,000 Goldman Sachs Group 5,5% 2021	1,128	0,28	
£180,000 Heathrow Funding 6,25% 2018	196	0,05	
£800,000 HSBC Holdings Var. Rate 2022 (6,375%)	829	0,21	
£878,000 Imperial Brands Finance 8,125% 2024	1,203	0,30	
£1,250,000 Imperial Brands Finance Var. Rate 2022 (9%)	1,681	0,42	
£795,000 Legal & General Group 10% IL 2041	1,019	0,26	
£100,000 London Stock Exchange 9,125% 2019	122	0,03	
£700,000 Lloyds Bank 9,625% 2023	934	0,23	
£200,000 McDonalds 6,375% 2020	232	0,06	
£1,000,000 Repsol Oil & Gas 6,625% 2017	1,052	0,26	
£273,000 RSA Insurance Var. Rate 2039 (9,375%)	315	0,08	
£1,000,000 Sky Group 5,75% 2017	1,043	0,26	
£1,000,000 Telefónica Emisiones 5,375% 2026	1,176	0,29	
£918,000 United Utilities Water 5,375% 2018	976	0,24	
£1,506,000 Verizon Communications 4,073% 2024	1,681	0,42	
£295,000 Yorkshire Water Services Var. Rate 2025 (6%)	300	0,08	
	2,924	0,73	0,74
'BB' credit rated bonds			
£200,000 Telecom Italia 6,375% 2019	218	0,05	
£2,412,000 Tesco 6,125% 2022	2,706	0,68	
	8,413	2,11	2,13
Bonds with no credit rating			
£272,000 Feldspar 2016-1 FRN 2045	272	0,07	
£475,000 Hammerson 3,5% 2025	499	0,13	
£1,898,000 Hammerson 6,875% 2020	2,240	0,56	
£1,236,000 John Lewis 6,125% 2025	1,514	0,38	
£520,000 John Lewis 8,375% 2019	601	0,15	
£1,000,000 National Express 2,5% 2023	999	0,25	
£850,000 National Express 6,25% 2017	855	0,21	
£1,000,000 Segro Var. Rate 2019 (6%)	1,132	0,28	
£297,000 WM Morrison Supermarkets 3,5% 2026	301	0,08	
	393,657	98,62	99,63
Portfolio of investments			
'AAA' rated money market funds ^[b]			
6,212,000 Northern Trust Global Fund - Sterling	6,212	1,56	1,69
	6,212	1,56	1,69
Total portfolio	399,869	100,18	101,32
Net other assets / (liabilities)	(732)	(0,18)	(1,32)
Net assets attributable to shareholders	399,137	100,00	100,00

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

^[a] Related party to the fund.

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

M&G UK Income Distribution Fund

Authorised Corporate Director's Report

Investments

Top ten portfolio transactions

for the six months to 30 November 2016

Largest purchases	£'000
Towd Point Mortgage Funding FRN 2045 (£)	2.001
Tate & Lyle	1.779
Bank of America 5,5% 2021 (£)	1.735
Ecofin Water & Power Opportunities	1.603
Paragon Mortgages No.14 FRN 2039 (£)	1.448
John Lewis 6,125% 2025 (£)	1.228
Lloyds Banking Group	1.158
Goldman Sachs Group 5,5% 2021 (£)	1.151
Dunelm Group	1.142
Rolls-Royce 3,375% 2026 (£)	1.062
Other purchases	5.630
Total purchases	19.937
Largest sales	£'000
Ecofin Water & Power Opportunities	2.857
Premier Farnell	2.313
British American Tobacco	1.953
JPMorgan Chase 5,375% 2016 (£)	1.750
Bank of America 5,25% 2016 (£)	1.550
Carlsberg Breweries 7,25% 2016 (£)	1.500
RELX 5,625% 2016 (£)	1.500
Rolls-Royce 7,375% 2016 (£)	1.240
John Lewis 6,125% 2025 (£)	1.234
AstraZeneca	1.129
Other sales	10.505
Total sales	27.531

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

M&G UK Income Distribution 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 (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			
as at	30.11.16 £'000	31.05.16 £'000	31.05.15 £'000
Fund net asset value (NAV)	399.137	387.799	435.293

Share class performance since launch

To give an indication of how the fund has performed since launch, the chart below shows performance of Sterling Class 'A' (Accumulation) shares and Sterling Class 'A' (Income) shares. With Accumulation shares, income received from an investment is reinvested, while with Income shares, the income is paid out to shareholders.



Ten-year performance

The fund's comparative index changed from the FTSE All-Share Index to a composite index (which comprises two-thirds FTSE All-Share Index and one-third FTSE Government UK Gilts All Stocks Index) in June 2000 to reflect the change in the fund's holdings. Given that we are unable to show the fund's performance against the composite index from inception, please find below a ten-year chart for comparison.



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.

M&G UK Income Distribution Fund

Financial highlights

Fund performance

Historic yield

The chart below shows the historic yield of Sterling Class 'A' (Income) shares against that of a comparative index.

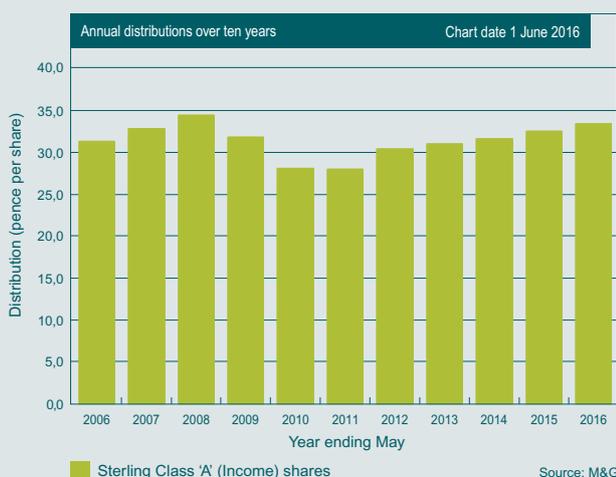


Source: Morningstar, Inc. and M&G

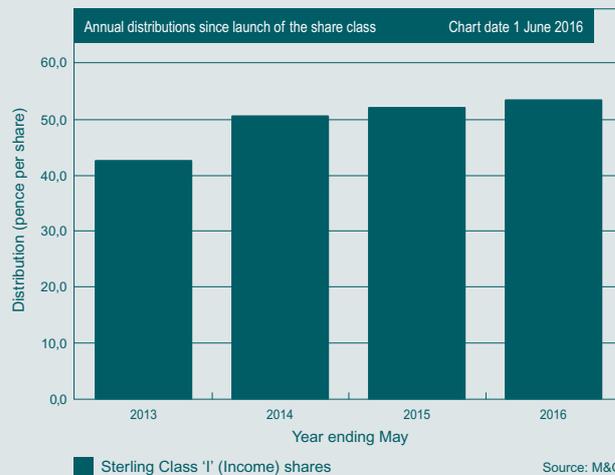
Historic yield: The historic yield reflects distributions declared over the past twelve months as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions.

Distribution since launch

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



Source: M&G



Source: M&G

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 01.06.16 % ^[a]	Three years 02.12.13 % p.a.	Five years 01.12.11 % p.a.	Since launch % p.a.
Sterling ^[b]				
Class 'A'	+5,8	+5,9	+9,4	+12,0 ^[c]
Class 'C'	+6,4	+7,0	+10,5	+7,1 ^[d]
Class 'I'	+6,1	+6,4	n/a	+8,8 ^[e]
Class 'R'	+5,9	+6,1	n/a	+8,5 ^[e]
Class 'X'	+5,8	+5,9	+9,3	+7,9 ^[f]

^[a] Absolute basis.

^[b] Price to price with income reinvested.

^[c] 19 November 1973, the end of the initial offer period of the predecessor unit trust.

^[d] 1 December 2005, the launch date of the share class.

^[e] 3 August 2012, the launch date of the share class.

^[f] 1 October 2002, the launch date of the share class.

M&G UK Income Distribution 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, comprised of operating charges and portfolio transaction costs.

Operating charges

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

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

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

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

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

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, method of execution and the quality of research provided. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission, taxes, and costs of research from brokers and other research providers.
- **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 30.11.16	Year to 31.05.16	Year to 31.05.15	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0,01	0,02	0,01	0,01
Taxes	0,01	0,02	0,02	0,02
Costs before dilution adjustments	0,02	0,04	0,03	0,03
Dilution adjustments ^[c]	(0,01)	(0,01)	(0,01)	(0,01)
Total direct portfolio transaction costs	0,01	0,03	0,02	0,02
as at	30.11.16	31.05.16	31.05.15	Average ^[b]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0,37	0,43	0,35	0,38

^[a] Average of first three columns.

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

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

M&G UK Income Distribution Fund

Financial highlights

Specific share class performance

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

Sterling Class 'A' Income share performance

The share class was launched on 19 November 1973.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	714,43	770,88	741,13
Return before operating charges and after direct portfolio transaction costs	46,34	(13,01)	72,67
Operating charges	(5,31)	(10,16)	(10,48)
Return after operating charges	41,03	(23,17)	62,19
Distributions	(12,20)	(33,28)	(32,44)
Closing NAV	743,26	714,43	770,88
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,09	0,28	0,20
Dilution adjustments ^[b]	(0,05)	(0,07)	(0,08)
Total direct portfolio transaction costs	0,04	0,21	0,12
Performance and charges	%	%	%
Direct portfolio transaction costs	0,01	0,03	0,02
Operating charges	1,41	1,41	1,41
Return after operating charges	+5,74	-3,01	+8,39
Historic yield ^[c]	4,47	4,70	4,31
Effect on yield of charges offset against capital	1,41	1,41	1,41
Other information			
Closing NAV (£'000)	176,953	172,671	214,857
Closing NAV percentage of total fund NAV (%)	44,33	44,53	49,36
Number of shares	23.807.625	24.169.257	27.871.663
Highest share price (UK p)	785,57	771,24	791,74
Lowest share price (UK p)	689,59	673,49	685,66

Sterling Class 'A' Accumulation share performance

The share class was launched on 19 November 1973.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	6.071,24	6.253,90	5.762,80
Return before operating charges and after direct portfolio transaction costs	393,77	(99,33)	573,48
Operating charges	(45,30)	(83,33)	(82,38)
Return after operating charges	348,47	(182,66)	491,10
Distributions	(95,50)	(273,98)	(255,41)
Retained distributions	95,50	273,98	255,41
Closing NAV	6.419,71	6.071,24	6.253,90
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,75	2,30	1,56
Dilution adjustments ^[b]	(0,44)	(0,54)	(0,60)
Total direct portfolio transaction costs	0,31	1,76	0,96
Performance and charges	%	%	%
Direct portfolio transaction costs	0,01	0,03	0,02
Operating charges	1,41	1,41	1,41
Return after operating charges	+5,74	-2,92	+8,52
Historic yield ^[c]	3,11	4,55	4,18
Effect on yield of charges offset against capital	0,01	1,41	1,41
Other information			
Closing NAV (£'000)	24.315	24.229	33.068
Closing NAV percentage of total fund NAV (%)	6,09	6,25	7,60
Number of shares	378.767	399.081	528.757
Highest share price (UK p)	6.729,86	6.257,37	6.302,62
Lowest share price (UK p)	5.860,75	5.556,42	5.374,88

Sterling Class 'C' Income share performance

Sterling Class 'C' shares are not generally available to all investors.

The share class was launched on 1 December 2005.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	796,35	848,82	807,33
Return before operating charges and after direct portfolio transaction costs	50,97	(15,39)	78,32
Operating charges	(0,68)	(1,28)	(1,31)
Return after operating charges	50,29	(16,67)	77,01
Distributions	(13,30)	(35,80)	(35,52)
Closing NAV	833,34	796,35	848,82
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,10	0,31	0,22
Dilution adjustments ^[b]	(0,06)	(0,07)	(0,08)
Total direct portfolio transaction costs	0,04	0,24	0,14
Performance and charges	%	%	%
Direct portfolio transaction costs	0,01	0,03	0,02
Operating charges	0,16	0,16	0,16
Return after operating charges	+6,32	-1,96	+9,54
Historic yield ^[c]	4,26	4,53	4,29
Effect on yield of charges offset against capital	0,16	0,16	0,16
Other information			
Closing NAV (£'000)	80.092	81.331	92.768
Closing NAV percentage of total fund NAV (%)	20,07	20,97	21,31
Number of shares	9.610.962	10.212.975	10.929.072
Highest share price (UK p)	879,11	849,24	870,61
Lowest share price (UK p)	769,01	747,23	750,04

M&G UK Income Distribution Fund

Financial highlights

Specific share class performance

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	1,153.24	1,238.21	1,184.87
Return before operating charges and after direct portfolio transaction costs	74.59	(21.13)	116.23
Operating charges	(5.54)	(10.57)	(10.91)
Return after operating charges	69.05	(31.70)	105.32
Distributions	(19.50)	(53.27)	(51.98)
Closing NAV	1,202.79	1,153.24	1,238.21
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.14	0.45	0.32
Dilution adjustments ^[b]	(0.08)	(0.11)	(0.12)
Total direct portfolio transaction costs	0.06	0.34	0.20
Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.03	0.02
Operating charges	0.91	0.91	0.91
Return after operating charges	+5.99	-2.56	+8.89
Historic yield ^[c]	4.41	4.66	4.30
Effect on yield of charges offset against capital	0.91	0.91	0.91
Other information			
Closing NAV (£'000)	54,566	47,322	31,944
Closing NAV percentage of total fund NAV (%)	13.67	12.20	7.34
Number of shares	4,536,625	4,103,383	2,579,904
Highest share price (UK p)	1,270.22	1,238.80	1,271.74
Lowest share price (UK p)	1,113.34	1,085.35	1,098.36

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	1,367.12	1,401.75	1,285.70
Return before operating charges and after direct portfolio transaction costs	88.39	(22.50)	128.08
Operating charges	(6.60)	(12.13)	(12.03)
Return after operating charges	81.79	(34.63)	116.05
Distributions	(22.25)	(61.21)	(57.12)
Retained distributions	22.25	61.21	57.12
Closing NAV	1,448.91	1,367.12	1,401.75
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.17	0.52	0.35
Dilution adjustments ^[b]	(0.10)	(0.12)	(0.14)
Total direct portfolio transaction costs	0.07	0.40	0.21
Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.03	0.02
Operating charges	0.91	0.91	0.91
Return after operating charges	+5.98	-2.47	+9.03
Historic yield ^[c]	3.52	4.52	4.17
Effect on yield of charges offset against capital	0.01	0.91	0.91
Other information			
Closing NAV (£'000)	22,864	21,443	16,332
Closing NAV percentage of total fund NAV (%)	5.73	5.53	3.75
Number of shares	1,578,079	1,568,476	1,165,117
Highest share price (UK p)	1,517.83	1,402.54	1,412.63
Lowest share price (UK p)	1,319.92	1,249.45	1,201.34

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	114.25	122.99	117.97
Return before operating charges and after direct portfolio transaction costs	7.40	(2.10)	11.57
Operating charges	(0.70)	(1.34)	(1.38)
Return after operating charges	6.70	(3.44)	10.19
Distributions	(1.95)	(5.30)	(5.17)
Closing NAV	119.00	114.25	122.99
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.01	0.04	0.03
Dilution adjustments ^[b]	(0.01)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.00	0.03	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.03	0.02
Operating charges	1.16	1.16	1.16
Return after operating charges	+5.86	-2.79	+8.64
Historic yield ^[c]	4.46	4.68	4.30
Effect on yield of charges offset against capital	1.16	1.16	1.16
Other information			
Closing NAV (£'000)	1,181	1,012	992
Closing NAV percentage of total fund NAV (%)	0.30	0.26	0.23
Number of shares	992,267	885,229	806,447
Highest share price (UK p)	125.73	123.05	126.18
Lowest share price (UK p)	110.29	107.63	109.24

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	135.54	139.31	128.08
Return before operating charges and after direct portfolio transaction costs	8.77	(2.24)	12.74
Operating charges	(0.83)	(1.53)	(1.51)
Return after operating charges	7.94	(3.77)	11.23
Distributions	(2.20)	(6.09)	(5.68)
Retained distributions	2.20	6.09	5.68
Closing NAV	143.48	135.54	139.31
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0.02	0.05	0.03
Dilution adjustments ^[b]	(0.01)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.01	0.04	0.02
Performance and charges	%	%	%
Direct portfolio transaction costs	0.01	0.03	0.02
Operating charges	1.16	1.16	1.16
Return after operating charges	+5.86	-2.71	+8.77
Historic yield ^[c]	3.38	4.53	4.18
Effect on yield of charges offset against capital	0.01	1.16	1.16
Other information			
Closing NAV (£'000)	332	346	309
Closing NAV percentage of total fund NAV (%)	0.08	0.09	0.07
Number of shares	231,168	255,057	222,000
Highest share price (UK p)	150.36	139.39	140.39
Lowest share price (UK p)	130.85	123.96	119.57

M&G UK Income Distribution Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	720,26	777,18	747,20
Return before operating charges and after direct portfolio transaction costs	46,70	(13,17)	73,27
Operating charges	(5,35)	(10,24)	(10,58)
Return after operating charges	41,35	(23,41)	62,69
Distributions	(12,30)	(33,51)	(32,71)
Closing NAV	749,31	720,26	777,18
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,09	0,28	0,20
Dilution adjustments ^[b]	(0,05)	(0,07)	(0,08)
Total direct portfolio transaction costs	0,04	0,21	0,12
Performance and charges	%	%	%
Direct portfolio transaction costs	0,01	0,03	0,02
Operating charges	1,41	1,41	1,41
Return after operating charges	+5,74	-3,01	+8,39
Historic yield ^[c]	4,47	4,69	4,31
Effect on yield of charges offset against capital	1,41	1,41	1,41
Other information			
Closing NAV (£'000)	32.737	33.409	37.426
Closing NAV percentage of total fund NAV (%)	8,20	8,61	8,60
Number of shares	4.368.959	4.638.501	4.815.633
Highest share price (UK p)	791,97	777,54	798,35
Lowest share price (UK p)	695,22	679,05	691,33

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	6.002,23	6.183,29	5.697,57
Return before operating charges and after direct portfolio transaction costs	389,12	(98,64)	567,37
Operating charges	(44,79)	(82,42)	(81,65)
Return after operating charges	344,33	(181,06)	485,72
Distributions	(94,80)	(270,55)	(252,51)
Retained distributions	94,80	270,55	252,51
Closing NAV	6.346,56	6.002,23	6.183,29
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,74	2,28	1,55
Dilution adjustments ^[b]	(0,44)	(0,53)	(0,59)
Total direct portfolio transaction costs	0,30	1,75	0,96
Performance and charges	%	%	%
Direct portfolio transaction costs	0,01	0,03	0,02
Operating charges	1,41	1,41	1,41
Return after operating charges	+5,74	-2,93	+8,53
Historic yield ^[c]	3,11	4,55	4,18
Effect on yield of charges offset against capital	0,01	1,41	1,41
Other information			
Closing NAV (£'000)	6.097	6.036	7.597
Closing NAV percentage of total fund NAV (%)	1,53	1,56	1,74
Number of shares	96.061	100.558	122.859
Highest share price (UK p)	6.653,23	6.186,52	6.231,26
Lowest share price (UK p)	5.794,08	5.493,35	5.314,07

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

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

^[c] Following the change in charging structure outlined on page 1, you may see variances between the comparative and current year figures.

M&G UK Income Distribution Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 30 November	2016		2015	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		15,267		(24,556)
Revenue	9,414		9,124	
Expenses	(2,146)		(2,215)	
Net revenue / (expense) before taxation	7,268		6,909	
Taxation	0		0	
Net revenue / (expense) after taxation		7,268		6,909
Total return before distributions		22,535		(17,647)
Distributions		(6,457)		(6,736)
Change in net assets attributable to shareholders from investment activities		16,078		(24,383)

Statement of change in net assets attributable to shareholders

for the six months to 30 November	2016		2015	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		387,799		435,293
Amounts received on issue of shares	12,842		24,929	
Amounts paid on cancellation of shares	(18,461)		(32,153)	
		(5,619)		(7,224)
Dilution adjustments		67		49
Change in net assets attributable to shareholders from investment activities (see above)		16,078		(24,383)
Retained distributions on Accumulation shares		812		876
Unclaimed distributions		0		45
Closing net assets attributable to shareholders		399,137		404,656

The opening net assets attributable to shareholders for 2016 differs to the closing position in 2015 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	30 November 2016	31 May 2016
	£'000	£'000
Assets		
Fixed assets		
Investments	399,869	392,929
Current assets		
Debtors	3,937	3,000
Cash and bank balances	438	0
Total assets	404,244	395,929
Creditors		
Bank overdrafts	0	(241)
Distribution payable	(2,812)	(7,045)
Other creditors	(2,295)	(844)
Total liabilities	(5,107)	(8,130)
Net assets attributable to shareholders	399,137	387,799

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

Distribution policy

With effect from 1 October 2016, the distribution policy has been amended so that in determining the amount available for reinvestment to Accumulation shares, the annual management charge and administration charge are no longer offset against capital, reducing the amount available for reinvestment. The audit, depositary and safe custody charges continue to be 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, continue to be 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 UK Income Distribution Fund

Financial statements and notes

This page is intentionally blank

M&G UK Select Fund

Authorised Corporate Director's Report

Important information

Please note that from 1 October 2016, the M&G UK Select Fund began taking the annual management charge and administration charge from capital in the case of Income shares. These charges continue to be charged to income for Accumulation shares.

The fund's objective and policy remain unchanged. All costs associated with introducing these changes will be borne by M&G Securities Limited.

Investment objective and policy

The Fund invests principally in the equities of UK companies with high growth potential with the sole objective of capital growth. The Fund may at any time be concentrated in a limited number of equities. Income considerations are ignored.

Investment approach

The M&G UK Select Fund seeks capital growth through investment primarily in a portfolio of shares in UK listed companies. A long-term view is taken, with the emphasis on finding undervalued companies with attractive growth prospects.

The fund is a stockpicking fund, driven always by valuation. While the fund manager is ultimately responsible for every investment decision taken, the research undertaken by M&G's team of equity analysts often informs his stock selection.

The portfolio targets a total number of stock holdings of around 50. The relatively concentrated nature of the fund requires the manager to have strong conviction in each and every holding.

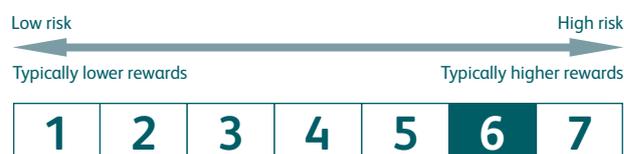
A team of risk specialists monitors the fund and ensures that the manager is aware of all intended and unintended biases.

Risk profile

The fund invests in the shares of UK-listed companies and is, therefore, subject to the price volatility of the UK stockmarket and the performance of individual companies. The fund typically holds around 50 stocks and this relatively concentrated profile requires the fund manager to have strong conviction in each and every holding. However, the fund is mainly invested in the shares of large and medium-sized companies, which are normally traded with relative ease.

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

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



The above number:

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

Investment review

As at 1 December 2016, for the six months ended 30 November 2016

Performance against objective

Between 1 June 2016 (the start of the review period) and 1 December 2016, the M&G UK Select Fund delivered a positive total return (the combination of income and growth of capital) across all sterling share classes; however, the two euro share classes registered a negative total return. Accordingly, over this relatively short time frame the fund met its investment objective of capital growth in sterling terms, but not in euro terms. Against a comparative index, the broad market FTSE All-Share Index, the fund lagged, with the index producing 9,9% and 1,3% in sterling and euro terms, respectively.

Over three and five years, the fund has achieved capital growth in all share classes.^[a]

Investment performance

The defining events of the six month period for the domestic stockmarket were June's referendum on the UK's membership of the European Union (EU), November's presidential election in the US – both of which delivered surprise outcomes – the Brexit-related 14% decline in sterling against the US dollar, and a sharp rise in bond yields. (Bond yield refers to the interest received from a fixed income security and is usually expressed annually as a percentage based on the investment's cost, its current market value or its face value. Bonds issued by companies are referred to as 'corporate bonds', while those issued by governments are called 'government bonds'.)

After June's Brexit vote, the sharpest falls were recorded by domestically focused small and medium-sized companies. However, the broad market FTSE All-Share Index had recovered by the month end, with the rebound mainly reflecting gains by larger companies with overseas revenues.

The swift appointment of a new prime minister in July and prompt action in early August by the Bank of England (BoE) to support the economy did much to improve sentiment. The BoE's measures included a cut in interest rates to 0,25%, additional quantitative easing (bond purchases to reduce long-term borrowing costs) and a scheme to encourage bank lending.

M&G UK Select Fund

Authorised Corporate Director's Report

Investment review

Investment performance (continued)

Sterling had been weak ahead of the UK referendum and fell further afterwards; in particular, the currency dipped sharply in October as it became evident from speeches at the Conservative Party conference that a 'hard' Brexit strategy, or clean break from the EU outside the single market, was looking increasingly likely. The weaker pound has provided a fillip for UK exporters, boosting the stockmarket, but inflation is expected to creep up due to higher import costs for raw materials and other goods.

Investors largely took Donald Trump's election win in their stride, ignoring talk of protectionism and cancelling international trade treaties, and focused instead on the boost to the US economy from the president-elect's promise to increase government spending and reduce taxes.

Despite the action by the BoE, bond yields started rising from ultra-low levels in September, reflecting concerns about the possibility of a 'hard' Brexit as well as higher inflation. The upward trend in yields continued after the US election, owing to expectations that Trump's policies would exacerbate inflation trends and lead to higher interest rates.

Over the six months, shares in small and medium-sized companies trailed the wider market, while the blue chip FTSE 100 Index of larger companies outperformed the FTSE All-Share Index as it benefited from the weaker pound.

At a sector level, resources companies continued to recover from very depressed levels at the start of 2016, due to improved commodity prices and the prospect of increased infrastructure spending. Oil stocks in particular were boosted in late November after OPEC countries agreed to reduce production in order to support prices. These trends also assisted some of the industrial sectors. Within financials, the bank sector was well supported, albeit mostly reflecting a strong performance from emerging-market-focused banking group HSBC, which benefited from its overseas exposure. Meanwhile, higher bond yields weighed on parts of the equity market that were deemed to be low risk, such as utilities, telecommunications, insurance, healthcare and consumer goods companies.

Against this background, the fund lagged the market over the six months. This was due primarily to holdings within larger companies that have an above-average exposure to the UK economic cycle, as they were affected by Brexit concerns. However, they were held in the fund because the stocks were considered to be under-appreciated by the market. In addition, the fund was adversely affected by a below-market position in mining companies and banks, in view of the weak outlook for the global economy and ongoing issues in the banking sector. The latter has had to cope with fines, increased regulation and the impact of low interest rates on lenders' profitability.

Conversely, the fund benefited from a low exposure to the more defensive consumer staples, fixed line telecommunications and utilities sectors, along with real estate. Further value was added via above-market positions in paper manufacturers, general industrials and construction companies. In addition, there were constructive contributions from stock selection in the technology, chemicals and tobacco sectors.

The principal individual detractors at the stock level included Lloyds Banking Group, builders' merchant Travis Perkins, broadcaster ITV, housebuilder Bovis Homes, aerospace & defence company Senior and British Airways owner International Consolidated Airlines (ICA). Much of the cause was Brexit-related. However, Senior issued a profit warning, under pressure from a challenged civil aerospace market, and ICA's shares were affected by the rise in the oil price.

The positive contributors to the fund's performance at the stock level included three resources stocks, BP, First Quantum Minerals and Rio Tinto, and two paper manufacturers, RPC Group and Mondi. In addition, CRH, a global building materials business, benefited from the talk of increased spending on infrastructure. Elsewhere, technology group Micro Focus rose sharply on the announcement of its purchase of the non-core segment of Hewlett Packard's software business, making it one of the world's leading software companies.

Investment activities

During the six-month period, positions were established in Sophos, a developer of security software for companies, W.S. Atkins, a global engineering and design consultancy, John Wood Group, an oil services business, McCarthy & Stone, a retirement home builder, AG Barr, which manufactures soft drinks, and WH Smith, a high street retailer.

Sophos' shares had fallen back, despite delivering above-average revenue increases and benefiting from a strong structural growth story as businesses seek to improve their IT security. W.S. Atkins should be a beneficiary of moves to boost the global economy through increases in government investment in infrastructure. John Wood Group has built up a substantial presence in the US oil industry over the past few years, which is stabilising and starting to recover, and should experience a period of sustained earnings growth. McCarthy & Stone suffered from a disappointing trading statement post Brexit, but appears to have put this behind it and the valuation looks attractive given the long-term dynamics of housing supply and care for the elderly. A.G. Barr has gone through a transition to reinvigorate its product offering and invest in its supply chain, which should drive more earnings growth in the future. Shares in WH Smith have been weak post Brexit due to the company's exposure to the domestic economy, although the main engine of the business is its international travel stores in airports (including Delhi and Amsterdam outside the UK), together with railway stations and motorway service areas.

Complete disposals during the period included banking group Barclays, high street and online betting firm Ladbrokes, Anglo-Australian miner BHP Billiton, satellite operator Inmarsat, buy-to-let specialist lender Paragon Group of Companies, and electrical goods and telecoms retailer Dixons Carphone.

The stake in Barclays was sold after the referendum as the outlook for the banking sector has deteriorated. Concerns were felt about the prospect of increasing pressure on Ladbrokes from possible regulations covering fixed odds betting terminals. The holding in BHP Billiton was sold into the recovery to reduce the fund's exposure to the resources sector. Advantage was taken of a bounce in Inmarsat's share price after good third-quarter results, as it had performed well over the years and seemed fairly valued. Post the Brexit sell-off, Paragon made a strong recovery which had left it looking more fully valued, so it was decided to exit the position as 2017 could prove to be a difficult year for the mainstream housing market. Dixons Carphone is trading well in a competitive retail environment, but it was felt that the company could struggle, given a tougher consumer backdrop.

M&G UK Select Fund

Authorised Corporate Director's Report

Investment review

Outlook

Whilst noting that they are backward-looking, there have been more positive economic data releases in the UK, with continued strength from the dominant services sector reflecting surging consumer confidence. The BoE has more than once revised upwards a gloomy forecast issued immediately after the referendum. However, expectations for 2017 and 2018 gross domestic product (GDP) growth have still been revised downwards. Meanwhile, the unemployment rate dipped slightly to 4,8% in the three months ended September 2016, to the lowest level since 2005, although there are indications that employment growth may be slowing.

Inflation remains low for the time being, but the combination of a weak domestic currency, a strong US dollar and rising oil prices means that consumer prices could rise in the UK. The BoE has significantly increased its predictions for inflation, which it expects to reach 2,7% next year, breaching the 2% target, compared with a current level of 1,2%. However, notwithstanding this, interest rates are expected to remain low for the foreseeable future in support of the UK economy. The impact of Brexit is unclear, but in the short term it has created a climate of uncertainty. For now, though, domestic demand remains strong and the weak currency is providing a boost to exports.

A more protectionist stance in the US appears likely, following president-elect Trump's victory, while the Federal Reserve has reacted to strong growth in the US economy and falling unemployment by increasing interest rates for the second time in the current cycle in December.

Despite the uncertain backdrop, prospects for UK companies over the longer term appear reasonably positive; corporate health is generally sound and dividend growth is encouraging. As a substantial part of the stockmarket's earnings are derived from overseas, much will depend on the post-Brexit reality, particularly the economic and trade implications of the UK's new position in the world, together with how the Trump presidency evolves.

Garfield Kiff & Rory Alexander Deputy fund managers

Employees of M&G Limited which is an associate of M&G Securities Limited. For the majority of the review period Mike Felton was the fund manager.

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

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

Investments

Portfolio statement

as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
Oil & gas producers	67.207	11,84	11,36
11.104.754 BP	50.632	8,92	
3.356.358 Cairn Energy	6.454	1,14	
7.058.439 Ophir Energy	5.611	0,99	
1.555.025 Tullow Oil	4.510	0,79	
Oil equipment, services & distribution	8.459	1,49	1,08
1.033.436 John Wood Group	8.459	1,49	
Chemicals	8.188	1,44	0,96
478.020 Victrex	8.188	1,44	
Forestry & paper	16.356	2,88	2,53
996.072 Mondi	16.356	2,88	
Industrial metals & mining	5.655	1,00	0,49
645.355 First Quantum Minerals	5.655	1,00	
Mining	12.947	2,28	2,53
432.560 Rio Tinto	12.947	2,28	
Construction & materials	29.745	5,24	5,24
808.720 CRH	21.844	3,85	
627.056 Galliford Try	7.901	1,39	
Aerospace & defence	11.355	2,00	2,02
2.956.685 Cobham	4.873	0,86	
3.530.769 Senior	6.482	1,14	
General industrials	23.709	4,18	3,95
1.934.809 DS Smith	7.650	1,35	
1.482.850 RPC Group	16.059	2,83	
Industrial engineering	11.071	1,95	0,23
6.058.154 Melrose Industries	11.071	1,95	
Support services	34.817	6,14	6,75
1.582.222 Babcock International Group	15.110	2,67	
748.717 Travis Perkins	10.108	1,78	
681.734 W.S. Atkins	9.599	1,69	
Beverages	13.286	2,34	0,00
2.665.186 A.G. Barr	13.286	2,34	
Household goods & home construction	15.280	2,69	1,46
706.578 Bovis Homes Group	5.780	1,02	
5.678.495 McCarthy & Stone	9.500	1,67	
Tobacco	27.892	4,92	3,19
617.346 British American Tobacco	27.892	4,92	
Healthcare equipment & services	42.340	7,46	6,88
4.162.693 ConvaTec	9.949	1,75	
2.119.851 Smith & Nephew	24.082	4,24	
2.345.751 Spire Healthcare	8.309	1,47	
Pharmaceuticals & biotechnology	41.852	7,38	7,30
384.831 AstraZeneca	16.307	2,87	
187.060 BTG	1.110	0,20	
813.456 GlaxoSmithKline	12.279	2,17	
253.463 Shire	12.156	2,14	

M&G UK Select Fund

Authorised Corporate Director's Report

Investments

Portfolio statement (continued)			
as at Holding	30.11.16 £'000	30.11.16 %	31.05.16 %
General retailers	26.395	4,65	3,53
2.629.341 Saga	5.075	0,89	
91.472 Signet Jewelers	6.744	1,19	
964.644 WH Smith	14.576	2,57	
Media	16.208	2,86	2,93
7.068.524 ITV	11.868	2,09	
561.831 Sky	4.340	0,77	
Travel & leisure	8.681	1,53	3,03
1.974.759 International Consolidated Airlines Group	8.681	1,53	
Mobile telecommunications	18.068	3,18	5,26
9.178.456 Vodafone Group	18.068	3,18	
Banks	25.502	4,49	7,80
43.818.398 Lloyds Banking Group	25.502	4,49	
Life insurance	45.252	7,98	8,36
3.360.159 Aviva	15.107	2,66	
3.515.586 Legal & General Group	8.300	1,47	
1.406.628 Prudential ^[a]	21.845	3,85	
Real estate investment trusts	7.078	1,25	0,84
1.017.671 Workspace Group	7.078	1,25	
Financial services	18.052	3,18	4,07
523.196 IG Group Holdings	4.426	0,78	
11.921.602 Man Group	13.626	2,40	
Software & computer services	31.853	5,61	3,95
789.738 Micro Focus International	16.758	2,95	
1.634.078 Sage Group	10.948	1,93	
1.626.872 Sophos	4.147	0,73	
Unquoted / unlisted	0	0,00	0,00
770.825 Izodia ^[b]	0	0,00	
Portfolio of investments	567.248	99,96	95,74
'AAA' rated money market funds ^[c]	9.385	1,65	4,01
9.385.000 Northern Trust Global Fund - Sterling	9.385	1,65	
Total portfolio	576.633	101,61	99,75
Net other assets / (liabilities)	(9.128)	(1,61)	0,25
Net assets attributable to shareholders	567.505	100,00	100,00

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

^[a] Related party to the fund.

^[b] Suspended.

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

Top ten portfolio transactions

for the six months to 30 November 2016

	£'000
Largest purchases	
WH Smith	14.438
A.G. Barr	13.540
W.S. Atkins	10.618
McCarthy & Stone	9.949
ConvaTec	9.366
John Wood Group	8.307
British American Tobacco	7.205
Melrose Industries	5.958
Man Group	5.534
Sophos	4.555
Other purchases	26.529
Total purchases	115.999
Largest sales	
Inmarsat	11.687
Barclays	9.635
Smurfit Kappa	9.417
Spire Healthcare	8.728
Galliford Try	8.478
Paragon Group of Companies	8.064
BP	7.946
Ladbrokes	7.794
Cairn Energy	7.646
BHP Billiton	7.091
Other sales	108.221
Total sales	194.707

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

M&G UK Select 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.

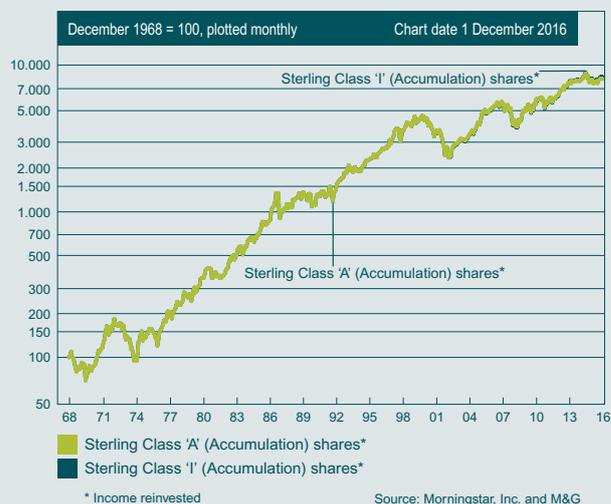
The fund is available for investment in different share classes, each with varying levels of charges and minimum investments; please refer to the Prospectus for M&G Investment Funds (2), which is available free of charge either from our website at www.mandg.co.uk/prospectuses or by calling M&G Customer Relations.

Fund level performance

Fund net asset value			
as at	30.11.16 £'000	31.05.16 £'000	31.05.15 £'000
Fund net asset value (NAV)	567,505	655,835	830,000

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.



Ten-year performance

Please note that comparative data is not available from fund launch. Therefore a ten-year comparable performance chart is shown below.



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.

M&G UK Select Fund

Financial highlights

Fund performance

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

Long-term performance by share class				
	Six months 01.06.16 % ^[a]	Three years 02.12.13 % p.a.	Five years 01.12.11 % p.a.	Since launch % p.a.
Euro ^[b]				
Class 'A'	-4,8	+1,4	+8,1	+2,3 ^[c]
Class 'C'	-4,4	+2,2	+8,9	+3,0 ^[c]
Sterling ^[d]				
Class 'A'	+3,8	+2,0	+7,7	+9,6 ^[e]
Class 'C'	+4,6	+3,6	n/a	+6,0 ^[f]
Class 'I'	+4,2	+2,8	n/a	+8,0 ^[g]
Class 'R'	+4,1	+2,6	n/a	+7,8 ^[g]
Class 'X'	+3,8	+2,0	+7,7	+8,8 ^[h]

^[a] Absolute basis.

^[b] Price to price with net income reinvested.

^[c] 31 August 2007, the launch date of the share class.

^[d] Price to price with income reinvested.

^[e] 17 December 1968, the end of the initial offer period of the predecessor unit trust.

^[f] 13 March 2013, the launch date of the share class.

^[g] 3 August 2012, the launch date of the share class.

^[h] 1 October 2002, the launch date of the share class.

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

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, method of execution and the quality of research provided. They are made up of direct and indirect portfolio transaction costs:

- **Direct portfolio transaction costs:** Broker execution commission, taxes, and costs of research from brokers and other research providers.
- **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.

M&G UK Select Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

Portfolio transaction costs (continued)

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 30.11.16	Year to 31.05.16	Year to 31.05.15	Average ^[a]
Direct portfolio transaction costs ^[b]	%	%	%	%
Broker commission	0,08	0,08	0,05	0,07
Taxes	0,16	0,15	0,15	0,15
Costs before dilution adjustments	0,24	0,23	0,20	0,22
Dilution adjustments ^[c]	(0,02)	(0,03)	(0,04)	(0,03)
Total direct portfolio transaction costs	0,22	0,20	0,16	0,19
as at	30.11.16	31.05.16	31.05.15	Average ^[a]
Indirect portfolio transaction costs	%	%	%	%
Average portfolio dealing spread	0,08	0,09	0,13	0,10

^[a] Average of first three columns.

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

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

Specific share class performance

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

Euro Class 'A' Accumulation share performance

The share class was launched on 31 August 2007.

	Six months to 30.11.16	Year to 31.05.16	Year to 31.05.15
Change in NAV per share	Euro ¢	Euro ¢	Euro ¢
Opening NAV	1.323,73	1.578,45	1.242,10
Return before operating charges and after direct portfolio transaction costs	(86,53)	(232,03)	358,61
Operating charges	(10,04)	(22,69)	(22,26)
Return after operating charges	(96,57)	(254,72)	336,35
Distributions	(5,58)	(20,40)	(19,95)
Retained distributions	5,58	20,40	19,95
Closing NAV	1.227,16	1.323,73	1.578,45
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1,45	3,19	2,66
Dilution adjustments ^[b]	(0,14)	(0,39)	(0,58)
Total direct portfolio transaction costs	1,31	2,80	2,08
Performance and charges	%	%	%
Direct portfolio transaction costs	0,22	0,20	0,16
Operating charges	1,66	1,66	1,66
Return after operating charges	-7,30	-16,14	+27,08
Historic yield ^[c]	1,32	1,61	1,31
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	3.153	4.257	4.070
Closing NAV percentage of total fund NAV (%)	0,56	0,65	0,49
Number of shares	300.514	421.452	358.793
Highest share price (Euro ¢)	1.320,16	1.585,52	1.590,72
Lowest share price (Euro ¢)	1.093,05	1.119,18	1.152,58

M&G UK Select Fund

Financial highlights

Specific share class performance

Euro Class 'C' Accumulation share performance

The share class was launched on 31 August 2007.

Change in NAV per share	Six months to 30.11.16 Euro ¢	Year to 31.05.16 Euro ¢	Year to 31.05.15 Euro ¢
Opening NAV	1,412,18	1,671,58	1,305,51
Return before operating charges and after direct portfolio transaction costs	(92,23)	(246,12)	379,67
Operating charges	(5,85)	(13,28)	(13,60)
Return after operating charges	(98,08)	(259,40)	366,07
Distributions	(10,67)	(31,62)	(31,07)
Retained distributions	10,67	31,62	31,07
Closing NAV	1,314,10	1,412,18	1,671,58
Direct portfolio transaction costs ^[a]	Euro ¢	Euro ¢	Euro ¢
Costs before dilution adjustments	1,55	3,39	3,06
Dilution adjustments ^[b]	(0,15)	(0,42)	(0,67)
Total direct portfolio transaction costs	1,40	2,97	2,39
Performance and charges	%	%	%
Direct portfolio transaction costs	0,22	0,20	0,16
Operating charges	0,91	0,91	0,90
Return after operating charges	-6,95	-15,52	+28,04
Historic yield ^[c]	2,02	2,34	1,92
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	33	46	429
Closing NAV percentage of total fund NAV (%)	0,01	0,01	0,05
Number of shares	2,988	4,282	35,709
Highest share price (Euro ¢)	1,409,04	1,680,79	1,684,40
Lowest share price (Euro ¢)	1,166,75	1,191,42	1,214,90

Sterling Class 'A' Income share performance

The share class was launched on 19 October 1982.

Change in NAV per share	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Opening NAV	2,558,66	2,915,53	2,631,80
Return before operating charges and after direct portfolio transaction costs	120,94	(276,68)	364,95
Operating charges	(21,60)	(43,26)	(44,24)
Return after operating charges	99,34	(319,94)	320,71
Distributions	(19,26)	(36,93)	(36,98)
Closing NAV	2,638,74	2,558,66	2,915,53
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	3,13	6,08	5,27
Dilution adjustments ^[b]	(0,30)	(0,74)	(1,16)
Total direct portfolio transaction costs	2,83	5,34	4,11
Performance and charges	%	%	%
Direct portfolio transaction costs	0,22	0,20	0,16
Operating charges	1,66	1,66	1,66
Return after operating charges	+3,88	-10,97	+12,19
Historic yield ^[c]	2,83	1,48	1,30
Effect on yield of charges offset against capital	1,65	n/a	n/a
Other information			
Closing NAV (£'000)	261,562	262,780	331,912
Closing NAV percentage of total fund NAV (%)	46,09	40,07	39,99
Number of shares	9,912,405	10,270,202	11,384,280
Highest share price (UK p)	2,757,47	2,892,91	2,935,26
Lowest share price (UK p)	2,308,56	2,248,66	2,393,09

Sterling Class 'A' Accumulation share performance

The share class was launched on 17 December 1968.

Change in NAV per share	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Opening NAV	3,819,83	4,290,96	3,822,21
Return before operating charges and after direct portfolio transaction costs	180,86	(407,27)	533,17
Operating charges	(32,25)	(63,86)	(64,42)
Return after operating charges	148,61	(471,13)	468,75
Distributions	(18,05)	(54,46)	(53,95)
Retained distributions	18,05	54,46	53,95
Closing NAV	3,968,44	3,819,83	4,290,96
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	4,67	8,97	7,67
Dilution adjustments ^[b]	(0,45)	(1,10)	(1,68)
Total direct portfolio transaction costs	4,22	7,87	5,99
Performance and charges	%	%	%
Direct portfolio transaction costs	0,22	0,20	0,16
Operating charges	1,66	1,66	1,66
Return after operating charges	+3,89	-10,98	+12,26
Historic yield ^[c]	1,24	1,46	1,28
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	198,810	199,279	264,276
Closing NAV percentage of total fund NAV (%)	35,03	30,39	31,84
Number of shares	5,009,769	5,216,953	6,158,902
Highest share price (UK p)	4,116,93	4,257,90	4,289,28
Lowest share price (UK p)	3,446,72	3,329,01	3,475,66

M&G UK Select Fund

Financial highlights

Specific share class performance

Sterling Class 'C' Income share performance

Sterling Class 'C' shares are not generally available to all investors.
The share class was launched on 13 March 2013.

Change in NAV per share	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Opening NAV	2,560,64	2,917,68	2,632,65
Return before operating charges and after direct portfolio transaction costs	121,39	(276,45)	366,79
Operating charges	(2,09)	(4,15)	(4,26)
Return after operating charges	119,30	(280,60)	362,53
Distributions	(31,94)	(76,44)	(77,50)
Closing NAV	2,648,00	2,560,64	2,917,68
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	3,14	6,10	5,30
Dilution adjustments ^[b]	(0,31)	(0,75)	(1,16)
Total direct portfolio transaction costs	2,83	5,35	4,14
Performance and charges	%	%	%
Direct portfolio transaction costs	0,22	0,20	0,16
Operating charges	0,16	0,16	0,16
Return after operating charges	+4,66	-9,62	+13,77
Historic yield ^[c]	2,82	3,06	2,71
Effect on yield of charges offset against capital	0,15	n/a	n/a
Other information			
Closing NAV (£'000)	16,842	16,650	19,665
Closing NAV percentage of total fund NAV (%)	2,97	2,54	2,37
Number of shares	636,011	650,241	674,003
Highest share price (UK p)	2,773,71	2,895,23	2,957,88
Lowest share price (UK p)	2,312,77	2,256,84	2,407,57

Sterling Class 'I' Income share performance

The share class was launched on 3 August 2012.

Change in NAV per share	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Opening NAV	1,246,28	1,420,09	1,281,90
Return before operating charges and after direct portfolio transaction costs	59,05	(134,66)	178,34
Operating charges	(5,78)	(11,53)	(11,96)
Return after operating charges	53,27	(146,19)	166,38
Distributions	(12,46)	(27,62)	(28,19)
Closing NAV	1,287,09	1,246,28	1,420,09
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1,53	2,96	2,60
Dilution adjustments ^[b]	(0,15)	(0,36)	(0,57)
Total direct portfolio transaction costs	1,38	2,60	2,03
Performance and charges	%	%	%
Direct portfolio transaction costs	0,22	0,20	0,16
Operating charges	0,91	0,91	0,91
Return after operating charges	+4,27	-10,29	+12,98
Historic yield ^[c]	2,83	2,27	2,03
Effect on yield of charges offset against capital	0,90	n/a	n/a
Other information			
Closing NAV (£'000)	28,635	34,011	29,102
Closing NAV percentage of total fund NAV (%)	5,05	5,19	3,51
Number of shares	2,224,783	2,729,019	2,049,268
Highest share price (UK p)	1,346,54	1,409,12	1,435,01
Lowest share price (UK p)	1,125,05	1,096,86	1,168,97

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

Change in NAV per share	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Opening NAV	1,356,20	1,512,06	1,336,81
Return before operating charges and after direct portfolio transaction costs	64,34	(143,49)	187,81
Operating charges	(6,25)	(12,37)	(12,56)
Return after operating charges	58,09	(155,86)	175,25
Distributions	(11,40)	(29,49)	(29,34)
Retained distributions	11,40	29,49	29,34
Closing NAV	1,414,29	1,356,20	1,512,06
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	1,65	3,17	2,73
Dilution adjustments ^[b]	(0,16)	(0,39)	(0,60)
Total direct portfolio transaction costs	1,49	2,78	2,13
Performance and charges	%	%	%
Direct portfolio transaction costs	0,22	0,20	0,16
Operating charges	0,91	0,91	0,91
Return after operating charges	+4,28	-10,31	+13,11
Historic yield ^[c]	1,93	2,23	1,98
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	43,538	123,444	161,291
Closing NAV percentage of total fund NAV (%)	7,67	18,82	19,43
Number of shares	3,078,452	9,102,171	10,666,964
Highest share price (UK p)	1,465,47	1,500,51	1,511,41
Lowest share price (UK p)	1,224,41	1,179,28	1,219,11

M&G UK Select Fund

Financial highlights

Specific share class performance

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

Change in NAV per share	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Opening NAV	124,60	141,98	128,16
Return before operating charges and after direct portfolio transaction costs	5,89	(13,46)	17,81
Operating charges	(0,74)	(1,47)	(1,51)
Return after operating charges	5,15	(14,93)	16,30
Distributions	(1,14)	(2,45)	(2,48)
Closing NAV	128,61	124,60	141,98
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,15	0,30	0,26
Dilution adjustments ^[b]	(0,01)	(0,04)	(0,06)
Total direct portfolio transaction costs	0,14	0,26	0,20
Performance and charges	%	%	%
Direct portfolio transaction costs	0,22	0,20	0,16
Operating charges	1,16	1,16	1,16
Return after operating charges	+4,13	-10,52	+12,72
Historic yield ^[c]	2,83	2,02	1,78
Effect on yield of charges offset against capital	1,15	n/a	n/a
Other information			
Closing NAV (£'000)	572	520	468
Closing NAV percentage of total fund NAV (%)	0,10	0,08	0,06
Number of shares	444.775	417.479	329.435
Highest share price (UK p)	134,51	140,88	143,29
Lowest share price (UK p)	112,46	109,61	116,76

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

Change in NAV per share	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Opening NAV	134,28	150,09	133,04
Return before operating charges and after direct portfolio transaction costs	6,37	(14,25)	18,63
Operating charges	(0,79)	(1,56)	(1,58)
Return after operating charges	5,58	(15,81)	17,05
Distributions	(0,97)	(2,59)	(2,59)
Retained distributions	0,97	2,59	2,59
Closing NAV	139,86	134,28	150,09
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	0,16	0,31	0,27
Dilution adjustments ^[b]	(0,02)	(0,04)	(0,06)
Total direct portfolio transaction costs	0,14	0,27	0,21
Performance and charges	%	%	%
Direct portfolio transaction costs	0,22	0,20	0,16
Operating charges	1,16	1,16	1,16
Return after operating charges	+4,16	-10,53	+12,82
Historic yield ^[c]	1,70	1,98	1,76
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	357	363	341
Closing NAV percentage of total fund NAV (%)	0,06	0,05	0,04
Number of shares	254.976	270.582	227.300
Highest share price (UK p)	144,98	148,94	150,03
Lowest share price (UK p)	121,21	116,85	121,21

Sterling Class 'X' Income share performance

The share class was launched on 1 October 2002.

Change in NAV per share	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Opening NAV	2.575,72	2.935,02	2.649,49
Return before operating charges and after direct portfolio transaction costs	121,74	(278,55)	367,45
Operating charges	(21,74)	(43,52)	(44,59)
Return after operating charges	100,00	(322,07)	322,86
Distributions	(19,39)	(37,23)	(37,33)
Closing NAV	2.656,33	2.575,72	2.935,02
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	3,15	6,12	5,31
Dilution adjustments ^[b]	(0,31)	(0,75)	(1,17)
Total direct portfolio transaction costs	2,84	5,37	4,14
Performance and charges	%	%	%
Direct portfolio transaction costs	0,22	0,20	0,16
Operating charges	1,66	1,66	1,66
Return after operating charges	+3,88	-10,97	+12,19
Historic yield ^[c]	2,83	1,48	1,30
Effect on yield of charges offset against capital	1,65	n/a	n/a
Other information			
Closing NAV (£'000)	8.923	9.157	11.228
Closing NAV percentage of total fund NAV (%)	1,57	1,39	1,35
Number of shares	335.916	355.505	382.547
Highest share price (UK p)	2.775,84	2.912,25	2.954,97
Lowest share price (UK p)	2.323,95	2.263,66	2.409,17

M&G UK Select Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

	Six months to 30.11.16 UK p	Year to 31.05.16 UK p	Year to 31.05.15 UK p
Change in NAV per share			
Opening NAV	3,778,84	4,244,91	3,781,26
Return before operating charges and after direct portfolio transaction costs	178,91	(402,88)	527,16
Operating charges	(31,89)	(63,19)	(63,51)
Return after operating charges	147,02	(466,07)	463,65
Distributions	(17,86)	(54,02)	(52,65)
Retained distributions	17,86	54,02	52,65
Closing NAV	3,925,86	3,778,84	4,244,91
Direct portfolio transaction costs ^[a]	UK p	UK p	UK p
Costs before dilution adjustments	4,62	8,88	7,56
Dilution adjustments ^[b]	(0,45)	(1,09)	(1,66)
Total direct portfolio transaction costs	4,17	7,79	5,90
Performance and charges	%	%	%
Direct portfolio transaction costs	0,22	0,20	0,16
Operating charges	1,66	1,66	1,66
Return after operating charges	+3,89	-10,98	+12,26
Historic yield ^[c]	1,24	1,47	1,27
Effect on yield of charges offset against capital	n/a	n/a	n/a
Other information			
Closing NAV (£'000)	5,080	5,328	7,218
Closing NAV percentage of total fund NAV (%)	0,89	0,81	0,87
Number of shares	129,410	141,001	170,040
Highest share price (UK p)	4,072,76	4,212,21	4,243,25
Lowest share price (UK p)	3,409,73	3,293,28	3,438,39

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

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

^[c] Following the change in charging structure outlined on page 1, you may see variances between the comparative and current year figures.

M&G UK Select Fund

Financial statements and notes

Financial statements

Statement of total return

for the six months to 30 November	2016		2015	
	£'000	£'000	£'000	£'000
Income				
Net capital gains / (losses)		18.078		(73.908)
Revenue	9.806		10.581	
Expenses	(4.542)		(5.419)	
Net revenue / (expense) before taxation	5.264		5.162	
Taxation	(1)		(1)	
Net revenue / (expense) after taxation		5.263		5.161
Total return before distributions		23.341		(68.747)
Distributions		(4.199)		(4.943)
Change in net assets attributable to shareholders from investment activities		19.142		(73.690)

Statement of change in net assets attributable to shareholders

for the six months to 30 November	2016		2015	
	£'000	£'000	£'000	£'000
Opening net assets attributable to shareholders		655.835		830.000
Amounts received on issue of shares	3.818		55.654	
Amounts paid on cancellation of shares	(112.701)		(93.896)	
		(108.883)		(38.242)
Dilution adjustments		100		241
Change in net assets attributable to shareholders from investment activities (see above)		19.142		(73.690)
Retained distributions on Accumulation shares		1.295		2.691
Unclaimed distributions		16		16
Closing net assets attributable to shareholders		567.505		721.016

The opening net assets attributable to shareholders for 2016 differs to the closing position in 2015 by the change in net assets attributable to shareholders for the second half of the comparative financial year.

Balance sheet

as at	30 November 2016	31 May 2016
	£'000	£'000
Assets		
Fixed assets		
Investments	576.633	654.177
Current assets		
Debtors	2.713	1.909
Cash and bank balances	1.129	4.963
Total assets	580.475	661.049
Liabilities		
Creditors		
Bank overdrafts	(2.429)	0
Distribution payable	(2.460)	(2.972)
Other creditors	(8.081)	(2.242)
Total liabilities	(12.970)	(5.214)
Net assets attributable to shareholders	567.505	655.835

Notes to the financial statements

Accounting policies

The financial statements have been prepared in accordance with the 'Accounting policies' set out on page 4.

Distribution policy

With effect from 1 October 2016 the distribution policy has been amended so that in determining the amount available for distribution to Income shares, the annual management charge and administration charge are now 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.

M&G Investment Funds (2)

Other regulatory disclosures

Interest bearing assets

In accordance with the EU Savings Directive (2003/48/EC), we disclose the percentage of interest-bearing assets held.

	% of NAV
M&G Gilt & Fixed Interest Income Fund	99,30
M&G Global High Yield Bond Fund	98,40
M&G Index-Linked Bond Fund	100,00
M&G Index Tracker Fund	1,95
M&G Short Dated Corporate Bond Fund	99,10
M&G UK Income Distribution Fund	21,08
M&G UK Select Fund	1,85

The EU Savings Directive was abolished following the implementation of the Common Reporting Standard under Directive 2014/107/EU. Accordingly, this percentage will no longer be published for accounting periods ended on or after 1 January 2017.

Swiss investor information

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

For these funds the TERs are the same as the Operating Charges disclosed in each fund's financial highlights section.

Glossary

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

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

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

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

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

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

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

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

Bunds: Fixed income securities issued by the German government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

Equities: Shares of ownership in a company.

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

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

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

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

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

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

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

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

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

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

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

Gilts: Fixed income securities issued by the UK government.

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

Hedging: A method of reducing unnecessary or unintended risk.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

Glossary

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.

M&G Securities Limited is authorised and regulated by the Financial Conduct Authority and provides investment products. The Company's registered office is Laurence Pountney Hill, London EC4R 0HH. Registered in England number 90776.

