M&G Investment Funds (2)

Annual Long Report and audited Financial Statements
for the year ended 31 May 2017

M&G INVESTMENTS

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M&G Investment Funds (2)

Authorised Corporate Director's Report

The Authorised Corporate Director (ACD) of M&G Investment Funds (2) presents its Annual Long Report and audited Financial Statements for the year ended 31 May 2017.

The audited financial statements of M&G Investment Funds (2) and the investment report and audited 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 31 May 2017, 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
(formerly M&G Extra Income Fund)
Richard Hughes

M&G UK Select Fund
Sam Ford

At the start 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 the 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.

Additionally from 1 October 2016 the M&G Gilt & Fixed Interest Income Fund, the M&G Short Dated Corporate Bond Fund, the M&G Global High Yield Bond Fund, the M&G Index-Linked Bond Fund, the M&G Index Tracker Fund and the M&G UK Select 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 the M&G UK Income Distribution Fund as mentioned above. All costs associated with introducing these changes were borne by M&G Securities Limited.

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, was phased in between October 2016 and March 2017.

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

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

Please note that with effect from 16 December 2016:

- we have discounted the initial charge to zero on all new investments into sterling share classes that currently carry such a charge.
- we have waived the exit charges on future withdrawals from all Sterling Class 'X' shares.
- the annual management charge (AMC) for the M&G UK Income Distribution Fund was reduced on Sterling Class 'I' and Class 'R' shares as follows:

Table of changes

M&G UK Income Distribution Fund	AMC before effective date	AMC after effective date
Sterling Class 'I'	0.75%	0.60%
Sterling Class 'R'	1.00%	0.85%

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 Securities Limited,
c/o RBCIS, 14, Porte de France, 4360 Esch-sur-Alzette,
Grand Duchy of Luxembourg

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: +352 2605 9944
Email: csmandg@rbc.com

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

Austrian paying and information agent:

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

Belgian financial agent:

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

Danish representative agent:

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

French centralising agent:

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

German information agent:

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

Investor information

Greek paying agent and distributor:

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

Irish facilities agent:

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

Italian paying agents:

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

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

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

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

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

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

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

Luxembourg paying and information agent:

Société Générale Bank & Trust S.A.,
Centre operationel, 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.

Statement of the Depositary's Responsibilities and Report of the Depositary to the Shareholders of M&G Investment Funds (2) ('the Company') for the period ended 31 May 2017

The Depositary must ensure that the Company is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes sourcebook, the Open-Ended Investment Companies Regulations 2001 (SI2001/1228) (the OEIC Regulations), as amended, the Financial Services and Markets Act 2000, as amended, (together 'the Regulations'), the Company's Instrument of Incorporation and Prospectus (together 'the Scheme documents') as detailed below.

The Depositary must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Company and its investors.

The Depositary is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Company in accordance with the Regulations.

The Depositary must ensure that:

- the Company's cashflows are properly monitored (this requirement on the Depositary applied from 18 March 2016) and that cash of the Company is booked into the cash accounts in accordance with the Regulations;
- the sale, issue, redemption and cancellation of shares are carried out in accordance with the Regulations;
- the value of shares in the Company is calculated in accordance with the Regulations;
- any consideration relating to transactions in the Company's assets is remitted to the Company within the usual time limits;
- the Company's income is applied in accordance with the Regulations; and
- the instructions of the Authorised Fund Manager ('the AFM') are carried out (unless they conflict with the Regulations).

The Depositary also has a duty to take reasonable care to ensure that the Company is managed in accordance with the Regulations and the Scheme documents in relation to the investment and borrowing powers applicable to the Company.

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the AFM:

(i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's income in accordance with the Regulations and the Scheme documents of the Company, and

(ii) has observed the investment and borrowing powers and restrictions applicable to the Company.

Edinburgh
13 July 2017

National Westminster Bank Plc
Trustee and Depositary Services

Independent Auditor's Report to the shareholders of M&G Investment Funds (2) ICVC

We have audited the financial statements of M&G Investment Funds (2) ICVC ('the Company') for the year ended 31 May 2017 which comprise the Statement of Total Return and Statement of Change in Net Assets Attributable to Shareholders together with the Balance Sheet for the Company comprising its sub-funds, the accounting policies and risk management policies of the Company and the related notes for the sub-funds. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including FRS102 'The Financial Reporting Standard applicable to the UK and the Republic of Ireland'

This report is made solely to the Company's shareholders, as a body, pursuant to Paragraph 4.5.12 of the rules of the Collective Investment Schemes sourcebook of the Financial Conduct Authority. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Authorised Corporate Director and Auditor

As explained more fully in the Authorised Corporate Director's responsibilities statement set out on page 3, the Authorised Corporate Director is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Authorised Corporate Director; and
- the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the financial position of the Company comprising the sub-funds as at 31 May 2017 and of the net revenue and the net capital gains on the scheme property of the Company comprising the sub-funds for the year then ended; and
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Opinion on other matters prescribed by the rules of the Collective Investment Schemes sourcebook of the Financial Conduct Authority

In our opinion:

- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Funds, the rules of the Collective Investment Schemes sourcebook of the Financial Conduct Authority and the Instrument of Incorporation;
- the information given in the Authorised Corporate Director's report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- there is nothing to indicate that proper accounting records have not been kept or that the financial statements are not in agreement with those records; and
- we have received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit.

Edinburgh
13 July 2017

Ernst & Young LLP
Statutory Auditor

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

1 Statement of compliance

The financial statements of M&G Investment Funds (2) have been prepared in compliance with UK Financial Reporting Standard 102 (FRS 102) and in accordance with the Statement of Recommended Practice (SORP) for Authorised Funds issued by the Investment Association in May 2014.

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 International Financial Reporting Standards (IFRS).

2 Summary of significant accounting policies

a) Basis of preparation

The financial statements of M&G Investment Funds (2) are prepared on a going concern basis, under the historical cost convention as modified by the revaluation of certain financial assets and liabilities measured at fair value through profit or loss.

b) Functional and presentational currency

The functional and presentational currency of M&G Investment Funds (2) is UK sterling.

c) Exchange rates

Transactions in currencies other than each fund's functional currency are translated at the rate of exchange ruling on the date of the transaction and where applicable assets and liabilities are translated into the fund's functional currency at the rate of exchange ruling as at 12 noon on 31 May 2017 being the last business day of the accounting period.

d) Investments - recognition and valuation

The provisions of both Section 11 and Section 12 of FRS 102 have been applied in full. All investments have been designated as fair value through profit and loss and recognised initially at fair value, which is normally the transaction price (excluding transaction costs and accrued interest).

At the end of the reporting period all investments have been measured at their fair value using the prices and the portfolio holdings determined at 12 noon on 31 May 2017, being the last valuation point of the accounting period, as this is not materially different from a valuation carried out at close of business on the balance sheet date.

Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the single price or most recent transaction price is used. Interest accrued is not included in the fair value. The methods of determining fair value for the principal classes of investment are:

- Equities and debt securities which are traded on an active market are included at the quoted price, which is normally the bid price, excluding any accrued interest in respect of bonds.
- Equities traded on the Alternative Investment Market (AIM), whose liquidity cannot be guaranteed, are included at their quoted bid price as this represents the most objective and appropriate method of valuation.
- Collective investment schemes operated by the ACD are included at either their cancellation price for dual priced funds or their single price for single priced funds.
- Collective investment schemes operated by another manager are included at either their bid price for dual priced funds or their single price for single priced funds.
- Other equities and debt securities which are unquoted or not actively traded on a quoted market are included at a value estimated by the ACD using an appropriate valuation technique, excluding any accrued interest in respect of bonds.
- Exchange traded futures and options are included at the cost of closing out the contract at the balance sheet date.
- Over the counter equity options, credit default swaps, interest rate swaps, asset swaps and inflation swaps are included at a value provided by Markit Valuations Limited, an independent credit derivative price provider. Their fair value excludes any accrued interest in respect of derivatives where the income is revenue in nature.
- Forward currency contracts, for share class hedging and investment, are included at a value determined by reference to current forward exchange rates for contracts with similar maturity profiles.

e) Recognition of income and expenses

- Dividends, including ordinary stock dividends, from equity investments are recognised when the security is quoted ex-dividend.
- Distributions from collective investment schemes are recognised when the scheme is priced ex-distribution.
- Interest income, including coupons from debt securities and bank interest is recognised on an accruals basis.
- Underwriting commission is recognised when the issue takes place.
- Revenue from derivatives is recognised on an accruals basis.
- Fee rebates from investing in other collective investment schemes are recognised on an accruals basis.
- Expenses are recognised on an accruals basis.

Notes to the financial statements

2 Summary of significant accounting policies (continued)

f) Treatment of income and expenses

- Any increases or decreases in the fair value of investments and gains and losses realised on sales of investments are treated as capital and recognised in net capital gains / (losses).
- Ordinary equity dividends, including ordinary stock dividends are treated as revenue.
- Special dividends, share buy backs or additional share issues may be treated as revenue or capital depending on the facts of each particular case.
- The value of any enhancement to a stock dividend is treated as capital.
- Distributions from collective investment schemes are treated as revenue in nature, except for any element of equalisation, which represents the average amount of income included in the price paid for the collective investment scheme, which is treated as capital.
- Debt security interest comprises the coupon interest and the difference between the purchase price and the expected maturity price spread over its expected remaining life. This is treated as revenue with the difference adjusting the cost of the shares and treated as capital.
- Other interest income, such as bank interest is treated as revenue.
- Underwriting commission is treated as revenue, except where the fund is required to take up all or some of the shares underwritten, in which case a proportion of the commission received is deducted from the cost of the shares and treated as capital.
- The treatment of the income on derivative contracts depends upon the nature of the transaction. Both motive and circumstances are used to determine whether the returns should be treated as capital or revenue. Where positions are undertaken to protect or enhance capital, and the circumstances support this, the returns are recognised in net capital gains; similarly where the motives and circumstances are to generate or protect revenue, and the circumstances support this, the returns are included within net revenue before taxation. Where positions generate total returns it will generally be appropriate to apportion such returns between capital and revenue to properly reflect the nature of the transaction.
- Expenses relating to the purchase and sale of investments are treated as capital; all other expenses are treated as revenue.
- Rebates of charges from holdings in collective investment schemes are treated as revenue or capital in accordance with the underlying scheme's distribution policy.

g) Tax

Dividends and similar income receivable are recognised at an amount that includes any withholding tax but excludes irrecoverable tax credits. Any withholding tax suffered is shown as part of the tax charge.

Tax is accounted for at the appropriate rate of corporation tax with relief for double taxation taken where appropriate. The tax accounting treatment follows the principal amounts involved.

Deferred tax is recognised in respect of temporary timing differences that have originated but not reversed by the balance sheet date. Deferred tax is measured on a non-discounted basis, at the average rate of tax expected to apply in the period in which it expects the deferred tax to be realised or settled. A deferred tax asset is only recognised to the extent that it is more likely than not that the asset will be recovered.

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

h) Allocation of returns to share classes

The annual management charge, any share class hedging returns and associated share class hedging charge are directly attributable to individual share classes. All other returns are apportioned to each fund's share classes pro-rata to the value of the net assets of the relevant share class on the day that the income or expenses are recognised.

All available net revenue accounted for in accordance with the above policies and adjusted where relevant by any specific distribution policies set out in the notes to that fund's financial statements, is distributed to holders of Income shares or retained and reinvested for holders of Accumulation shares. Should expenses and taxation together exceed revenue, there will be no distribution and the shortfall will be met from capital.

Distributions which have remained unclaimed by shareholders for more than six years are credited to the capital property of the fund.

3 Risk management policies

The ACD is responsible for establishing, implementing and maintaining an adequate and documented risk management policy for identifying, measuring and managing all risks to which funds are or might be exposed.

The Company's investment activities expose it to various types of risk which are associated with the financial instruments and markets in which it invests; market risk, credit risk and liquidity risk.

These financial statements are designed to enable users to evaluate the nature and extent of those risks and how they are managed.

The following risk management policies are applicable to the funds, with specific risk disclosures set out in the notes to the financial statements of each fund.

Notes to the financial statements

3 Risk management policies (continued)

Market risk

Market risk is the risk of loss resulting from fluctuations in the market value of positions in a fund's portfolio attributable to changes in market variables, such as interest rates, foreign exchange rates, equity and commodity prices or an issuer's creditworthiness.

In relation to market risk, processes are applied that take account of the investment objective and policy of each fund. All funds are subject to an investment oversight process in accordance with the type and nature of the fund. In addition all funds are monitored for compliance within regulatory limits.

In measuring and monitoring market risk, the global exposure of a fund may be calculated using a 'commitment' approach or 'Value at Risk' (VaR) approach.

Commitment approach

The commitment approach is applied for funds investing only in traditional asset classes, namely equities, fixed income, money market instruments and collective investment schemes.

In addition, the approach is applied for funds which use or intend to use derivatives or instruments embedding derivatives, but only for efficient portfolio management purposes, or in a simple way not necessarily restricted to efficient portfolio management.

Under the commitment approach the global exposure of funds is measured and monitored using a commitment (adjusted notional) methodology.

Market risk is considered on a daily basis and forms the foundation of investment oversight analysis. This can include for each fund (but is not limited to) the analysis of factors such as fund concentration; style, geographical, industry and market capitalisation biases; active, systematic and specific risk measurements; active money; and beta characteristics.

Value at Risk approach

The Value at Risk (VaR) approach is a methodology for estimating the maximum potential loss due to market risk based on historic market volatilities and correlations. More particularly, the VaR approach gives a broad indication of the maximum potential loss at a given confidence level (probability), over a specific time period under normal market conditions.

Instrument and portfolio modelling techniques are based on market accepted practices and are subject to regular audit (back-testing). Market risk factors that are analysed include LIBOR / swap rates, government yield curves, equity prices, foreign exchange, market volatility, credit spreads and credit default swap (CDS) spreads.

The VaR model is based on a Monte Carlo process with actual VaR being reported on the basis of a 99% confidence interval over a one month period (20 business days). Risk factor history used in the Monte Carlo process is based on 250 business days. From the variance / covariance matrices, a parametric Monte Carlo scenario set of 5,000 simulations is derived and applied to the fund.

VaR does have limitations in its ability to present valid levels of risk in extreme market conditions. Accordingly, the Risk Analysis team also carries out monthly stress testing and scenario based analysis. Stress testing allows for extreme sets of market circumstances which may not be reflected in historical data sets thereby enabling further assessment of combinations of market movements which may cause serious damage to portfolio values. The key element to the scenario based analysis is challenging the correlation assumptions implicit within statistical based models such as VaR.

The stress test and scenario based analysis is customised for each fund type and the VaR analysis is produced on a daily basis.

The table below shows funds using the 'commitment' approach and those using the 'Value at Risk (VaR)' approach:

Fund	Global exposure approach
M&G Gilt & Fixed Interest Income Fund	VaR
M&G Global High Yield Bond Fund	VaR
M&G Index-Linked Bond Fund	VaR
M&G Index Tracker Fund	Commitment
M&G Short Dated Corporate Bond Fund	VaR
M&G UK Income Distribution Fund	Commitment
M&G UK Select Fund	Commitment

Liquidity risk

Liquidity risk is the risk that a fund's holdings cannot be sold, liquidated or closed out at limited cost in an adequately short time frame and that the ability of the scheme to comply at any time with its obligation to sell and redeem shares is thereby compromised.

The overall liquidity profile for each fund is reviewed and updated regularly. The liquidity profile takes into account investment, cashflow and market liquidity considerations.

Investment liquidity considerations include an assessment of asset class liquidity conditions, liquidity of underlying holdings, portfolio construction and concentration, the scale of individual stock ownership and the nature of the investment strategy.

Cashflow liquidity is managed in each fund on a daily basis using reports that include subscription and redemption information as well as the impact of trading, derivative lifecycle events and corporate action activity. In addition to the daily reporting, the fund managers are provided with reporting that highlights the impact of reasonably predictable events in the portfolio, including an allowance for the potential future exposures that might result from derivative exposures.

Market (or distribution-related) considerations include an assessment of asset demand, fund growth, client concentration and the persistency of the client base. Supplementary to this, market liquidity stress tests are carried out on a monthly basis for all sophisticated funds.

Notes to the financial statements

3 Risk management policies (continued)

Credit risk

For funds exposed to credit risk, the credit rating, yield and maturity of each interest bearing security is considered to determine if the yield fully reflects the risk. The capital value of interest-bearing securities within the funds will fall in the event of the default or perceived increased credit risk of an issuer.

The capital value of interest-bearing securities within a fund may also be affected by interest rate fluctuations such that when interest rates rise, the capital value of the interest-bearing securities is likely to fall and vice versa.

For funds in which they are used, credit default swaps are bought and sold in response to detailed credit research to take advantage of anticipated movements in credit spreads on individual stocks and baskets of securities. When a fund buys a credit default swap the default risk associated with the underlying security transfers to the counterparty. When a fund sells a credit default swap the fund assumes the credit risk of the underlying security.

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 July 2017

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M&G Gilt & Fixed Interest Income Fund

Authorised Corporate Director's Report

Investment objective up to 25 June 2017

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 up to 25 June 2017

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 objective from 26 June 2017

The Fund aims to provide income and capital growth.

Investment policy from 26 June 2017

At least 70% of the Fund is invested in short, medium or long-dated gilts according to the fund manager's view at any given moment of the likely course of interest rates and trend of the gilt market. The Fund's exposure to gilts may be gained through the use of derivatives. Derivatives may also be used for efficient portfolio management. The Fund may also invest in collective investment schemes, other transferable securities, other debt instruments, cash, near cash, other money market securities, warrants and other derivative instruments.

Investment approach

The fund manager's investment approach is driven primarily by macroeconomic factors such as views on interest rates, inflation and economic growth and tends not to be influenced by short-term changes in the economic or market environment.

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' 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 June 2017, for the year ended 31 May 2017

Performance against objective

Between 1 June 2016 (the start of the review period) and 1 June 2017, 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 5.8% and 6.1%, respectively. This was slightly behind the average return from the fund's peer group, the IA UK Gilts sector, which was 6.3% over the same period.

Over three- and five-year periods to 1 June 2017, 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.*

Investment performance

The 12 months under review have been underpinned by geopolitical events. As we entered the review period, 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.

Investment review

Investment performance (continued)

As a result, 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 taken by the BoE 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. Several other major central banks also left interest rates unchanged or even reduced them. China's slowing economy remained a concern, for example, while inflation remained subdued.

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'.)

Towards the end of 2016, the surprise election result in the US saw global bonds generally react negatively as investors weighed how US government debt and inflation might increase if the incoming Trump administration were to implement big infrastructure spending and tax-cutting policies. 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.)

In the final months of 2016, sentiment towards bonds weakened and some of their gains from earlier in the year 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 as the value of the fixed interest payments is worth less in real terms) continued to weigh on global bond markets and they declined.

As we entered 2017 government bond yields rose (prices fell) in response to fears of inflation, partially fuelled by the prospects of higher growth in the US and the promised base effects of oil filtering through into Europe and the UK. However a mix of strong macroeconomic data and political uncertainty regarding European elections, particularly in France and Italy led to demand for government bonds.

Following the results of the Netherlands and French elections, volatility subsided and demand for 'safe-haven' bonds fell towards the end of the review period. The financial markets benefited from the election of the progressive and pro-European candidate Emmanuel Macron as French president. The result was perceived to be a positive outcome for financial markets and led to a narrowing in the difference in yields of European corporate and government bonds and also saw German bund yields rise.

Nevertheless, longer dated UK government bonds generally outperformed those issues with a shorter repayment period. As the fund holds mostly UK government bonds, known as gilts, due to be repaid in between 10 and 25 years, its returns for the review 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 might lead to further interest rate cuts and increased stimulus measures. We therefore bought gilts maturing in 2028, 2039 and 2044, as holding longer dated bonds would increase the duration of the fund.

Following the Bank of England's (BoE) interest rate cut and stimulus package in August to help support the economy following the Brexit vote, we bought bonds with maturities between 10 and 25 years and remained underweight in bonds due to be repaid in more than 25 years' time (to reduce the fund's duration). Inflation expectations increased as the value of 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.

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. However, following a strong performance, we reduced our exposure to TIPS during the second half of the review period.

We also reduced the duration of the fund towards the end of the review period as we believe that gilt yields may rise going forward.

Outlook

The UK's vote to leave the EU has had wide repercussions for financial markets and the economic impact is likely to remain unclear for the foreseeable future. The uncertainties have been exacerbated since the end of the review period with the Conservatives failing to secure a majority in parliament in June's General Election.

Investment review

Outlook (continued)

As fluctuations and volatility in financial markets persist, we expect demand for UK government bonds to continue and prices to rise. 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.

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.

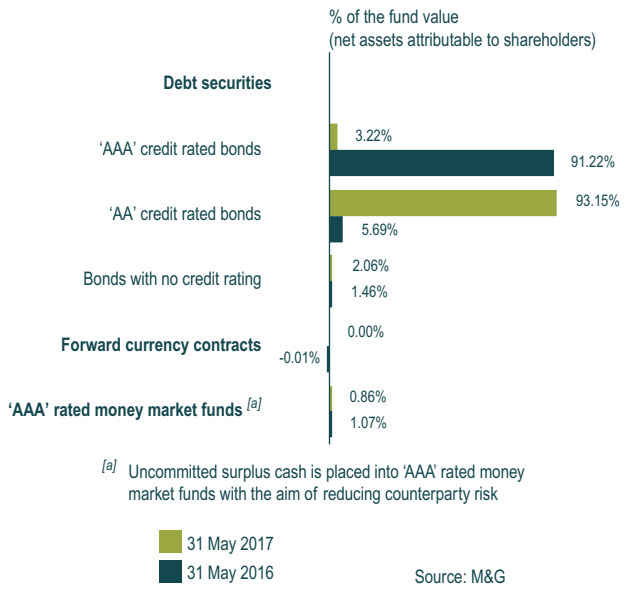
Matthew Russell
Fund manager

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

* 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



Portfolio statement

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Debt securities	**638,148**	**98.43**	**98.37**
	'AAA' credit rated bonds	**20,891**	**3.22**	**91.22**
£7,000,000	European Investment Bank 8.75% 2017	7,136	1.10	
£13,500,000	KfW 1.125% 2019	13,755	2.12	
	'AA' credit rated bonds	**603,905**	**93.15**	**5.69**
£7,407,141	CTRL Section 1 Finance 5.234% 2035	9,611	1.48	
£7,000,000	Finland (Republic of) 1.625% 2020	7,279	1.12	
£7,088,000	Transport for London 1.25% 2017	7,114	1.10	
£5,000,000	Transport for London 3.875% 2042	6,552	1.01	
£12,000,000	Treasury 0.5% 2022	12,030	1.86	
£32,000,000	Treasury 1% 2017	32,077	4.95	
£50,000,000	Treasury 1.5% 2026	52,497	8.10	
£50,900,000	Treasury 1.5% 2047	49,101	7.57	
£30,000,000	Treasury 1.75% 2019	31,060	4.79	
£5,000,000	Treasury 1.75% 2057	5,320	0.82	
£30,000,000	Treasury 2.5% 2065	40,272	6.21	
£63,000,000	Treasury 2.75% 2024	72,262	11.15	
£13,500,000	Treasury 3.25% 2044	17,957	2.77	
£10,000,000	Treasury 4% 2022	11,755	1.81	
£5,000,000	Treasury 4.25% 2032	6,933	1.07	
£27,625,000	Treasury 4.25% 2039	40,922	6.31	
£72,000,000	Treasury 4.5% 2034	104,741	16.16	
£55,000,000	Treasury 5% 2018	57,050	8.80	
£15,000,000	Treasury 6% 2028	23,010	3.55	
$20,000,000	US Treasury 0.125% IL 2020	16,362	2.52	
	Bonds with no credit rating	**13,352**	**2.06**	**1.46**
£10,000,000	European Investment Bank 1.125% 2021	10,216	1.58	
£3,022,000	PRS Finance 1.75% 2026	3,136	0.48	
	Forward currency contracts	**(30)**	**0.00**	**(0.01)**
$(21,455,341)	Sold for £16,667,675 (expires 28.06.17)	(30)	0.00	
Portfolio of investments		**638,118**	**98.43**	**98.36**
	'AAA' rated money market funds [a]	**5,583**	**0.86**	**1.07**
5,583,000	Northern Trust Global Fund - Sterling	5,583	0.86	
Total portfolio (notes 2c & 2d on page 6)		**643,701**	**99.29**	**99.43**
Net other assets / (liabilities)		**4,609**	**0.71**	**0.57**
Net assets attributable to shareholders		**648,310**	**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.

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.

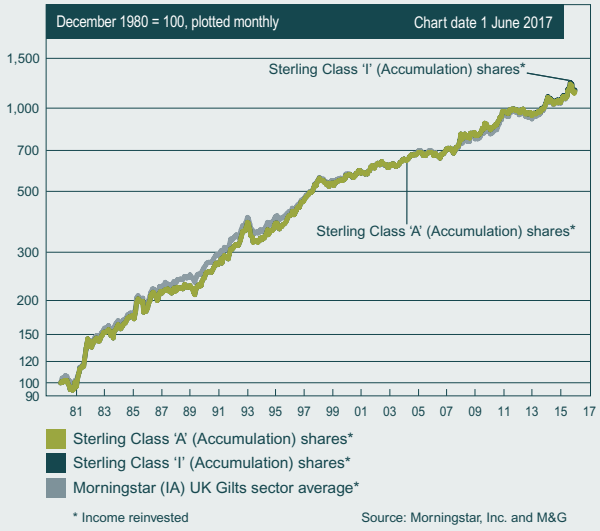
Fund level performance

Fund net asset value

as at 31 May	2017 £'000	2016 £'000	2015 £'000
Fund net asset value (NAV)	648,310	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

	One year 01.06.16 % [a]	Three years 02.06.14 % p.a.	Five years 01.06.12 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	+5.8	+6.6	+3.2	+7.0 [c]
Class 'I'	+6.1	+6.8	n/a	+3.7 [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.

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 and method of execution. They are made up of direct and indirect portfolio transaction costs:

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

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

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

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

Portfolio transaction costs

as at 31 May Indirect portfolio transaction costs	2017 %	2016 %	2015 %	Average [a] %
Average portfolio dealing spread	0.07	0.08	0.07	0.07

[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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	94.61	91.64	84.50
Return before operating charges and after direct portfolio transaction costs	7.67	4.71	8.88
Operating charges	(0.91)	(0.84)	(0.81)
Return after operating charges	6.76	3.87	8.07
Distributions	(1.06)	(0.90)	(0.93)
Closing NAV	100.31	94.61	91.64
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.0
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.91	0.91	0.91
Return after operating charges	+7.15	+4.22	+9.55
Distribution yield [c]	1.16	0.81	1.04
Effect on yield of charges offset against capital	0.90	0.00	0.00
Other information			
Closing NAV (£'000)	81,898	91,193	118,394
Closing NAV percentage of total fund NAV (%)	12.63	13.52	16.86
Number of shares	81,642,684	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	524.72	504.34	461.21
Return before operating charges and after direct portfolio transaction costs	42.64	26.00	48.57
Operating charges	(5.04)	(4.62)	(4.42)
Return after operating charges	37.60	21.38	44.15
Distributions	(2.62)	(4.99)	(5.09)
Retained distributions	2.33	3.99	4.07
Closing NAV	562.03	524.72	504.34
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.0
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.91	0.91	0.91
Return after operating charges	+7.17	+4.24	+9.57
Distribution yield	0.27	0.81	1.04
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	351,649	335,616	390,646
Closing NAV percentage of total fund NAV (%)	54.24	49.75	55.62
Number of shares	62,567,997	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,072.94	1,039.30	958.31
Return before operating charges and after direct portfolio transaction costs	87.01	53.45	100.70
Operating charges	(7.45)	(6.94)	(6.67)
Return after operating charges	79.56	46.51	94.03
Distributions	(12.92)	(12.87)	(13.04)
Closing NAV	1,139.58	1,072.94	1,039.30
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.0
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.66	0.66	0.66
Return after operating charges	+7.42	+4.48	+9.81
Distribution yield [c]	1.16	1.06	1.28
Effect on yield of charges offset against capital	0.65	0.00	0.00
Other information			
Closing NAV (£'000)	43,948	47,015	28,980
Closing NAV percentage of total fund NAV (%)	6.78	6.97	4.12
Number of shares	3,856,533	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,115.43	1,069.97	976.56
Return before operating charges and after direct portfolio transaction costs	90.68	55.26	102.94
Operating charges	(7.77)	(7.14)	(6.86)
Return after operating charges	82.91	48.12	96.08
Distributions	(8.51)	(13.30)	(13.36)
Retained distributions	7.61	10.64	10.69
Closing NAV	1,197.44	1,115.43	1,069.97
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.0
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.66	0.66	0.66
Return after operating charges	+7.43	+4.50	+9.84
Distribution yield	0.51	1.06	1.28
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	170,815	200,800	164,356
Closing NAV percentage of total fund NAV (%)	26.35	29.76	23.40
Number of shares	14,265,003	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] In respect of direct portfolio transaction costs.

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

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

Financial statements

Statement of total return

for the year to 31 May	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Income					
Net capital gains / (losses)	3		43,670		21,071
Revenue	5	9,383		12,895	
Expenses	6	(5,565)		(5,648)	
Net revenue / (expense) before taxation		3,818		7,247	
Taxation	7	(5)		0	
Net revenue / (expense) after taxation			3,813		7,247
Total return before distributions			**47,483**		**28,318**
Distributions	8		(4,520)		(7,247)
Change in net assets attributable to shareholders from investment activities			**42,963**		**21,071**

Statement of change in net assets attributable to shareholders

for the year to 31 May	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Opening net assets attributable to shareholders		**674,624**		**702,376**
Amounts received on issue of shares	38,857		167,184	
Amounts paid on cancellation of shares	(110,877)		(220,627)	
		(72,020)		(53,443)
Dilution adjustments		61		85
Change in net assets attributable to shareholders from investment activities (see above)		42,963		21,071
Retained distributions on Accumulation shares		2,677		4,530
Unclaimed distributions		5		5
Closing net assets attributable to shareholders		**648,310**		**674,624**

Balance sheet

as at 31 May	Note	2017 £'000	2016 £'000
Assets			
Fixed assets			
Investments		643,731	670,849
Current assets			
Debtors	9	5,077	6,211
Cash and bank balances	10	2,874	12
Total assets		**651,682**	**677,072**
Liabilities			
Investment liabilities		(30)	(86)
Creditors			
Bank overdrafts		0	(848)
Distribution payable		(411)	(914)
Other creditors	11	(2,931)	(600)
Total liabilities		**(3,372)**	**(2,448)**
Net assets attributable to shareholders		**648,310**	**674,624**

Notes to the financial statements

1 Accounting policies

The financial statements have been prepared in accordance with the 'Summary of significant accounting policies' set out on pages 6 and 7.

2 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.

3 Net capital gains / (losses)

for the year to 31 May	2017 £'000	2016 £'000
Non-derivative securities	46,663	22,359
Derivative contracts	(2,479)	(1,678)
Currency gains / (losses)	(510)	396
Transaction charges	(4)	(6)
Net capital gains / (losses)	43,670	21,071

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 15.

for the year to 31 May	2017 £'000	% of transaction	2016 £'000	% of transaction
a) Purchases				
Debt securities [a]	**1,056,242**		**1,377,924**	
b) Sales				
Debt securities [a]	**1,120,576**		**1,413,522**	

c) Direct portfolio transaction costs	2017 £'000	% of average NAV	2016 £'000	% of average NAV
Commissions paid				
Derivatives	1	0.00	3	0.00
Total direct portfolio transaction costs	**1**	**0.00**	**3**	**0.00**
d) Indirect portfolio transaction costs		**%**		**%**
Portfolio dealing spread [b]		0.07		0.08

[a] These transaction types do not attract direct portfolio transaction costs.

[b] Average portfolio dealing spread at the balance sheet date.

Notes to the financial statements

5 Revenue

for the year to 31 May	2017 £'000	2016 £'000
Bank interest	0	1
Derivative revenue	(12)	(321)
Interest distributions	17	27
Interest on debt securities	9,378	13,188
Total revenue	**9,383**	**12,895**

6 Expenses

for the year to 31 May	2017 £'000	2016 £'000
Payable to the ACD or associate		
Annual management charge	4,488	4,566
Administration charge	1,017	1,025
	5,505	5,591
Payable to the Depositary or associate		
Depositary's charge (including VAT)	44	45
Other expenses		
Audit fee (including VAT)	12	7
Interest payable	0	1
Safe custody charge	4	4
	16	12
Total expenses	**5,565**	**5,648**

7 Taxation

for the year to 31 May	2017 £'000	2016 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Prior year adjustment	5	0
Deferred tax (note 7c)	0	0
Total taxation	**5**	**0**
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	3,818	7,247
Corporation tax at 20%	764	1,449
Effects of:		
Interest distributions	(764)	(1,449)
Prior year adjustment	5	0
Total tax charge (note 7a)	**5**	**0**
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	**0**	**0**

The fund has not recognised a deferred tax asset in the current financial year (2016: same).

Interest distributions have been made in respect of all distributions during the current and preceding periods. Income tax at 20% will be accounted for on shareholders' behalf to HM Revenue & Customs up to 30 November 2016.

8 Distributions

for the year to 31 May	2017 Inc [a] £'000	2017 Acc [b] £'000	2016 Inc [a] £'000	2016 Acc [b] £'000
Interest distributions				
First interim	196	779	301	1,194
Second interim	286	573	296	1,173
Third interim	423	702	300	1,102
Final	411	623	271	1,061
Total net distributions		3,993		5,698
Income tax deducted at source		464		1,449
Interest distributions		4,457		7,147
Income deducted on cancellation of shares		90		268
Income received on issue of shares		(27)		(168)
Distributions		**4,520**		**7,247**
Net revenue / (expense) per statement of total return		3,813		7,247
Expenses offset against capital		707		0
Distributions		**4,520**		**7,247**

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 31 May	2017 £'000	2016 £'000
Amounts receivable on issues of shares	0	94
Debt security interest receivable	5,076	6,114
Distributions receivable	1	3
Total debtors	**5,077**	**6,211**

10 Cash and bank balances

as at 31 May	2017 £'000	2016 £'000
Cash held as bank balances	2,874	12
Total cash and bank balances	**2,874**	**12**

11 Other creditors

as at 31 May	2017 £'000	2016 £'000
ACD's annual management charge payable	107	268
Administration charge payable	24	61
Amounts payable on cancellation of shares	0	258
Expenses payable	13	13
Purchases awaiting settlement	2,787	0
Total other creditors	**2,931**	**600**

12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2016: same).

Notes to the financial statements

13 Shares in issue

The following table shows each class of share in issue during the year. Each share class has the same rights on winding up however they may have different charging structures as set out in note 14.

Share class	Opening 01.06.16	Movements Issued	Movements Cancelled	Closing 31.05.17
Sterling				
Class 'A' Income	96,391,838	1,981,978	(16,731,132)	81,642,684
Class 'A' Accumulation	63,961,600	5,083,772	(6,477,375)	62,567,997
Class 'I' Income	4,381,877	223,016	(748,360)	3,856,533
Class 'I' Accumulation	18,001,958	515,601	(4,252,556)	14,265,003

14 Charging structure

The table below sets out the charging structure for each class of share. The charging structure is the same for both Income and Accumulation shares of each class.

Share class	Entry charge %	Exit charge %	Annual management charge %
Sterling			
Class 'A'	nil	n/a	0.75
Class 'I'	1.00 [a]	n/a	0.50

[a] With effect from 16 December 2016, the entry charge has been discounted to zero on all investments into sterling share classes.

15 Related parties

M&G Securities Limited, as Authorised Corporate Director (ACD), is a related party and acts as principal on all the transactions of shares in the fund except with in specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to shareholders' and note 8. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 9 and 11 where applicable.

Amounts paid to M&G Securities Limited in respect of the ACD's annual management charge and administration charge are disclosed in note 6. Amounts due at the year end in respect of the ACD's annual management charge and administration charge are disclosed in note 11.

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 14.05% (2016: 14.49%) of the fund's shares.

16 Events after the balance sheet date

There were no events after the balance sheet date to disclose.

17 Portfolio fair value analysis

Financial instruments have been measured at their fair value and have been classified below using a hierarchy that reflects the significance of the inputs used in measuring their fair value:

Level 1: Quoted prices for identical instruments in active markets

This includes instruments such as publicly traded equities; highly liquid bonds (e.g. Government bonds) and exchange traded derivatives (e.g. futures) for which quoted prices are readily and regularly available.

Level 2: Valuation techniques using observable market data

This includes publicly traded corporate bonds and instruments which have been valued using models with observable market data inputs such as quoted prices for similar instruments, interest rates, yield curves or credit spreads. Over-the-counter instruments have also been included in the category.

Level 3: Valuation techniques using non-observable market data

This refers to instruments which have been valued using models with non-observable market data inputs. This includes private equity, unlisted closed-ended funds and investment analyst recommended prices where the market price is deemed to not be a true representation of fair value. However no such financial instruments were held.

as at 31 May Valuation technique	Assets 2017 £'000	Liabilities 2017 £'000	Assets 2016 £'000	Liabilities 2016 £'000
Level 1	573,349	0	597,895	0
Level 2	70,382	(30)	72,954	(86)
Level 3	0	0	0	0
	643,731	**(30)**	**670,849**	**(86)**

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 13 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 to 9.

Notes to the financial statements

19 Market risk

VaR is the risk measurement methodology used to assess the fund's leverage and market risk volatility. When VaR is calculated as a percentage of the net asset value it may not be greater than the VaR limit set for the fund.

The VaR limit set during the financial year to 31 May 2017 was 15% (2016: 15%).

The lowest, highest and average VaR calculated during the financial years ended 31 May 2017 and 31 May 2016 are disclosed in the table below. The lowest, highest and average utilisation of VaR is with reference to the limit above.

for the year to 31 May	2017 %	2016 %
Lowest	3.88	4.33
Highest	6.23	5.38
Average	5.20	4.92

20 Credit risk

as at 31 May	2017 £'000	2016 £'000
Investment grade securities	624,796	653,790
Unrated securities	13,352	9,857
Other investments	5,553	7,116
Total	**643,701**	**670,763**

21 Counterparty exposure

as at 31 May 2017	Forward currency contracts £'000	Net exposure £'000
J.P.Morgan	(30)	(30)
Total	**(30)**	**(30)**

as at 31 May 2016	Forward currency contracts £'000	Net exposure £'000
State Street Bank	(86)	(86)
Total	**(86)**	**(86)**

Net exposure represents the mark-to-market value of derivative contracts less any cash collateral held. Positive exposure represents the fund's exposure to that counterparty. Negative amounts are not an exposure to the fund.

22 Leverage risk

Funds using VaR approaches are required to disclose the level of leverage employed during the financial reporting period.

Derivatives can be used by the fund to generate market exposure to investments exceeding the net asset value. As a result of this exposure, the size of any positive or negative movement in markets may have a more significant effect on the net asset value of the fund.

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 31 May 2017 and 31 May 2016 are disclosed in the table below.

for the year to 31 May	2017 £'000	2017 %	2016 £'000	2016 %
Lowest	645,875	101	655,988	101
Highest	790,695	110	814,029	116
Average	701,547	103	723,986	106

23 Interest distribution tables

This fund pays quarterly interest distributions and the following table sets out the distribution periods.

Quarterly distribution periods

	Start	End	Xd	Payment
First interim	01.06.16	31.08.16	01.09.16	31.10.16
Second interim	01.09.16	30.11.16	01.12.16	31.01.17
Third interim	01.12.16	28.02.17	01.03.17	30.04.17
Fourth interim	01.03.17	31.05.17	01.06.17	31.07.17

The following tables set out for each distribution the rates per share for both Group 1 and Group 2 shares.

Group 1 shares are those purchased prior to a distribution period and therefore their net revenue rate is the same as the distribution rate.

Group 2 shares are those purchased during a distribution period and therefore their distribution rate is made up of net revenue and equalisation. Equalisation is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the net revenue and equalisation components.

Sterling Class 'A' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equal-isation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
First interim	0.1520	0.0304	0.1216	-	0.1216	0.1816
Second interim	0.2575	0.0515	0.2060	-	0.2060	0.1844
Third interim	0.3229	0.0000	0.3229	-	0.3229	0.1876
Final	0.3301	0.0000	0.3301	-	0.3301	0.1684
Group 2						
First interim	0.0805	0.0161	0.0644	0.0572	0.1216	0.1816
Second interim	0.1579	0.0316	0.1263	0.0797	0.2060	0.1844
Third interim	0.1407	0.0000	0.1407	0.1822	0.3229	0.1876
Final	0.1735	0.0000	0.1735	0.1566	0.3301	0.1684

Notes to the financial statements

23 Interest distribution tables (continued)

Sterling Class 'A' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
First interim	0.8435	0.1687	0.6748	-	0.6748	1.0000
Second interim	0.6025	0.1205	0.4820	-	0.4820	1.0164
Third interim	0.6229	0.0000	0.6229	-	0.6229	1.0352
Final	0.5508	0.0000	0.5508	-	0.5508	0.9336
Group 2						
First interim	0.4168	0.0834	0.3334	0.3414	0.6748	1.0000
Second interim	0.2695	0.0539	0.2156	0.2664	0.4820	1.0164
Third interim	0.2783	0.0000	0.2783	0.3446	0.6229	1.0352
Final	0.1740	0.0000	0.1740	0.3768	0.5508	0.9336

Sterling Class 'I' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
First interim	2.4285	0.4857	1.9428	-	1.9428	2.5776
Second interim	3.1605	0.6321	2.5284	-	2.5284	2.6088
Third interim	3.6622	0.0000	3.6622	-	3.6622	2.6268
Final	3.6704	0.0000	3.6704	-	3.6704	2.4844
Group 2						
First interim	1.3110	0.2622	1.0488	0.8940	1.9428	2.5776
Second interim	1.7251	0.3450	1.3801	1.1483	2.5284	2.6088
Third interim	1.8871	0.0000	1.8871	1.7751	3.6622	2.6268
Final	1.6939	0.0000	1.6939	1.9765	3.6704	2.4844

Sterling Class 'I' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
First interim	2.5245	0.5049	2.0196	-	2.0196	2.6540
Second interim	2.0175	0.4035	1.6140	-	1.6140	2.6884
Third interim	2.0197	0.0000	2.0197	-	2.0197	2.7196
Final	1.9532	0.0000	1.9532	-	1.9532	2.5756
Group 2						
First interim	1.2098	0.2420	0.9678	1.0518	2.0196	2.6540
Second interim	0.9761	0.1952	0.7809	0.8331	1.6140	2.6884
Third interim	0.8844	0.0000	0.8844	1.1353	2.0197	2.7196
Final	0.9601	0.0000	0.9601	0.9931	1.9532	2.5756

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M&G Global High Yield Bond Fund

Authorised Corporate Director's Report

Investment objective up to 24 May 2017

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 up to 24 May 2017

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 objective from 25 May 2017

The Fund aims to provide income and capital growth.

Investment policy from 25 May 2017

At least 80% of the Fund is invested 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. Derivatives may also be used for efficient portfolio management. The Fund may also invest in collective investment schemes, government and public securities and other transferable securities, cash, near cash, other money market instruments, warrants and other derivative instruments. More than 80% of the Fund will be in sterling or hedged back to sterling.

Investment approach

The fund manager concentrates on bottom-up analysis of individual bond issues while remaining aware of macroeconomic developments. Emphasis is placed upon investigating the ability of a company or government to meet its interest payments, especially during unfavourable economic conditions. Credit risk is constantly monitored and typically spread across a variety of countries and industrial sectors.

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.

M&G Global High Yield Bond Fund

Authorised Corporate Director's Report

Investment review

As at 1 June 2017, for the year ended 31 May 2017

Performance against objective

Between 1 June 2016 (the start of the review period) and 1 June 2017, 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*, thus meeting its objective of providing income** and capital growth.

Investment performance

The 12 months under review was a positive period for high yield bonds as the global economy showed further signs of a steady pick-up in activity. (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.)

A stabilisation in oil prices, following steep declines in 2014 and 2015, also proved especially helpful for US high yield bonds given this market's significant exposure to the energy sector. While performance in the European high yield sector was somewhat more mixed, an encouraging improvement in economic data and the ongoing stimulus measures from the European Central Bank (ECB) proved supportive overall.

While the US election result in November took both pollsters and markets by surprise, US high yield bonds at least held up relatively well, with President Trump's 'reflationary' policy proposals (tax cuts and increased infrastructure spending) helping to boost investor sentiment in this domestically focused market. Around this time, issues from US high yield energy companies also benefited from further strength in oil prices following the Organization of the Petroleum Exporting Countries' (OPEC's) agreement to cut production.

In contrast, the bank-heavy European high yield market struggled throughout parts of 2016 against a backdrop of heightened political tensions; in addition to the surprise 'Brexit' outcome, markets also had to contend with Austrian elections and an Italian referendum on constitutional reform. Meanwhile, negative headlines around corporate profits and possible regulatory fines in the financial sector also dampened investor appetite.

However, an encouraging improvement in global economic data over the first few months of 2017 helped provide further support for the asset class. Indeed, for the first time in many years, there was evidence of a synchronised upswing in global growth, with much of the improvement in economic data coming from outside the US.

The economic situation in Europe in particular looks considerably brighter than this time last year. The unemployment rate has fallen back below 10% for the first time since 2011, while business surveys suggest a further steady pick-up in growth over the coming months. Political tensions also receded, with Emmanuel Macron's decisive victory in the French election helping to drive strong gains across European high yield markets towards the end of the review 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 IA £ High Yield. The fund's meaningful exposure to the US and careful selection of individual bond issues 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, such as healthcare and cable businesses. In the financial sector, we generally favour US banks as they tend to be further progressed in balance sheet improvements than their European counterparts. However, we also like top-tier, well-capitalised European banks, and we added to names such as Intesa Sanpaolo and UBS.

We remain very cautiously positioned in the energy and commodity sectors, maintaining only a modest exposure. Following very strong gains over the past 12 months, we think these sectors now look fully priced and, as a consequence, no longer provide sufficient compensation for the risks.

In regional allocation terms, just under half of the fund is now exposed to the US high yield market. This is slightly lower than this time last year, as we believe the significant outperformance of the US market versus its European counterpart justifies a more balanced outlook towards these two regions. However, we retain a modest allocation to emerging markets, which we think looks richly priced across the board following the strong run over the past couple of years.

We have taken the opportunity over the past year to reduce risk in 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 believe have limited upside potential following strong performance, including issues from Entertainment One and Spectrum Brands.

Portfolio duration (or sensitivity to movements in interest rates) was slightly reduced over the 12-month period. With government bond yields still at very low levels and the prospect of further hikes in US interest rates, we believe a cautious stance is warranted. (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.)

Outlook

In the current low yield environment, we think high yield bonds continue to offer a relatively attractive income stream. Despite recent market strength, we believe these assets remain fairly priced in the context of the current low default environment and against a backdrop of gradual economic expansion. However, given the extent of the recent gains, and at this stage of the economic cycle, we are taking a cautious stance. We maintain our preference for companies with stable cashflows and strong balance sheets which are not overly exposed to the economic cycle.

Investment review

Outlook (continued)

We remain cautiously positioned in the periphery of the eurozone, where we see more immediate risks, especially in the banking sector. The latest prominent example in Italy was Monte dei Paschi di Siena, where a bail-in of institutional bondholders was needed to help recapitalise the bank and to put it on a more stable footing. More recently, we have seen some sharp price movements of Banco Popular as the struggling Spanish bank was bought by Santander. These examples serve as a reminder that high yield investments do not come without risk, notwithstanding the current very low default rates. It also outlines the importance of company analysis and security selection to make sure the right risks are taken on.

We are also cautious on retailers, with many of the issuers from this sector facing depressed margins and a low turnover of inventory. UK apparel retailers in particular face heavy foreign exchange cost headwinds following the Brexit vote which weakens their credit profile. In addition, the sector is facing major structural challenges as shoppers move increasingly towards online spending and away from the traditional bricks-and-mortar store. Businesses who are slow to adapt to the new environment will clearly struggle over the coming years, so we continue to be very selective in this space.

Stefan Isaacs & **James Tomlins**
Co-fund managers

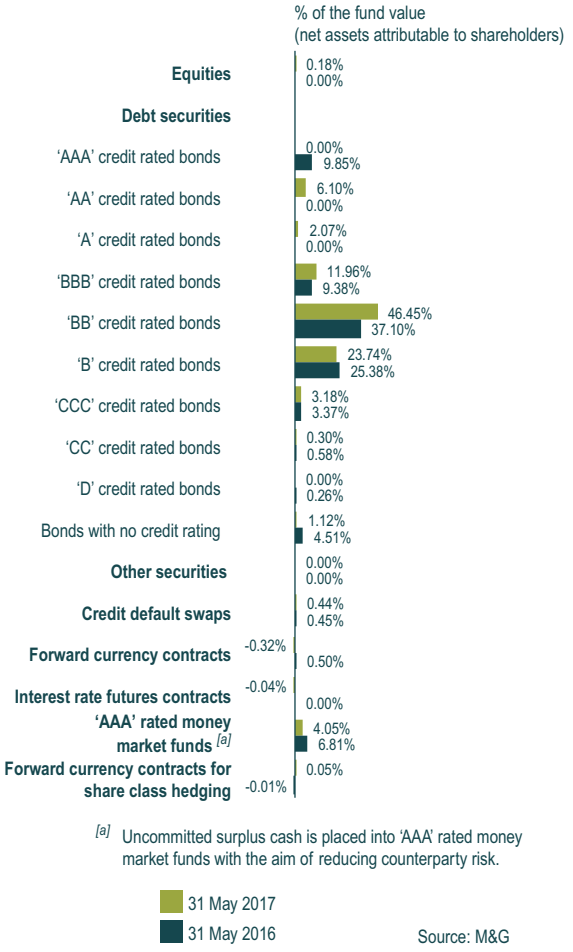
Employees of M&G Limited which is an associate of M&G Securities Limited.

* 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.

** The fund's distribution and distribution yield are 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



Investments

Portfolio statement

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Equities	**2,108**	**0.18**	**0.00**
70,839	Linn Energy	1,722	0.15	
50,673,446	New World Resources	25	0.00	
9,768	Patterson Utienergy	162	0.01	
11,963	Sandridge Energy	188	0.02	
10,357	Sandridge Energy wts. 2022 A	8	0.00	
4,361	Sandridge Energy wts. 2022 B	3	0.00	
	Debt securities	**1,125,037**	**94.92**	**90.43**
	'AAA' credit rated bonds	**0**	**0.00**	**9.85**
	'AA' credit rated bonds	**72,360**	**6.10**	**0.00**
£51,000,000	Treasury 1.25% 2018	51,653	4.35	
£20,000,000	Treasury 1.75% 2019	20,707	1.75	

Investments

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	'A' credit rated bonds	**24,566**	**2.07**	**0.00**
€11,900,000	Banco Santander Var. Rate Perp. (6.25%)	10,410	0.88	
$1,980,000	HSBC Holdings	1,576	0.13	
€7,000,000	Rabobank Var. Rate Perp. (6.625%)	6,836	0.58	
£1,195,000	Society of Lloyds Var. Rate 2047 (4.875%)	1,300	0.11	
€5,000,000	Total Var. Rate Perp. (3.369%)	4,444	0.37	
	'BBB' credit rated bonds	**141,765**	**11.96**	**9.38**
$2,500,000	Alcoa 5.95% 2037	1,999	0.17	
€2,000,000	América Móvil Var. Rate 2073 (6.375%)	2,054	0.17	
€1,350,000	American International Group Var. Rate 2067 (4.875%)	1,108	0.09	
$3,600,000	Banco Bilbao Vizcaya Argentaria 9% Perp.	2,938	0.25	
€2,200,000	Banco Bilbao Vizcaya Argentaria Var. Rate Perp. (7%)	1,953	0.16	
£3,250,000	BHP Billiton Finance Var. Rate 2077 (6.5%)	3,712	0.31	
€5,000,000	Commerzbank 7.75% 2021	5,375	0.45	
$6,000,000	Commerzbank 8.125% 2023	5,598	0.47	
$2,500,000	CoreStates Capital III FRN 2027	1,841	0.16	
$6,963,000	Diamond 1 and 2 Finance 5.45% 2023	5,894	0.50	
$8,500,000	FMG Resources 9.75% 2022	7,606	0.64	
$10,000,000	HCA Holdings 4.5% 2027	8,010	0.68	
$5,000,000	HCA Holdings 4.75% 2023	4,148	0.35	
$2,863,000	HCA Holdings 5% 2024	2,375	0.20	
$5,500,000	HCA Holdings 6.5% 2020	4,703	0.40	
$13,000,000	JPMorgan Chase Var. Rate Perp. (7.9%)	10,501	0.89	
$5,000,000	Lear 5.25% 2025	4,132	0.35	
$2,500,000	Lear 5.375% 2024	2,065	0.17	
£3,000,000	Legal & General Group 5.375% 2045	3,351	0.28	
$12,000,000	Mplx LP 4.5% 2023	9,952	0.84	
€7,500,000	MPT Operating Partnership 3.325% 2025	6,738	0.57	
$1,035,000	Noble Energy 5.625% 2021	829	0.07	
$5,355,000	Qwest 6.875% 2033	4,147	0.35	
$8,283,000	Regency Energy Partners 5.875% 2022	7,206	0.61	
$10,000,000	Sabine Pass Liquef 5.625% 2025	8,638	0.73	
€5,000,000	UBS Jersey Var. Rate 2026 (4.75%)	4,836	0.41	
$10,000,000	Wells Fargo Var. Rate Perp. (7.98%)	8,082	0.68	
$4,000,000	Williams Partners 4.875% 2023	3,214	0.27	
$10,872,000	Williams Partners 4.875% 2024	8,760	0.74	
	'BB' credit rated bonds	**550,564**	**46.45**	**37.10**
€3,350,000	Adient Global Holdings 3.5% 2024	3,014	0.25	
$400,000	AES 6% 2026	333	0.03	
$10,000,000	AES 7.375% 2021	8,883	0.75	
$5,000,000	Ally Financial 4.75% 2018	4,009	0.34	
$6,667,000	Anglo American Capital 3.625% 2020	5,250	0.44	
$7,500,000	Antero Resources 5.125% 2022	5,887	0.50	
$2,000,000	Antero Resources 5.625% 2023	1,598	0.13	
€2,540,000	Aramark International Finance 3.125% 2025	2,319	0.20	
$5,000,000	Arcelormittal 8% 2039	4,354	0.37	
$3,500,000	ARD Finance 6.625% IL 2023	2,797	0.24	
€2,700,000	Ardagh Packaging Finance 2.75% 2024	2,393	0.20	

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	'BB' credit rated bonds (continued)			
€2,454,545	Ardagh Packaging Finance 4.25% 2022	2,194	0.19	
£2,175,000	Arrow Global Finance 5.125%% 2024	2,274	0.19	
€1,100,000	Arrow Global Finance FRN 2023	1,005	0.08	
€5,000,000	Arrow Global Finance FRN 2025	4,368	0.37	
$6,000,000	Avis Budget Finance 5.25% 2025	4,317	0.36	
€5,426,000	Axalta Coating System 3.75% 2025	4,995	0.42	
€2,695,000	Axalta Coating System 4.25% 2024	2,519	0.21	
£967,000	B&M European Value 4.125% 2022	1,014	0.09	
$5,000,000	Ball 4% 2023	3,966	0.33	
€1,600,000	Banco de Sabadell	1,366	0.12	
$9,035,000	Bank of America Var. Rate Perp. (8%)	7,257	0.61	
$7,228,000	Bank of America Var. Rate Perp. (8.125%)	5,862	0.49	
€5,950,000	Bank of Ireland 10% 2022	7,347	0.62	
€3,643,000	Bank of Ireland Var. Rate 2024 (4.25%)	3,360	0.28	
€6,500,000	Belden 5.5% 2023	6,001	0.51	
€4,722,000	Cable Communications Systems 5% 2023	4,351	0.37	
$5,000,000	Cascades 5.5% 2022	3,963	0.33	
€4,746,000	Catalent Pharma Solutions 4.75% 2024	4,441	0.37	
$10,000,000	CCO Holdings Capital 5.125% 2027	7,915	0.67	
$11,000,000	CCO Holdings Capital 5.75% 2026	9,152	0.77	
$4,000,000	Cemex 5.7% 2025 1A	3,279	0.28	
$5,000,000	Cemex Finance 9.375% 2022 REGS	4,154	0.35	
$2,333,000	Centene Corporation 6.125% 2024	1,978	0.17	
$1,500,000	CenturyLink 7.5% 2024	1,278	0.11	
$2,000,000	Cetene 4.75% 2025	1,602	0.14	
$2,000,000	Churchill Downs 5.375% 2021	1,620	0.14	
$2,500,000	Citigroup Var. Rate Perp. (5.90%)	2,059	0.17	
$10,000,000	Citigroup Var. Rate Perp. (5.95%)	8,238	0.70	
€1,936,000	Colfax 3.25% 2025	1,743	0.15	
$9,741,000	Columbus International 7.375% 2021	8,089	0.68	
$5,500,000	Community Health Systems 5.125% 2021	4,325	0.36	
$7,000,000	Concho Resources 5.5% 2023	5,603	0.47	
$2,800,000	Crédit Agricole Var. Rate Perp.	2,395	0.20	
$1,500,000	Credit Suisse 7% 2020	1,233	0.10	
$1,500,000	Credit Suisse Group Var. Rate Perp. (7.125%)	1,250	0.11	
$4,759,000	Credit Suisse Var. Rate Perp. (7.5%)	4,143	0.35	
€6,750,000	Crown European Holdings 3.375% 2025	6,144	0.52	
$7,447,000	CSC Holdings 5.5% 2047	6,061	0.51	
£3,311,938	Delamare Finance 5.5457% 2029	3,583	0.30	
$3,500,000	Diamond 1 and 2 Finance 5.875% 2021	2,871	0.24	
£2,209,000	Drax Finco 4.3181% 2022	2,242	0.19	
€3,531,000	Dufry Finance 4.5% 2023	3,296	0.28	
$8,000,000	Fiat Chrysler Automobiles 5.25% 2023	6,287	0.53	
€4,500,000	Finmeccanica Finance 4.5% 2021	4,434	0.37	
$4,000,000	Freeport McMoRan 3.875% 2023	2,867	0.24	
$3,000,000	Freeport McMoRan Copper & Gold 3.55% 2022	2,173	0.18	
$11,000,000	Freeport McMoRan Copper & Gold 5.45% 2043	7,234	0.61	
$2,000,000	Fresenius Medical Care II 5.875% 2022	1,736	0.15	
$5,000,000	Fresenius US Finance 4.25% 2021	4,068	0.34	
€7,000,000	Gestamp Funding Luxembourg 3.5% 2023	6,397	0.54	

Investments

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	'BB' credit rated bonds (continued)			
$2,500,000	Goodyear Tire & Rubber 5.0% 2026	1,996	0.17	
$692,000	Goodyear Tire & Rubber 5.125% 2023	565	0.05	
€4,267,000	Greif Luxembourg Finance 7.375% 2021	4,537	0.38	
$1,700,000	Grupo Unicomer 7.875% 2024	1,419	0.12	
€2,258,000	Grupo-Antolin Irausa 3.25% 2024	2,016	0.17	
$9,839,000	Hanesbrands 4.625% 2024	7,663	0.65	
$3,530,000	Hanesbrands 4.875% 2026	2,743	0.23	
$3,333,000	Hilton Worldwide Finance 4.625% 2025	2,677	0.23	
$4,000,000	Huntington Ingalls 5% 2025	3,323	0.28	
€5,000,000	Ineos Finance 4% 2023	4,533	0.38	
$10,000,000	International Game Technology 6.25% 2022	8,412	0.71	
€3,164,000	Jaguar Land Rover 2.26% 2024	2,794	0.24	
$6,000,000	JBS USA 5.875% 2024	4,537	0.38	
€3,000,000	KBC Groep NV Var. Rate Perp (5.625%)	2,702	0.23	
€7,000,000	KBC Groep NV Var. Rate Perp.	6,306	0.53	
$6,500,000	Lamar Media 5.75% 2026	5,462	0.46	
$3,000,000	Levi Strauss & Co. 5% 2025	2,427	0.20	
€2,536,000	Lincoln Finance 6.875% 2021	2,376	0.20	
€4,888,000	Lloyds Bank Var. Rate Perp. (6.375%)	4,582	0.39	
£3,000,000	Lloyds Bank Var. Rate Perp. (7%)	3,143	0.27	
€8,000,000	Lock 7% 2021	7,304	0.62	
$1,182,000	Micron Technology 5.5% 2025	956	0.08	
€2,276,000	Nassa Topco 2.875% 2024	2,048	0.17	
€2,000,000	National Westminster Bank Var. Rate Perp. (6.625%)	1,664	0.14	
£3,000,000	Nationwide Building Society Var. Rate Perp. (6.875%)	3,116	0.26	
$7,500,000	Neptune Finco 6.625% 2025	6,399	0.54	
$1,250,000	Newfield Exploration 5.375% 2026	1,018	0.09	
€5,651,000	Nomad Foods 3.25% 2024	5,041	0.43	
€2,291,000	OI European Group 3.125% 2024	2,042	0.17	
€915,000	OI European Group 6.75% 2020	953	0.08	
$4,056,000	Owens Brockway 5% 2022 144A	3,297	0.28	
$4,000,000	Petrobras Global Finance 7.25% 2044	3,076	0.26	
$1,988,000	Petrobras Global Finance 7.375% 2037	1,656	0.14	
$10,168,000	Petrobras Global Finance BV 7.375% 2027	8,471	0.71	
$4,500,000	Pilgrims Pride 5.75% 2025	3,558	0.30	
€7,000,000	Progroup FRN 2024	6,110	0.52	
€2,110,000	Promontoria MCS FRN 2021	1,906	0.16	
€11,046,000	QuintilesIMS 3.25% 2025	9,888	0.83	
€2,000,000	QuintilesIMS 3.50% 2024	1,823	0.15	
$3,500,000	QuintilesIMS 5% 2026	2,814	0.24	
€2,517,000	Rexel 3.5% 2023	2,313	0.20	
$2,750,000	Rice Energy 6.25% 2022	2,222	0.19	
$3,000,000	Royal Bank of Scotland 6% 2023	2,555	0.22	
$3,530,000	Royal Bank of Scotland 6.1% 2023	3,004	0.25	
$2,500,000	Sally Beauty Holdings 5.75% 2022	2,005	0.17	
€5,500,000	Samvardhana Motherson 4.125% 2021	4,910	0.41	
€2,392,000	Schaeffler Verwaltung Zwei 2.75% Pik 2021	2,161	0.18	
€1,392,000	Sealed Air 4.5% 2023	1,366	0.12	
$5,000,000	Sealed Air 5.125% 2024	4,098	0.35	
$4,000,000	Service Corporation International 5.375% 2024	3,281	0.28	

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	'BB' credit rated bonds (continued)			
$3,703,000	Shea Homes Funding 6.125% 2025	2,964	0.25	
€6,911,000	Silgan Holdings 3.25% 2025	6,170	0.52	
$8,000,000	Sirius XM Radio 5.75% 2021	6,460	0.55	
€2,475,000	Smurfit Kappa Acquisitions 2.375% 2024	2,220	0.19	
$7,000,000	Société Générale Var. Rate Perp. (7.875%)	5,959	0.50	
$2,500,000	Stora Enso 7.25% 2036	2,284	0.19	
€2,700,000	TA Manufacturing 3.625% 2023	2,436	0.21	
€3,998,000	Telecom Italia 2.5% 2023	3,662	0.31	
€1,250,000	Telecom Italia 7.75% 2033	1,481	0.13	
€713,000	Telenet Finance VI Luxembourg 4.875% 2027	684	0.06	
$5,000,000	Tenet Healthcare 4.375% 2021	3,961	0.33	
$2,500,000	Tenet Healthcare 4.5% 2021	1,986	0.17	
$8,000,000	Tenet Healthcare 6% 2020	6,664	0.56	
$4,000,000	Tenet Healthcare FRN 2020	3,139	0.26	
£5,000,000	Tesco 6.125% 2022	5,788	0.49	
$1,667,000	T-Mobile USA 1.25% 2025	1,347	0.11	
$1,983,000	T-Mobile USA 4% 2022	1,591	0.13	
$3,000,000	T-Mobile USA 6% 2024	2,509	0.21	
$3,000,000	T-Mobile USA 6.375% 2025	2,527	0.21	
€5,000,000	UBS Var. Rate Perp. (5.75%)	4,840	0.41	
$6,000,000	UBS Var. Rate Perp. (7%)	5,212	0.44	
€7,000,000	Unicredit Var. Rate 2025 (5.75%)	6,709	0.57	
€8,226,000	Unitymedia Hessen 3.5% 2027	7,447	0.63	
€7,333,000	Unitymedia Hessen 4% 2025	6,781	0.57	
$2,046,000	Unitymedia Hessen 5% 2025	1,650	0.14	
€2,000,000	Unitymedia Hessen 6.25% 2029	2,001	0.17	
$6,667,000	VideoTron 5.375% 2024	5,505	0.46	
£3,000,000	Virgin Media Secured Finance 4.875% 2027	3,118	0.26	
£4,286,000	Virgin Media Secured Finance 6.25% 2029	4,718	0.40	
£10,300,000	William Hill 4.875% 2023	10,821	0.91	
€3,081,000	Wind Acquisition Finance 4% 2020	2,727	0.23	
€1,578,000	Worldpay Finance 3.75% 2022	1,502	0.13	
$3,333,000	Wynn Las Vegas 5.25% 2022	2,644	0.22	
$6,000,000	ZF North American Capital 4.75% 2025	4,903	0.41	
	'B' credit rated bonds	**281,349**	**23.74**	**25.38**
$5,000,000	Ahern Rentals 7.375% 2023	3,262	0.28	
$1,267,000	Altice Financing 8.125% 2024	1,071	0.09	
$2,750,000	Altice Financing 8.125% 2024 144A	2,324	0.20	
£5,746,000	AMC Entertainment 6.375% 2024	6,173	0.52	
$1,333,000	AmSurg Corporation 5.625% 2022	1,081	0.09	
€5,000,000	ARD Finance 6.625% IL 2023	4,644	0.39	
€4,000,000	Areva 4.875% 2024	3,771	0.32	
£2,095,000	Aston Martin Capital Holdings 5.75% 2022	2,219	0.19	
$3,000,000	Barclays Bank Var. Rate Perp. (7.875%)	2,540	0.21	
€2,711,700	Bisoho SAS 5.875% 2023	2,583	0.22	
$5,600,000	Bombardier 5.75% 2022	4,343	0.37	
£3,500,000	Boparan Finance 5.5% 2021	3,525	0.30	
€4,195,000	Burger King France SAS	3,876	0.33	
£6,767,000	Cabot Financial 7.5% 2023	7,397	0.62	
€3,000,000	Cabot Financial FRN 2021	2,755	0.23	
€3,120,000	Carlson Travel FRN 2023	2,734	0.23	
$3,000,000	Carrizo Oil & Gas 6.25% 2023	2,300	0.19	
$6,100,000	Chesapeake Energy 8% 2022	5,152	0.43	
€15,140,572	Codere 8.25% 2015 [a]	4,761	0.40	
£1,000,000	Cognita Financing 7.75% 2021	1,047	0.09	
$3,000,000	Covey Park Energy 7.50% 2025	2,417	0.20	
$1,750,000	Crown Americas 4.25% 2026	1,346	0.11	

Investments

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	'B' credit rated bonds (continued)			
$5,000,000	DaVita HealthCare 5% 2025	3,870	0.33	
$2,500,000	DaVita HealthCare 5.125% 2024	1,987	0.17	
€2,857,000	eircom Finance 4.25% 2022	2,619	0.22	
£750,000	Entertainment One 6.875% 2022	816	0.07	
$2,500,000	Florida East Coast Holdings 6.75% 2019	1,996	0.17	
€1,259,000	Galapagos Holding FRN 2021	1,095	0.09	
£2,000,000	Garfunkelux 8.5% 2022	2,160	0.18	
$2,000,000	Gray Television 5.125% 2024	1,556	0.13	
$5,486,000	Halcon Resources 12% 2022	4,976	0.42	
€1,614,000	Homevi FRN 2021	1,427	0.12	
£2,261,000	House of Fraser Funding FRN 2020	2,113	0.18	
€3,588,000	HP Pelzer Holding 4.125% 2024	3,258	0.27	
£2,000,000	Iceland Bondco 6.25% 2021	2,070	0.17	
€2,000,000	INEOS Group Holdings 5.375% 2024	1,865	0.16	
£4,341,000	Intergen 7.5% 2021	4,113	0.35	
€5,000,000	Intesa Sanpaolo Var. Rate Perp.	4,413	0.37	
€4,504,000	Intesa Sanpaolo Var. Rate Perp. (7%)	4,092	0.35	
€2,111,000	Intesa Sanpaolo Var. Rate Perp. (7.75%)	2,027	0.17	
$3,667,000	Kindred Healthcare 8% 2020	2,990	0.25	
$3,333,000	Kindred Healthcare 8.75% 2023	2,719	0.23	
$7,000,000	MARB BondCo	5,356	0.45	
€1,458,000	Marcolin FRN 2023	1,296	0.11	
€9,500,000	Matterhorn Telecom 3.875% 2022	8,548	0.72	
€4,500,000	Matterhorn Telecom FRN 2023	3,941	0.33	
$5,000,000	Neptune Finco 10.875% 2025	4,722	0.40	
€5,484,000	Netflix 3.625% 2027	4,911	0.41	
£5,000,000	New Look 6.5% 2022	4,295	0.36	
$5,000,000	New Red Finance 6% 2022	4,049	0.34	
€6,000,000	Numericable Group 5.625% 2024	5,686	0.48	
$1,984,000	Numericable-SFR 7.375% 2026	1,657	0.14	
€4,545,000	Nyrstar Netherlands 6.875% 2024	4,087	0.34	
$7,000,000	Oasis Petroleum 6.875% 2022	5,539	0.47	
$3,000,000	Parsley Energy 5.375% 2025	2,381	0.20	
$2,000,000	Platform Specialty 6.5% 2022	1,602	0.14	
$5,000,000	Post Holdings 6% 2022	4,134	0.35	
£3,253,000	Premier Foods Finance 1% 2022	3,280	0.28	
$1,000,000	Reynolds Group FRN 2021	796	0.07	
$6,500,000	Rite Aid 6.125% 2023	5,039	0.43	
€2,950,000	Royal Bank of Scotland 5.5% Perp.	2,587	0.22	
$2,679,000	Royal Bank of Scotland Var. Rate Perp. (7.5%)	2,177	0.18	
$1,400,000	Royal Bank of Scotland Var. Rate Perp. (8%)	1,188	0.10	
$5,500,000	Sable International 6.875% 2022	4,638	0.39	
€999,000	Schmolz+Bickenbach Luxembourg Finance	925	0.08	
€2,330,000	Schumann 7% 20233	2,052	0.17	
$4,000,000	SM Energy 5% 2024	2,913	0.25	
$12,500,000	Sprint Corporation 7.875% 2023	11,189	0.94	
£2,581,000	Stonegate Pub Company 4.875% 2022	2,613	0.22	
€2,100,000	The Chemours Company 6.125% 2023	1,982	0.17	
€5,700,000	Unitymedia Kabel 3.75% 2027 REGS	5,109	0.43	
$5,000,000	Valeant Pharmaceuticals 5.5% 2023	3,174	0.27	
$5,625,000	Valeant Pharmaceuticals 5.625% 2021	3,805	0.32	

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	'B' credit rated bonds (continued)			
$3,000,000	Valeant Pharmaceuticals 6.75% 2021	2,103	0.18	
€1,000,000	Veritas 7.5% 2023	935	0.08	
£4,375,000	Virgin Media 5.5% 2024	4,631	0.39	
$1,423,000	VPI Escrow 6.375% 2020	1,043	0.09	
€3,081,000	VRX Escrow 4.5% 2023	2,079	0.18	
$13,000,000	VTR Finance 6.875% 2024	10,711	0.90	
€8,700,000	Wind Acquisition Finance 7% 2021	7,918	0.67	
$2,900,000	Windstream 7.5% 2023	2,044	0.17	
$1,000,000	Windstream 7.75% 2020	782	0.07	
$10,500,000	WPX Energy 5.25% 2024	7,991	0.67	
€1,741,000	Ziggo Bond Finance 4.625% 2025	1,619	0.14	
$429,000	Ziggo Bond Finance 5.875% 2025	339	0.03	
	'CCC' credit rated bonds	**37,681**	**3.18**	**3.37**
$10,000,000	Caesars Entertainment Resort Properties 8% 2020	8,083	0.68	
$5,000,000	California Resources 8% 2022	827	0.07	
$5,000,000	Calumet Specialty Products 6.5% 2021	3,496	0.30	
$5,000,000	Carlson Travel 9.5 2024	2,275	0.19	
$3,750,000	Community Health Systems 6.875% 2022	2,597	0.22	
$2,500,000	Community Health Systems 7.125% 2022	1,924	0.16	
$5,000,000	Constellium 6.625% 2025	3,758	0.32	
$6,000,000	Crimson Merger 6.625% 2022	4,437	0.37	
$3,000,000	Everest Acquisition 6.375% 2023	1,713	0.15	
$3,000,000	Everest Acquisition 7.75% 2022	1,904	0.16	
$2,500,000	Petroleum Geo-Services 7.375% 2018	1,937	0.16	
€4,800,000	Swissport Investments	4,730	0.40	
	'CC' credit rated bonds	**3,495**	**0.30**	**0.58**
$5,000,000	Intelsat Jackson 7.5% 2021	3,495	0.30	
	'D' credit rated bonds	**0**	**0.00**	**0.26**
	Bonds with no credit rating	**13,257**	**1.12**	**4.51**
€1,457,000	Assicurazioni Generali Var. Rate 2047 (5.5%)	1,379	0.12	
£1,100,000	Assicurazioni Generali Var. Rate Perp. (6.416%)	1,197	0.10	
£6,000,000	Care UK Health FRN 2019	5,940	0.50	
£3,000,000	Cattles 2049	6	0.00	
$4,500,000	Chaparral Energy 7.625% 2022	3,470	0.29	
£1,225,000	Heathrow Finance	1,234	0.11	
€3,847,784	Hellas Telecom III 8.5% 2013 [a]	0	0.00	
$636,516	K2016470219 3% 2022	31	0.00	
$5,300,000	Sandridge Energy 7.50% 2021 [a]	0	0.00	
$1,000,000	Seventy Seven Energy 6.5% 2022 [a]	0	0.00	
	Other securities [b]	**0**	**0.00**	**0.00**
£1,583	Polestar (Exchange Shares)	0	0.00	
	Credit default swaps	**5,256**	**0.44**	**0.45**
€(5,000,000)	Glencore Finance Europe Jun 2022	687	0.06	
$(16,490,000)	Markit CDX North American High Yield Series 24 5 Year Jun 2020	1,044	0.09	
$(27,720,000)	Markit CDX North American High Yield Series 26 5 Year Jun 2021	1,816	0.15	
$(10,000,000)	Markit CDX North American High Yield Series 28 5 Year Jun 2022	585	0.05	
€(11,000,000)	Markit iTraxx Europe Xover Series 26 5 Year Dec 2021	1,118	0.09	
€(3,000,000)	Selecta Group Dec 2021	117	0.01	
€(5,000,000)	Telecom Italia Dec 2021	(111)	(0.01)	

Investments

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Forward currency contracts	**(3,861)**	**(0.32)**	**0.50**
€(405,203,236)	Sold for £351,355,778 (expires 28.06.17)	(2,761)	(0.23)	
$(787,632,124)	Sold for £611,877,620 (expires 28.06.17)	(1,100)	(0.09)	
	Interest rate futures contracts	**(419)**	**(0.04)**	**0.00**
(17)	EuroBuxl June 2017	(41)	(0.01)	
(700)	EuroBobl June 2017	(378)	(0.03)	
Portfolio of investments		**1,128,121**	**95.18**	**91.38**
	'AAA' rated money market funds [c]	**48,057**	**4.05**	**6.81**
48,057,000	Northern Trust Global Fund - Sterling	48,057	4.05	
	Forward currency contracts for share class hedging	**560**	**0.05**	**(0.01)**
€20,528,444	Bought for £17,729,142 (expires 28.06.17)	211	0.02	
€(33,236)	Sold for £28,825 (expires 28.06.17)	0	0.00	
CHF67,272	Bought for £53,146 (expires 28.06.17)	1	0.00	
$46,065,205	Bought for £35,498,521 (expires 28.06.17)	352	0.03	
$(452,283)	Sold for £348,608 (expires 28.06.17)	(4)	0.00	
Total portfolio (notes 2c & 2d on page 6)		**1,176,738**	**99.28**	**98.18**
Net other assets / (liabilities)		**8,525**	**0.72**	**1.82**
Net assets attributable to shareholders		**1,185,263**	**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.

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.

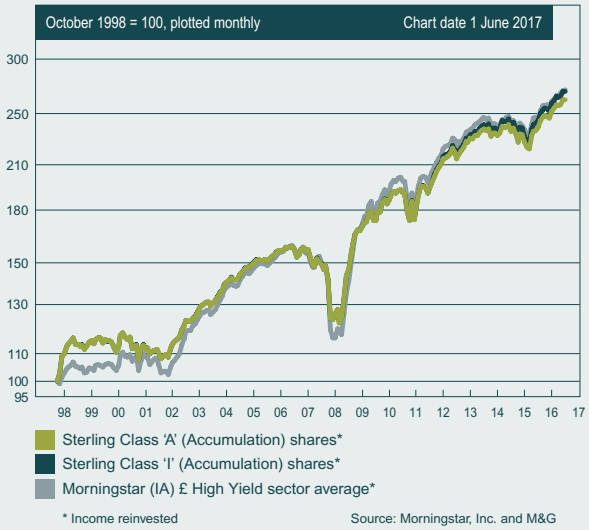
Fund level performance

Fund net asset value

as at 31 May	2017 £'000	2016 £'000	2015 £'000
Fund net asset value (NAV)	1,185,263	1,133,409	1,265,438

Performance since launch

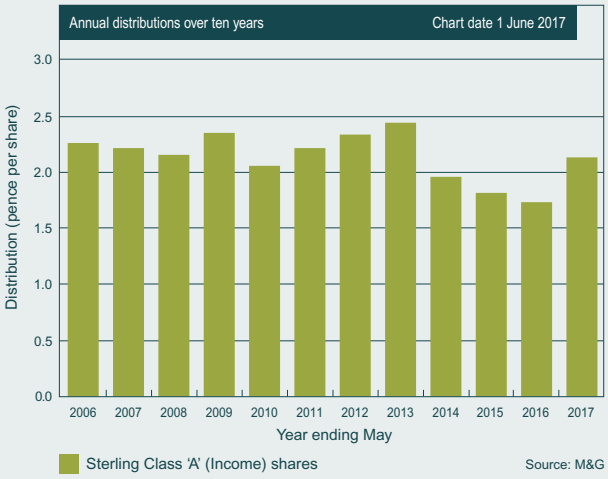
To give an indication of how the fund has performed since launch, the chart below shows total return of Sterling Class 'A' (Accumulation) shares and Sterling Class 'I' (Accumulation) shares.



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.

Distribution since launch

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



M&G Global High Yield Bond Fund

Financial highlights

Fund performance

Distribution since launch (continued)

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

Long-term performance by share class

	One year 01.06.16 % [a]	Three years 02.06.14 % p.a.	Five years 01.06.12 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A-H'	+10.3	+3.2	+6.8	+5.8 [c]
Class 'B-H'	+9.8	+2.7	n/a	+4.5 [d]
Class 'C-H'	+11.0	+3.9	+7.5	+6.5 [c]
Sterling [e]				
Class 'A'	+10.9	+3.3	+6.6	+6.1 [f]
Class 'I'	+11.4	+3.8	n/a	+6.6 [g]
Class 'R'	+11.1	+3.5	n/a	+6.3 [g]
Class 'X'	+10.9	+3.3	+6.6	+5.3 [h]
Swiss franc [b]				
Class 'A-H'	+9.7	n/a	n/a	+7.0 [i]
Class 'C-H'	+10.5	n/a	n/a	+7.7 [i]
US dollar [b]				
Class 'A-H'	+12.0	+4.0	+7.5	+6.4 [c]
Class 'C-H'	+13.6	+5.0	+8.5	+7.3 [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.

Operating charges and portfolio transaction costs

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

Operating charges

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

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

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

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

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

M&G Global High Yield Bond Fund

Financial highlights

Fund performance

Operating charges and portfolio transaction costs

Portfolio transaction costs

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

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

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

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

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

Portfolio transaction costs

as at 31 May Indirect portfolio transaction costs	2017 %	2016 %	2015 %	Average [a] %
Average portfolio dealing spread	0.65	0.94	0.80	0.80

[a] Average of first three columns.

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.

for the year to 31 May Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,149.55	1,214.53	1,249.05
Return before operating charges and after direct portfolio transaction costs	126.88	2.10	37.63
Operating charges	(16.98)	(16.40)	(17.48)
Return after operating charges	109.90	(14.30)	20.15
Distributions	(58.32)	(50.68)	(54.67)
Closing NAV	1,201.13	1,149.55	1,214.53
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	1.43	1.43	1.43
Return after operating charges	+9.56	-1.18	+1.61
Distribution yield [c]	4.60	4.35	4.14
Effect on yield of charges offset against capital	1.42	0.00	0.00
Other information			
Closing NAV (£'000)	2,597	1,878	3,143
Closing NAV percentage of total fund NAV (%)	0.22	0.17	0.25
Number of shares	247,564	214,088	360,061
Highest share price (Euro ¢)	1,214.59	1,224.16	1,260.80
Lowest share price (Euro ¢)	1,136.70	1,063.80	1,181.13

M&G Global High Yield Bond Fund

Financial highlights

Specific share class performance

Euro Class 'A-H' Accumulation share performance

The share class was launched on 10 December 2010.

for the year to 31 May Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,309.19	1,324.79	1,304.09
Return before operating charges and after direct portfolio transaction costs	147.07	2.35	39.29
Operating charges	(19.93)	(17.95)	(18.59)
Return after operating charges	127.14	(15.60)	20.70
Distributions	(54.79)	(56.08)	(58.51)
Retained distributions	54.79	56.08	58.51
Closing NAV	1,436.33	1,309.19	1,324.79
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	1.43	1.43	1.43
Return after operating charges	+9.71	-1.18	+1.59
Distribution yield	3.21	4.35	4.14
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	4,681	2,021	6,686
Closing NAV percentage of total fund NAV (%)	0.39	0.18	0.53
Number of shares	373,107	202,355	702,180
Highest share price (Euro ¢)	1,445.60	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.

for the year to 31 May Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	976.74	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	110.41	18.91	n/a
Operating charges	(19.86)	(13.37)	n/a
Return after operating charges	90.55	5.54	n/a
Distributions	(47.89)	(28.80)	n/a
Closing NAV	1,019.40	976.74	n/a
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.00	0.00	n/a
Dilution adjustments [a]	0.00	0.00	n/a
Total direct portfolio transaction costs	0.00	0.00	n/a
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	n/a
Operating charges	1.93	1.91	n/a
Return after operating charges	+9.27	+0.55	n/a
Distribution yield [c]	4.60	3.86	n/a
Effect on yield of charges offset against capital	1.92	0.00	n/a
Other information			
Closing NAV (£'000)	492	37	n/a
Closing NAV percentage of total fund NAV (%)	0.04	0.00	n/a
Number of shares	55,237	5,007	n/a
Highest share price (Euro ¢)	1,029.24	1,000.59	n/a
Lowest share price (Euro ¢)	965.50	903.83	n/a

Euro Class 'B-H' Accumulation share performance

The share class was launched on 26 July 2013.

for the year to 31 May Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,078.17	1,096.11	1,083.02
Return before operating charges and after direct portfolio transaction costs	121.36	3.26	34.15
Operating charges	(22.42)	(21.20)	(21.06)
Return after operating charges	98.94	(17.94)	13.09
Distributions	(39.34)	(41.46)	(42.71)
Retained distributions	39.34	41.46	42.71
Closing NAV	1,177.11	1,078.17	1,096.11
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	1.93	1.92	1.94
Return after operating charges	+9.18	-1.64	+1.21
Distribution yield	2.72	3.85	3.64
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	1,308	220	47
Closing NAV percentage of total fund NAV (%)	0.11	0.02	0.00
Number of shares	127,242	26,761	5,936
Highest share price (Euro ¢)	1,184.70	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.

for the year to 31 May Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,232.73	1,302.63	1,317.06
Return before operating charges and after direct portfolio transaction costs	135.79	2.24	50.80
Operating charges	(10.53)	(10.15)	(10.07)
Return after operating charges	125.26	(7.91)	40.73
Distributions	(65.07)	(61.99)	(55.16)
Closing NAV	1,292.92	1,232.73	1,302.63
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.83	0.82	0.83
Return after operating charges	+10.16	-0.61	+3.09
Distribution yield [c]	4.61	4.98	4.74
Effect on yield of charges offset against capital	0.82	0.00	0.00
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 ¢)	1,307.39	1,312.96	1,342.79
Lowest share price (Euro ¢)	1,219.46	1,141.01	1,267.83

M&G Global High Yield Bond Fund

Financial highlights

Specific share class performance

Euro Class 'C-H' Accumulation share performance

The share class was launched on 10 December 2010.

for the year to 31 May Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,351.63	1,359.10	1,328.66
Return before operating charges and after direct portfolio transaction costs	153.00	3.62	41.58
Operating charges	(11.84)	(11.09)	(11.14)
Return after operating charges	141.16	(7.47)	30.44
Distributions	(65.35)	(66.12)	(67.78)
Retained distributions	65.35	66.12	67.78
Closing NAV	1,492.79	1,351.63	1,359.10
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.83	0.83	0.83
Return after operating charges	+10.44	-0.55	+2.29
Distribution yield	3.79	4.97	4.74
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	9,127	6,040	3,175
Closing NAV percentage of total fund NAV (%)	0.77	0.53	0.25
Number of shares	699,990	585,710	325,077
Highest share price (Euro ¢)	1,502.33	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	48.73	51.12	52.23
Return before operating charges and after direct portfolio transaction costs	5.96	0.47	1.89
Operating charges	(0.71)	(0.69)	(0.73)
Return after operating charges	5.25	(0.22)	1.16
Distributions	(2.52)	(2.17)	(2.27)
Closing NAV	51.46	48.73	51.12
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	1.41	1.41	1.41
Return after operating charges	+10.77	-0.42	+2.22
Distribution yield [c]	4.68	4.24	4.14
Effect on yield of charges offset against capital	1.40	0.00	0.00
Other information			
Closing NAV (£'000)	107,731	101,416	134,114
Closing NAV percentage of total fund NAV (%)	9.09	8.95	10.60
Number of shares	209,367,545	208,137,424	262,335,107
Highest share price (UK p)	52.03	51.53	52.71
Lowest share price (UK p)	48.12	44.91	49.54

Sterling Class 'A' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	117.38	118.83	117.19
Return before operating charges and after direct portfolio transaction costs	14.58	1.20	4.33
Operating charges	(1.75)	(1.62)	(1.65)
Return after operating charges	12.83	(0.42)	2.68
Distributions	(5.00)	(5.14)	(5.18)
Retained distributions	4.23	4.11	4.14
Closing NAV	129.44	117.38	118.83
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	1.41	1.41	1.41
Return after operating charges	+10.93	-0.36	+2.28
Distribution yield	3.28	4.24	4.14
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	247,752	203,053	259,348
Closing NAV percentage of total fund NAV (%)	20.90	17.92	20.49
Number of shares	191,398,631	172,983,940	218,244,141
Highest share price (UK p)	130.28	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,029.25	1,079.91	1,103.19
Return before operating charges and after direct portfolio transaction costs	126.04	9.78	39.99
Operating charges	(8.67)	(8.34)	(8.82)
Return after operating charges	117.37	1.44	31.17
Distributions	(55.33)	(52.10)	(54.45)
Closing NAV	1,091.29	1,029.25	1,079.91
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.81	0.81	0.81
Return after operating charges	+11.40	+0.13	+2.83
Distribution yield [c]	4.67	4.83	4.74
Effect on yield of charges offset against capital	0.80	0.00	0.00
Other information			
Closing NAV (£'000)	126,452	116,951	62,265
Closing NAV percentage of total fund NAV (%)	10.67	10.32	4.92
Number of shares	11,587,355	11,362,754	5,765,751
Highest share price (UK p)	1,103.54	1,088.49	1,113.77
Lowest share price (UK p)	1,016.73	948.82	1,046.71

M&G Global High Yield Bond Fund

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Specific share class performance

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,219.04	1,228.23	1,205.42
Return before operating charges and after direct portfolio transaction costs	151.83	12.56	44.77
Operating charges	(10.48)	(9.68)	(9.84)
Return after operating charges	141.35	2.88	34.93
Distributions	(59.83)	(60.35)	(60.60)
Retained distributions	50.62	48.28	48.48
Closing NAV	1,351.18	1,219.04	1,228.23
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.81	0.81	0.81
Return after operating charges	+11.60	+0.23	+2.90
Distribution yield	3.88	4.83	4.74
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	102,614	82,839	64,383
Closing NAV percentage of total fund NAV (%)	8.66	7.31	5.09
Number of shares	7,594,372	6,795,435	5,241,897
Highest share price (UK p)	1,359.96	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	102.93	108.00	110.32
Return before operating charges and after direct portfolio transaction costs	12.60	0.98	4.01
Operating charges	(1.24)	(1.20)	(1.26)
Return after operating charges	11.36	(0.22)	2.75
Distributions	(5.41)	(4.85)	(5.07)
Closing NAV	108.88	102.93	108.00
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	1.16	1.16	1.16
Return after operating charges	+11.04	-0.20	+2.49
Distribution yield [c]	4.68	4.49	4.39
Effect on yield of charges offset against capital	1.15	0.00	0.00
Other information			
Closing NAV (£'000)	1,932	1,781	2,012
Closing NAV percentage of total fund NAV (%)	0.16	0.16	0.16
Number of shares	1,774,478	1,730,602	1,862,774
Highest share price (UK p)	110.10	108.85	111.36
Lowest share price (UK p)	101.66	94.88	104.66

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	120.56	121.81	119.92
Return before operating charges and after direct portfolio transaction costs	14.99	1.23	4.38
Operating charges	(1.48)	(1.37)	(1.38)
Return after operating charges	13.51	(0.14)	3.00
Distributions	(5.46)	(5.56)	(5.55)
Retained distributions	4.62	4.45	4.44
Closing NAV	133.23	120.56	121.81
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	1.16	1.16	1.16
Return after operating charges	+11.21	-0.11	+2.50
Distribution yield	3.53	4.50	4.39
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	177	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)	134.10	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	48.74	51.14	52.24
Return before operating charges and after direct portfolio transaction costs	5.96	0.46	1.90
Operating charges	(0.71)	(0.69)	(0.73)
Return after operating charges	5.25	(0.23)	1.17
Distributions	(2.52)	(2.17)	(2.27)
Closing NAV	51.47	48.74	51.14
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	1.41	1.41	1.41
Return after operating charges	+10.77	-0.44	+2.24
Distribution yield [c]	4.68	4.24	4.14
Effect on yield of charges offset against capital	1.40	0.00	0.00
Other information			
Closing NAV (£'000)	475,069	481,413	578,873
Closing NAV percentage of total fund NAV (%)	40.09	42.47	45.75
Number of shares	922,936,923	987,667,099	1,131,908,928
Highest share price (UK p)	52.05	51.55	52.73
Lowest share price (UK p)	48.13	44.93	49.56

M&G Global High Yield Bond Fund

Financial highlights

Specific share class performance

Sterling Class 'X' Accumulation share performance

The share class was launched on 16 October 1998.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	117.46	118.92	117.27
Return before operating charges and after direct portfolio transaction costs	14.59	1.20	4.35
Operating charges	(1.73)	(1.63)	(1.66)
Return after operating charges	12.86	(0.43)	2.69
Distributions	(5.02)	(5.14)	(5.18)
Retained distributions	4.24	4.11	4.14
Closing NAV	129.54	117.46	118.92
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	1.41	1.41	1.41
Return after operating charges	+10.95	-0.36	+2.29
Distribution yield	3.28	4.24	4.14
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	69,764	134,345	133,239
Closing NAV percentage of total fund NAV (%)	5.89	11.85	10.53
Number of shares	53,854,389	114,371,357	112,043,235
Highest share price (UK p)	130.38	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.

for the year to 31 May Change in NAV per share	2017 Swiss ¢	2016 Swiss ¢	2015 Swiss ¢
Opening NAV	1,021.19	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	108.50	30.78	n/a
Operating charges	(15.25)	(9.59)	n/a
Return after operating charges	93.25	21.19	n/a
Distributions	(42.58)	(33.37)	n/a
Retained distributions	42.58	33.37	n/a
Closing NAV	1,114.44	1,021.19	n/a
Direct portfolio transaction costs	**Swiss ¢**	**Swiss ¢**	**Swiss ¢**
Costs before dilution adjustments	0.00	0.00	n/a
Dilution adjustments [a]	0.00	0.00	n/a
Total direct portfolio transaction costs	0.00	0.00	n/a
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	n/a
Operating charges	1.42	1.42	n/a
Return after operating charges	+9.13	+2.12	n/a
Distribution yield	3.21	4.28	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV (£'000)	27	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 ¢)	1,121.69	1,023.49	n/a
Lowest share price (Swiss ¢)	1,009.48	933.37	n/a

Swiss franc Class 'C-H' Accumulation share performance

The share class was launched on 25 September 2015.

for the year to 31 May Change in NAV per share	2017 Swiss ¢	2016 Swiss ¢	2015 Swiss ¢
Opening NAV	1,024.94	1,000.00	n/a
Return before operating charges and after direct portfolio transaction costs	110.14	30.51	n/a
Operating charges	(8.86)	(5.57)	n/a
Return after operating charges	101.28	24.94	n/a
Distributions	(49.37)	(37.85)	n/a
Retained distributions	49.37	37.85	n/a
Closing NAV	1,126.22	1,024.94	n/a
Direct portfolio transaction costs	**Swiss ¢**	**Swiss ¢**	**Swiss ¢**
Costs before dilution adjustments	0.00	0.00	n/a
Dilution adjustments [a]	0.00	0.00	n/a
Total direct portfolio transaction costs	0.00	0.00	n/a
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	n/a
Operating charges	0.82	0.82	n/a
Return after operating charges	+9.88	+2.49	n/a
Distribution yield	3.79	4.97	n/a
Effect on yield of charges offset against capital	0.00	0.00	n/a
Other information			
Closing NAV (£'000)	27	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 ¢)	1,133.53	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.

for the year to 31 May Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,238.31	1,299.63	1,307.22
Return before operating charges and after direct portfolio transaction costs	158.68	11.16	57.04
Operating charges	(18.76)	(17.86)	(17.50)
Return after operating charges	139.92	(6.70)	39.54
Distributions	(63.07)	(54.62)	(47.13)
Closing NAV	1,315.16	1,238.31	1,299.63
Direct portfolio transaction costs	**US ¢**	**US ¢**	**US ¢**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	1.43	1.42	1.42
Return after operating charges	+11.30	-0.52	+3.02
Distribution yield [c]	4.62	4.29	4.00
Effect on yield of charges offset against capital	1.42	0.00	0.00
Other information			
Closing NAV (£'000)	474	203	46
Closing NAV percentage of total fund NAV (%)	0.04	0.02	0.00
Number of shares	46,235	23,944	5,423
Highest share price (US ¢)	1,329.97	1,309.98	1,332.32
Lowest share price (US ¢)	1,226.22	1,141.73	1,261.09

M&G Global High Yield Bond Fund

Financial highlights

Specific share class performance

US dollar Class 'A-H' Accumulation share performance

The share class was launched on 10 December 2010.

for the year to 31 May Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,336.10	1,347.24	1,319.76
Return before operating charges and after direct portfolio transaction costs	172.77	7.16	46.96
Operating charges	(20.66)	(18.30)	(19.48)
Return after operating charges	152.11	(11.14)	27.48
Distributions	(55.80)	(56.19)	(57.71)
Retained distributions	55.80	56.19	57.71
Closing NAV	1,488.21	1,336.10	1,347.24
Direct portfolio transaction costs	**US ¢**	**US ¢**	**US ¢**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	1.43	1.48	1.42
Return after operating charges	+11.38	-0.83	+2.08
Distribution yield	3.22	4.20	4.00
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	1,974	850	17,993
Closing NAV percentage of total fund NAV (%)	0.17	0.08	1.42
Number of shares	170,305	93,002	2,036,379
Highest share price (US ¢)	1,497.88	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.

for the year to 31 May Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,265.98	1,328.97	1,333.60
Return before operating charges and after direct portfolio transaction costs	161.49	11.15	60.50
Operating charges	(11.00)	(10.59)	(10.19)
Return after operating charges	150.49	0.56	50.31
Distributions	(67.28)	(63.55)	(54.94)
Closing NAV	1,349.19	1,265.98	1,328.97
Direct portfolio transaction costs	**US ¢**	**US ¢**	**US ¢**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.83	0.82	0.82
Return after operating charges	+11.89	+0.04	+3.77
Distribution yield [c]	4.61	4.90	4.59
Effect on yield of charges offset against capital	0.82	0.00	0.00
Other information			
Closing NAV (£'000)	122	39	13
Closing NAV percentage of total fund NAV (%)	0.01	0.00	0.00
Number of shares	11,599	4,499	1,500
Highest share price (US ¢)	1,364.36	1,339.58	1,359.84
Lowest share price (US ¢)	1,254.19	1,167.49	1,286.64

US dollar Class 'C-H' Accumulation share performance

The share class was launched on 10 December 2010.

for the year to 31 May Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,388.09	1,385.88	1,348.97
Return before operating charges and after direct portfolio transaction costs	193.16	13.46	47.99
Operating charges	(13.04)	(11.25)	(11.08)
Return after operating charges	180.12	2.21	36.91
Distributions	(66.70)	(66.88)	(67.80)
Retained distributions	66.70	66.88	67.80
Closing NAV	1,568.21	1,388.09	1,385.88
Direct portfolio transaction costs	**US ¢**	**US ¢**	**US ¢**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.84	0.82	0.82
Return after operating charges	+12.98	+0.16	+2.74
Distribution yield	3.81	4.88	4.59
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	32,930	151	15
Closing NAV percentage of total fund NAV (%)	2.78	0.01	0.00
Number of shares	2,695,872	15,877	1,700
Highest share price (US ¢)	1,578.39	1,396.41	1,396.70
Lowest share price (US ¢)	1,373.68	1,258.92	1,308.56

[a] In respect of direct portfolio transaction costs.

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

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

Financial statements

Statement of total return

for the year to 31 May	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Income					
Net capital gains / (losses)	3		72,508		(58,868)
Revenue	5	64,278		68,180	
Expenses	6	(15,119)		(15,333)	
Net revenue / (expense) before taxation		49,159		52,847	
Taxation	7	(465)		(489)	
Net revenue / (expense) after taxation			48,694		52,358
Total return before distributions			**121,202**		**(6,510)**
Distributions	8		(54,857)		(52,361)
Change in net assets attributable to shareholders from investment activities			**66,345**		**(58,871)**

Statement of change in net assets attributable to shareholders

for the year to 31 May	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Opening net assets attributable to shareholders		**1,133,409**		**1,265,438**
Amounts received on issue of shares	232,071		147,507	
Amounts paid on cancellation of shares	(264,329)		(237,301)	
		(32,258)		(89,794)
Dilution adjustments		1,491		805
Change in net assets attributable to shareholders from investment activities (see above)		66,345		(58,871)
Retained distributions on Accumulation shares		16,259		15,818
Unclaimed distributions		17		13
Closing net assets attributable to shareholders		**1,185,263**		**1,133,409**

Balance sheet

as at 31 May	Note	2017 £'000	2016 £'000
Assets			
Fixed assets			
Investments		1,181,133	1,118,326
Current assets			
Debtors	9	16,303	25,375
Cash and bank balances	10	11,514	15,111
Total assets		**1,208,950**	**1,158,812**
Liabilities			
Investment liabilities		(4,395)	(5,534)
Creditors			
Bank overdrafts		(10,567)	(3,034)
Distribution payable		(3,359)	(3,649)
Other creditors	11	(5,366)	(13,186)
Total liabilities		**(23,687)**	**(25,403)**
Net assets attributable to shareholders		**1,185,263**	**1,133,409**

Notes to the financial statements

1 Accounting policies

The financial statements have been prepared in accordance with the 'Summary of significant accounting policies' set out on pages 6 and 7.

2 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 the share class hedging charge are now offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

3 Net capital gains / (losses)

for the year to 31 May	2017 £'000	2016 £'000
Non-derivative securities	188,088	(9,942)
Derivative contracts	(102,045)	(59,156)
Currency gains / (losses)	(13,522)	10,242
Transaction charges	(13)	(12)
Net capital gains / (losses)	**72,508**	**(58,868)**

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on pages 31 and 32.

for the year to 31 May	2017 £'000	2016 £'000
a) Purchases		
Equities	**350**	**0**
Debt securities [a]	**476,646**	**435,116**
Total purchases	**476,996**	**435,116**
b) Sales		
Equities	**61**	**0**
Debt securities [a]	**543,064**	**565,213**
Other transaction types		
Corporate actions	**16,851**	**12,517**
Total sales	**559,976**	**577,730**

c) Direct portfolio transaction costs	2017 £'000	% of average NAV	2016 £'000	% of average NAV
Commissions paid				
Derivatives	1	0.00	0	0.00
Total commissions paid	**1**	**0.00**	**0**	**0.00**
d) Indirect portfolio transaction costs		**%**		**%**
Portfolio dealing spread [b]		0.65		0.94

[a] These transaction types do not attract direct portfolio transaction costs.

[b] Average portfolio dealing spread at the balance sheet date.

Notes to the financial statements

5 Revenue

for the year to 31 May	2017 £'000	2016 £'000
Bank interest	64	9
Derivative revenue	5,002	5,331
Interest distributions	187	289
Interest on debt securities	59,025	62,551
Total revenue	**64,278**	**68,180**

6 Expenses

for the year to 31 May	2017 £'000	2016 £'000
Payable to the ACD or associate		
Annual management charge	13,211	13,482
Administration charge	1,756	1,732
Share class hedging charge	6	2
	14,973	15,216
Payable to the Depositary or associate		
Depositary's charge (including VAT)	59	59
Other expenses		
Audit fee (including VAT)	15	8
Interest payable	39	16
Legal fees	1	0
Safe custody charge	32	34
	87	58
Total expenses	**15,119**	**15,333**

7 Taxation

for the year to 31 May	2017 £'000	2016 £'000
a) Analysis of charge in the year		
Corporation tax	0	98
Withholding tax	465	489
Current double taxation relief	0	(98)
Deferred tax (note 7c)	0	0
Total taxation	**465**	**489**
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	49,159	52,847
Corporation tax at 20%	9,832	10,569
Effects of:		
Interest distributions	(9,832)	(10,472)
Withholding tax	465	489
Total double taxation relief	0	(97)
Total tax charge (note 7a)	**465**	**489**
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	**0**	**0**

The fund does not have an unrecognised deferred tax asset at the year end (2016: same).

Interest distributions have been made in respect of all distributions during the current and preceding periods. Income tax at 20% will be accounted for on shareholders' behalf to HM Revenue & Customs up to 28 February 2017.

8 Distributions

	2017		2016	
for the year to 31 May Interest distributions	Inc [a] £'000	Acc [b] £'000	Inc [a] £'000	Acc [b] £'000
First interim	2,443	1,540	1,934	1,178
Second interim	2,141	1,368	2,319	1,427
Third interim	2,103	1,362	2,320	1,440
Fourth interim	1,912	1,308	2,235	1,325
Fifth interim	2,970	1,535	2,113	1,257
Sixth interim	2,346	1,073	2,233	1,345
Seventh interim	2,576	1,248	2,412	1,451
Eighth interim	2,668	1,360	2,314	1,363
Ninth interim	2,356	1,159	2,484	1,519
Tenth interim	3,072	1,524	1,901	1,170
Eleventh interim	2,384	1,112	1,775	1,100
Final	3,359	1,670	2,021	1,243
Total net distributions		46,589		41,879
Income tax deducted at source		8,195		10,369
Interest distributions		54,784		52,248
Income deducted on cancellation of shares		519		386
Income received on issue of shares		(446)		(273)
Distributions		**54,857**		**52,361**
Net revenue / (expense) per statement of total return		48,694		52,358
Expenses offset against capital		6,162		0
Undistributed income brought forward		2		5
Undistributed income carried forward		(1)		(2)
Distributions		**54,857**		**52,361**

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 31 May	2017 £'000	2016 £'000
Amounts receivable on issues of shares	492	345
Currency deals outstanding	66	8,062
Debt security interest receivable	15,125	15,667
Derivative revenue receivable	566	1,277
Distributions receivable	9	24
Withholding tax recoverable	45	0
Total debtors	**16,303**	**25,375**

10 Cash and bank balances

as at 31 May	2017 £'000	2016 £'000
Amounts held at futures clearing houses and collateral manager	9,478	2,206
Cash held as bank balances	2,036	12,905
Total cash and bank balances	**11,514**	**15,111**

11 Other creditors

as at 31 May	2017 £'000	2016 £'000
ACD's annual management charge payable	327	778
Administration charge payable	17	102
Amounts payable on cancellation of shares	409	801
Currency deals outstanding	66	8,070
Derivative expense payable	16	10
Expenses payable	53	31
Purchases awaiting settlement	4,478	3,394
Total other creditors	**5,366**	**13,186**

Notes to the financial statements

12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2016: same).

13 Shares in issue

The following table shows each class of share in issue during the year. Each share class has the same rights on winding up however they may have different charging structures as set out in note 14.

Share class	Opening 01.06.16	Movements Issued	Movements Cancelled	Closing 31.05.17
Euro				
Class 'A-H' Income	214,088	114,253	(80,777)	247,564
Class 'A-H' Accumulation	202,355	228,835	(58,083)	373,107
Class 'B-H' Income	5,007	51,585	(1,355)	55,237
Class 'B-H' Accumulation	26,761	108,958	(8,477)	127,242
Class 'C-H' Income	1,182	0	0	1,182
Class 'C-H' Accumulation	585,710	664,052	(549,772)	699,990
Sterling				
Class 'A' Income	208,137,424	15,795,846	(14,565,725)	209,367,545
Class 'A' Accumulation	172,983,940	43,225,707	(24,811,016)	191,398,631
Class 'I' Income	11,362,754	807,901	(583,300)	11,587,355
Class 'I' Accumulation	6,795,435	1,212,535	(413,598)	7,594,372
Class 'R' Income	1,730,602	496,865	(452,989)	1,774,478
Class 'R' Accumulation	98,597	34,286	0	132,883
Class 'X' Income	987,667,099	9,719,661	(74,449,837)	922,936,923
Class 'X' Accumulation	114,371,357	9,464,631	(69,981,599)	53,854,389
Swiss franc				
Class 'A-H' Accumulation	3,000	0	0	3,000
Class 'C-H' Accumulation	3,001	0	0	3,001
US dollar				
Class 'A-H' Income	23,944	33,573	(11,282)	46,235
Class 'A-H' Accumulation	93,002	111,171	(33,868)	170,305
Class 'C-H' Income	4,499	7,100	0	11,599
Class 'C-H' Accumulation	15,877	9,514,091	(6,834,096)	2,695,872

14 Charging structure

The table below sets out the charging structure for each class of share. The charging structure is the same for both Income and Accumulation shares of each class.

Share class	Entry charge %	Exit charge %	Annual management charge %	Share class hedging charge %
Euro				
Class 'A-H'	4.00	n/a	1.25	[c]
Class 'B-H'	1.25	n/a	1.75	[c]
Class 'C-H'	1.25	n/a	0.65	[c]
Sterling				
Class 'A'	3.00 [a]	n/a	1.25	n/a
Class 'I'	1.00 [a]	n/a	0.65	n/a
Class 'R'	1.00 [a]	n/a	1.00	n/a
Class 'X'	nil	4.50 [b]	1.25	n/a
Swiss franc				
Class 'A-H'	4.00	n/a	1.25	[c]
Class 'C-H'	1.25	n/a	0.65	[c]
US dollar				
Class 'A-H'	4.00	n/a	1.25	[c]
Class 'C-H'	1.25	n/a	0.65	[c]

[a] With effect from 16 December 2016, the entry charge has been discounted to zero on all new investments into sterling share classes.

[b] With effect from 16 December 2016, the exit charge has been waived on future withdrawals from all Sterling Class 'X' shares.

[c] This charge may vary between 0.01% and 0.055%.

15 Related parties

M&G Securities Limited, as Authorised Corporate Director (ACD), is a related party and acts as principal on all the transactions of shares in the fund except with in specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to shareholders' and note 8. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 9 and 11 where applicable.

Amounts paid to M&G Securities Limited in respect of the ACD's annual management charge, administration charge and share class hedging charge are disclosed in note 6. Amounts due at the year end in respect of the ACD's annual management charge, administration charge and share class hedging charge are disclosed in note 11.

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 7.57% (2016: 8.05%) of the fund's shares.

16 Events after the balance sheet date

There were no events after the balance sheet date to disclose.

Notes to the financial statements

17 Portfolio fair value analysis

Financial instruments have been measured at their fair value and have been classified below using a hierarchy that reflects the significance of the inputs used in measuring their fair value:

Level 1: Quoted prices for identical instruments in active markets

This includes instruments such as publicly traded equities; highly liquid bonds (e.g. Government bonds) and exchange traded derivatives (e.g. futures) for which quoted prices are readily and regularly available.

Level 2: Valuation techniques using observable market data

This includes publicly traded corporate bonds and instruments which have been valued using models with observable market data inputs such as quoted prices for similar instruments, interest rates, yield curves or credit spreads. Over-the-counter instruments have also been included in the category.

Level 3: Valuation techniques using non-observable market data

This refers to instruments which have been valued using models with non-observable market data inputs. This includes private equity, unlisted closed-ended funds and investment analyst recommended prices where the market price is deemed to not be a true representation of fair value. However no such financial instruments were held.

as at 31 May Valuation technique	Assets 2017 £'000	Liabilities 2017 £'000	Assets 2016 £'000	Liabilities 2016 £'000
Level 1	74,468	(419)	111,646	(35)
Level 2	1,106,665	(3,976)	1,006,680	(5,499)
Level 3	0	0	0	0
	1,181,133	**(4,395)**	**1,118,326**	**(5,534)**

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 13 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 to 9.

19 Market risk

VaR is the risk measurement methodology used to assess the fund's leverage and market risk volatility. When VaR is calculated as a percentage of the net asset value it may not be greater than the VaR limit set for the fund.

The VaR limit set during the financial year to 31 May 2017 was 12% (2016: 12%).

The lowest, highest and average VaR calculated during the financial years ended 31 May 2017 and 31 May 2016 are disclosed in the table below. The lowest, highest and average utilisation of VaR is with reference to the limit above.

for the year to 31 May	2017 %	2016 %
Lowest	3.32	2.07
Highest	5.60	5.06
Average	4.35	3.87

20 Credit risk

as at 31 May	2017 £'000	2016 £'000
Investment grade securities	238,691	217,980
Below investment grade securities	873,089	755,826
Unrated securities	13,257	51,142
Other investments	51,701	87,844
Total	**1,176,738**	**1,112,792**

21 Counterparty exposure

as at 31 May 2017	Credit default swaps £'000	Forward currency contracts £'000	Futures £'000	Collateral held as cash £'000	Net exposure £'000
Bank of America Merrill Lynch	(111)	0	(419)	1,303	773
BNP Paribas	687	0	0	(680)	7
Citigroup	702	0	0	1,320	2,022
J.P.Morgan	3,978	(1,100)	0	6,855	9,733
State Street Bank	0	(2,201)	0	(430)	(2,631)
UBS	0	0	0	(575)	(575)
Total	**5,256**	**(3,301)**	**(419)**	**7,793**	**9,329**

as at 31 May 2016	Credit default swaps £'000	Forward currency contracts £'000	Futures £'000	Collateral held as cash £'000	Net exposure £'000
Bank of America Merrill Lynch	1,656	0	(35)	(1,664)	(23)
BNP Paribas	0	(579)	0	670	91
Citigroup	151	0	0	0	151
Credit Suisse	(889)	0	0	(380)	(1,269)
Goldman Sachs	0	(1,324)	0	0	(1,324)
HSBC	196	0	0	0	196
J.P.Morgan	3,954	4,819	0	(10,140)	(1,367)
Royal Bank of Scotland	0	(2,118)	0	1,090	(1,028)
State Street Bank	0	(192)	0	300	108
UBS	0	4,968	0	(5,362)	(394)
Total	**5,068**	**5,574**	**(35)**	**(15,466)**	**(4,859)**

Net exposure represents the mark-to-market value of derivative contracts less any cash collateral held. Positive exposure represents the fund's exposure to that counterparty. Negative amounts are not an exposure to the fund.

Notes to the financial statements

22 Leverage risk

Funds using VaR approaches are required to disclose the level of leverage employed during the financial reporting period.

Derivatives can be used by the fund to generate market exposure to investments exceeding the net asset value. As a result of this exposure, the size of any positive or negative movement in markets may have a more significant effect on the net asset value of the fund.

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 31 May 2017 and 31 May 2016 are disclosed in the table below.

for the year to 31 May	2017 £'000	2017 %	2016 £'000	2016 %
Lowest	2,009,782	175	2,012,022	177
Highest	3,378,607	283	3,318,732	283
Average	2,248,317	192	2,250,440	195

23 Exchange rate risk for hedged share classes

This fund contains hedged share classes. These share classes operate currency hedges designed to reduce the impact of exchange rates in certain circumstances. As a result, profit and loss on the currency hedges may impact the liquidity of the overall fund. On a day to day basis this is monitored using reporting from the outsourced provider of the hedged share class service. On an ongoing basis the size of the hedged share classes is monitored to ensure that unforeseen exchange rate volatility can be adequately managed without significantly impacting all shareholders.

24 Interest distribution tables

This fund pays monthly interest distributions and the following table sets out the distribution periods.

Monthly distribution periods

	Start	End	Xd	Payment
First interim	01.06.16	30.06.16	01.07.16	31.07.16
Second interim	01.07.16	31.07.16	01.08.16	31.08.16
Third interim	01.08.16	31.08.16	01.09.16	30.09.16
Fourth interim	01.09.16	30.09.16	03.10.16	31.10.16
Fifth interim	01.10.16	31.10.16	01.11.16	30.11.16
Sixth interim	01.11.16	30.11.16	01.12.16	31.12.16
Seventh interim	01.12.16	31.12.16	03.01.17	31.01.17
Eighth interim	01.01.17	31.01.17	01.02.17	28.02.17
Ninth interim	01.02.17	28.02.17	01.03.17	31.03.17
Tenth interim	01.03.17	31.03.17	03.04.17	30.04.17
Eleventh interim	01.04.17	30.04.17	02.05.17	31.05.17
Final	01.05.17	31.05.17	01.06.17	30.06.17

The following tables set out for each distribution the rates per share for both Group 1 and Group 2 shares.

Group 1 shares are those purchased prior to a distribution period and therefore their net revenue rate is the same as the distribution rate.

Group 2 shares are those purchased during a distribution period and therefore their distribution rate is made up of net revenue and equalisation. Equalisation is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the net revenue and equalisation components.

Euro Class 'A-H' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equal-isation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	4.7649	-	4.7649	-	4.7649	3.8329
Second interim	3.9874	-	3.9874	-	3.9874	4.6131
Third interim	4.1478	-	4.1478	-	4.1478	4.4045
Fourth interim	3.8709	-	3.8709	-	3.8709	4.2472
Fifth interim	6.0554	-	6.0554	-	6.0554	4.2156
Sixth interim	5.0194	-	5.0194	-	5.0194	4.4671
Seventh interim	5.4039	-	5.4039	-	5.4039	4.5752
Eighth interim	5.4093	-	5.4093	-	5.4093	4.3996
Ninth interim	4.8832	-	4.8832	-	4.8832	4.7252
Tenth interim	5.1072	-	5.1072	-	5.1072	3.6870
Eleventh interim	4.0363	-	4.0363	-	4.0363	3.5165
Final	5.6296	-	5.6296	-	5.6296	3.9985
Group 2						
First interim	3.7163	-	3.7163	1.0486	4.7649	3.8329
Second interim	2.1217	-	2.1217	1.8657	3.9874	4.6131
Third interim	3.5729	-	3.5729	0.5749	4.1478	4.4045
Fourth interim	1.6656	-	1.6656	2.2053	3.8709	4.2472
Fifth interim	3.1058	-	3.1058	2.9496	6.0554	4.2156
Sixth interim	1.9421	-	1.9421	3.0773	5.0194	4.4671
Seventh interim	4.0791	-	4.0791	1.3248	5.4039	4.5752
Eighth interim	1.9006	-	1.9006	3.5087	5.4093	4.3996
Ninth interim	1.1507	-	1.1507	3.7325	4.8832	4.7252
Tenth interim	1.6150	-	1.6150	3.4922	5.1072	3.6870
Eleventh interim	0.9351	-	0.9351	3.1012	4.0363	3.5165
Final	2.9655	-	2.9655	2.6641	5.6296	3.9985

Notes to the financial statements

24 Interest distribution tables (continued)

Euro Class 'A-H' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	5.4280	-	5.4280	-	5.4280	4.1789
Second interim	4.5902	-	4.5902	-	4.5902	5.0461
Third interim	4.7597	-	4.7597	-	4.7597	4.8388
Fourth interim	4.4580	-	4.4580	-	4.4580	4.6817
Fifth interim	5.3779	-	5.3779	-	5.3779	4.6479
Sixth interim	4.2289	-	4.2289	-	4.2289	4.9699
Seventh interim	4.7164	-	4.7164	-	4.7164	4.8953
Eighth interim	4.6230	-	4.6230	-	4.6230	4.8399
Ninth interim	4.1844	-	4.1844	-	4.1844	5.3152
Tenth interim	4.3665	-	4.3665	-	4.3665	4.1557
Eleventh interim	3.2458	-	3.2458	-	3.2458	3.9814
Final	4.8073	-	4.8073	-	4.8073	4.5296
Group 2						
First interim	3.5704	-	3.5704	1.8576	5.4280	4.1789
Second interim	2.8648	-	2.8648	1.7254	4.5902	5.0461
Third interim	3.2732	-	3.2732	1.4865	4.7597	4.8388
Fourth interim	1.4714	-	1.4714	2.9866	4.4580	4.6817
Fifth interim	2.0912	-	2.0912	3.2867	5.3779	4.6479
Sixth interim	3.3733	-	3.3733	0.8556	4.2289	4.9699
Seventh interim	2.3583	-	2.3583	2.3581	4.7164	4.8953
Eighth interim	2.3208	-	2.3208	2.3022	4.6230	4.8399
Ninth interim	2.1491	-	2.1491	2.0353	4.1844	5.3152
Tenth interim	2.4626	-	2.4626	1.9039	4.3665	4.1557
Eleventh interim	1.2879	-	1.2879	1.9579	3.2458	3.9814
Final	1.7382	-	1.7382	3.0691	4.8073	4.5296

Euro Class 'B-H' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	3.6673	-	3.6673	-	3.6673	n/a
Second interim	3.0272	-	3.0272	-	3.0272	n/a
Third interim	3.0725	-	3.0725	-	3.0725	n/a
Fourth interim	2.8742	-	2.8742	-	2.8742	3.3614
Fifth interim	5.1543	-	5.1543	-	5.1543	3.1808
Sixth interim	4.2616	-	4.2616	-	4.2616	3.3774
Seventh interim	4.5881	-	4.5881	-	4.5881	3.5297
Eighth interim	4.5922	-	4.5922	-	4.5922	3.3721
Ninth interim	4.1416	-	4.1416	-	4.1416	3.6374
Tenth interim	4.3307	-	4.3307	-	4.3307	2.7318
Eleventh interim	3.4221	-	3.4221	-	3.4221	2.6658
Final	4.7624	-	4.7624	-	4.7624	2.9452
Group 2						
First interim	1.6668	-	1.6668	2.0005	3.6673	n/a
Second interim	3.0272	-	3.0272	0.0000	3.0272	n/a
Third interim	0.0000	-	0.0000	3.0725	3.0725	n/a
Fourth interim	2.1779	-	2.1779	0.6963	2.8742	3.3614
Fifth interim	4.1315	-	4.1315	1.0228	5.1543	3.1808
Sixth interim	4.2616	-	4.2616	0.0000	4.2616	3.3774
Seventh interim	0.0311	-	0.0311	4.5570	4.5881	3.5297
Eighth interim	2.9704	-	2.9704	1.6218	4.5922	3.3721
Ninth interim	3.1278	-	3.1278	1.0138	4.1416	3.6374
Tenth interim	3.8614	-	3.8614	0.4693	4.3307	2.7318
Eleventh interim	3.4221	-	3.4221	0.0000	3.4221	2.6658
Final	1.2188	-	1.2188	3.5436	4.7624	2.9452

Euro Class 'B-H' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	4.0348	-	4.0348	-	4.0348	3.0120
Second interim	3.3281	-	3.3281	-	3.3281	3.7153
Third interim	3.4080	-	3.4080	-	3.4080	3.5536
Fourth interim	3.2035	-	3.2035	-	3.2035	3.4115
Fifth interim	3.9336	-	3.9336	-	3.9336	3.4017
Sixth interim	3.0113	-	3.0113	-	3.0113	3.6824
Seventh interim	3.4089	-	3.4089	-	3.4089	3.8745
Eighth interim	3.3137	-	3.3137	-	3.3137	3.6752
Ninth interim	2.9818	-	2.9818	-	2.9818	3.9586
Tenth interim	3.1034	-	3.1034	-	3.1034	3.0684
Eleventh interim	2.2175	-	2.2175	-	2.2175	2.8560
Final	3.3973	-	3.3973	-	3.3973	3.2464
Group 2						
First interim	3.2039	-	3.2039	0.8309	4.0348	3.0120
Second interim	3.3281	-	3.3281	0.0000	3.3281	3.7153
Third interim	0.9296	-	0.9296	2.4784	3.4080	3.5536
Fourth interim	1.9550	-	1.9550	1.2485	3.2035	3.4115
Fifth interim	1.0844	-	1.0844	2.8492	3.9336	3.4017
Sixth interim	2.3606	-	2.3606	0.6507	3.0113	3.6824
Seventh interim	2.3190	-	2.3190	1.0899	3.4089	3.8745
Eighth interim	1.1458	-	1.1458	2.1679	3.3137	3.6752
Ninth interim	1.6987	-	1.6987	1.2831	2.9818	3.9586
Tenth interim	1.4903	-	1.4903	1.6131	3.1034	3.0684
Eleventh interim	1.3315	-	1.3315	0.8860	2.2175	2.8560
Final	0.0038	-	0.0038	3.3935	3.3973	3.2464

Euro Class 'C-H' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	5.6611	-	5.6611	-	5.6611	4.7387
Second interim	4.8808	-	4.8808	-	4.8808	5.5845
Third interim	5.1324	-	5.1324	-	5.1324	5.3671
Fourth interim	4.7793	-	4.7793	-	4.7793	5.1836
Fifth interim	6.5214	-	6.5214	-	6.5214	5.1644
Sixth interim	5.3854	-	5.3854	-	5.3854	5.5177
Seventh interim	5.8041	-	5.8041	-	5.8041	5.5679
Eighth interim	5.8148	-	5.8148	-	5.8148	5.3023
Ninth interim	5.2478	-	5.2478	-	5.2478	5.6578
Tenth interim	5.4761	-	5.4761	-	5.4761	4.5279
Eleventh interim	4.3107	-	4.3107	-	4.3107	4.3745
Final	6.0557	-	6.0557	-	6.0557	5.0059
Group 2						
First interim	5.6611	-	5.6611	0.0000	5.6611	4.7387
Second interim	4.8808	-	4.8808	0.0000	4.8808	5.5845
Third interim	5.1324	-	5.1324	0.0000	5.1324	5.3671
Fourth interim	4.7793	-	4.7793	0.0000	4.7793	5.1836
Fifth interim	6.5214	-	6.5214	0.0000	6.5214	5.1644
Sixth interim	5.3854	-	5.3854	0.0000	5.3854	5.5177
Seventh interim	5.8041	-	5.8041	0.0000	5.8041	5.5679
Eighth interim	5.8148	-	5.8148	0.0000	5.8148	5.3023
Ninth interim	5.2478	-	5.2478	0.0000	5.2478	5.6578
Tenth interim	5.4761	-	5.4761	0.0000	5.4761	4.5279
Eleventh interim	4.3107	-	4.3107	0.0000	4.3107	4.3745
Final	6.0557	-	6.0557	0.0000	6.0557	5.0059

Notes to the financial statements

24 Interest distribution tables (continued)

Euro Class 'C-H' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	6.2600	-	6.2600	-	6.2600	4.9655
Second interim	5.4320	-	5.4320	-	5.4320	5.8709
Third interim	5.6789	-	5.6789	-	5.6789	5.6310
Fourth interim	5.2873	-	5.2873	-	5.2873	5.4609
Fifth interim	6.2932	-	6.2932	-	6.2932	5.4569
Sixth interim	5.0908	-	5.0908	-	5.0908	5.7938
Seventh interim	5.6231	-	5.6231	-	5.6231	5.9530
Eighth interim	5.5414	-	5.5414	-	5.5414	5.7012
Ninth interim	5.0258	-	5.0258	-	5.0258	6.1145
Tenth interim	5.2540	-	5.2540	-	5.2540	4.9927
Eleventh interim	4.0465	-	4.0465	-	4.0465	4.7682
Final	5.8179	-	5.8179	-	5.8179	5.4064
Group 2						
First interim	1.1429	-	1.1429	5.1171	6.2600	4.9655
Second interim	2.4797	-	2.4797	2.9523	5.4320	5.8709
Third interim	2.9494	-	2.9494	2.7295	5.6789	5.6310
Fourth interim	4.3128	-	4.3128	0.9745	5.2873	5.4609
Fifth interim	2.7974	-	2.7974	3.4958	6.2932	5.4569
Sixth interim	0.4495	-	0.4495	4.6413	5.0908	5.7938
Seventh interim	3.6925	-	3.6925	1.9306	5.6231	5.9530
Eighth interim	2.7412	-	2.7412	2.8002	5.5414	5.7012
Ninth interim	2.4546	-	2.4546	2.5712	5.0258	6.1145
Tenth interim	2.4013	-	2.4013	2.8527	5.2540	4.9927
Eleventh interim	1.8907	-	1.8907	2.1558	4.0465	4.7682
Final	2.3679	-	2.3679	3.4500	5.8179	5.4064

Sterling Class 'A' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
First interim	0.2085	0.0417	0.1668	-	0.1668	0.1260
Second interim	0.1830	0.0366	0.1464	-	0.1464	0.1516
Third interim	0.1795	0.0359	0.1436	-	0.1436	0.1528
Fourth interim	0.1640	0.0328	0.1312	-	0.1312	0.1476
Fifth interim	0.2615	0.0523	0.2092	-	0.2092	0.1404
Sixth interim	0.2080	0.0416	0.1664	-	0.1664	0.1488
Seventh interim	0.2290	0.0458	0.1832	-	0.1832	0.1620
Eighth interim	0.2380	0.0476	0.1904	-	0.1904	0.1564
Ninth interim	0.2110	0.0422	0.1688	-	0.1688	0.1684
Tenth interim	0.2204	0.0000	0.2204	-	0.2204	0.1284
Eleventh interim	0.1713	0.0000	0.1713	-	0.1713	0.1204
Final	0.2413	0.0000	0.2413	-	0.2413	0.1364
Group 2						
First interim	0.1148	0.0230	0.0918	0.0750	0.1668	0.1260
Second interim	0.0891	0.0178	0.0713	0.0751	0.1464	0.1516
Third interim	0.0775	0.0155	0.0620	0.0816	0.1436	0.1528
Fourth interim	0.0631	0.0126	0.0505	0.0807	0.1312	0.1476
Fifth interim	0.1131	0.0226	0.0905	0.1187	0.2092	0.1404
Sixth interim	0.1528	0.0306	0.1222	0.0442	0.1664	0.1488
Seventh interim	0.1155	0.0231	0.0924	0.0908	0.1832	0.1620
Eighth interim	0.0741	0.0148	0.0593	0.1311	0.1904	0.1564
Ninth interim	0.1090	0.0218	0.0872	0.0816	0.1688	0.1684
Tenth interim	0.0697	0.0000	0.0697	0.1507	0.2204	0.1284
Eleventh interim	0.0832	0.0000	0.0832	0.0881	0.1713	0.1204
Final	0.1297	0.0000	0.1297	0.1116	0.2413	0.1364

Sterling Class 'A' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
First interim	0.5020	0.1004	0.4016	-	0.4016	0.2920
Second interim	0.4425	0.0885	0.3540	-	0.3540	0.3540
Third interim	0.4350	0.0870	0.3480	-	0.3480	0.3572
Fourth interim	0.3995	0.0799	0.3196	-	0.3196	0.3460
Fifth interim	0.4935	0.0987	0.3948	-	0.3948	0.3300
Sixth interim	0.3670	0.0734	0.2936	-	0.2936	0.3512
Seventh interim	0.4205	0.0841	0.3364	-	0.3364	0.3832
Eighth interim	0.4330	0.0866	0.3464	-	0.3464	0.3700
Ninth interim	0.3825	0.0765	0.3060	-	0.3060	0.4004
Tenth interim	0.4001	0.0000	0.4001	-	0.4001	0.3068
Eleventh interim	0.2900	0.0000	0.2900	-	0.2900	0.2880
Final	0.4375	0.0000	0.4375	-	0.4375	0.3280
Group 2						
First interim	0.4418	0.0884	0.3534	0.0482	0.4016	0.2920
Second interim	0.1001	0.0200	0.0801	0.2739	0.3540	0.3540
Third interim	0.3369	0.0674	0.2695	0.0785	0.3480	0.3572
Fourth interim	0.0144	0.0029	0.0115	0.3081	0.3196	0.3460
Fifth interim	0.2775	0.0555	0.2220	0.1728	0.3948	0.3300
Sixth interim	0.2810	0.0562	0.2248	0.0688	0.2936	0.3512
Seventh interim	0.1143	0.0229	0.0914	0.2450	0.3364	0.3832
Eighth interim	0.1905	0.0381	0.1524	0.1940	0.3464	0.3700
Ninth interim	0.2630	0.0526	0.2104	0.0956	0.3060	0.4004
Tenth interim	0.1377	0.0000	0.1377	0.2624	0.4001	0.3068
Eleventh interim	0.0920	0.0000	0.0920	0.1980	0.2900	0.2880
Final	0.2931	0.0000	0.2931	0.1444	0.4375	0.3280

Sterling Class 'I' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
First interim	4.9040	0.9808	3.9232	-	3.9232	3.0800
Second interim	4.3620	0.8724	3.4896	-	3.4896	3.6380
Third interim	4.3685	0.8737	3.4948	-	3.4948	3.6588
Fourth interim	3.9965	0.7993	3.1972	-	3.1972	3.5320
Fifth interim	5.5355	1.1071	4.4284	-	4.4284	3.3724
Sixth interim	4.3875	0.8775	3.5100	-	3.5100	3.5724
Seventh interim	4.8500	0.9700	3.8800	-	3.8800	3.8264
Eighth interim	5.0345	1.0069	4.0276	-	4.0276	3.6812
Ninth interim	4.4690	0.8938	3.5752	-	3.5752	3.9440
Tenth interim	4.6651	0.0000	4.6651	-	4.6651	3.1232
Eleventh interim	3.6311	0.0000	3.6311	-	3.6311	2.9312
Final	5.1277	0.0000	5.1277	-	5.1277	3.3196
Group 2						
First interim	2.9300	0.5860	2.3440	1.5792	3.9232	3.0800
Second interim	1.8911	0.3782	1.5129	1.9767	3.4896	3.6380
Third interim	2.3949	0.4790	1.9159	1.5789	3.4948	3.6588
Fourth interim	1.8990	0.3798	1.5192	1.6780	3.1972	3.5320
Fifth interim	2.2889	0.4578	1.8311	2.5973	4.4284	3.3724
Sixth interim	2.2645	0.4529	1.8116	1.6984	3.5100	3.5724
Seventh interim	2.7263	0.5453	2.1810	1.6990	3.8800	3.8264
Eighth interim	1.6335	0.3267	1.3068	2.7208	4.0276	3.6812
Ninth interim	2.3849	0.4770	1.9079	1.6673	3.5752	3.9440
Tenth interim	1.5404	0.0000	1.5404	3.1247	4.6651	3.1232
Eleventh interim	1.2890	0.0000	1.2890	2.3421	3.6311	2.9312
Final	2.7984	0.0000	2.7984	2.3293	5.1277	3.3196

Notes to the financial statements

24 Interest distribution tables (continued)

Sterling Class 'I' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
First interim	5.8065	1.1613	4.6452	-	4.6452	3.5032
Second interim	5.1835	1.0367	4.1468	-	4.1468	4.1492
Third interim	5.2090	1.0418	4.1672	-	4.1672	4.1868
Fourth interim	4.7820	0.9564	3.8256	-	3.8256	4.0572
Fifth interim	5.7900	1.1580	4.6320	-	4.6320	3.8856
Sixth interim	4.4460	0.8892	3.5568	-	3.5568	4.1252
Seventh interim	5.0185	1.0037	4.0148	-	4.0148	4.4392
Eighth interim	5.1915	1.0383	4.1532	-	4.1532	4.2816
Ninth interim	4.6150	0.9230	3.6920	-	3.6920	4.6164
Tenth interim	4.8269	0.0000	4.8269	-	4.8269	3.6652
Eleventh interim	3.6386	0.0000	3.6386	-	3.6386	3.4508
Final	5.3179	0.0000	5.3179	-	5.3179	3.9168
Group 2						
First interim	3.1878	0.6376	2.5502	2.0950	4.6452	3.5032
Second interim	1.8846	0.3769	1.5077	2.6391	4.1468	4.1492
Third interim	3.7025	0.7405	2.9620	1.2052	4.1672	4.1868
Fourth interim	2.4886	0.4977	1.9909	1.8347	3.8256	4.0572
Fifth interim	2.1329	0.4266	1.7063	2.9257	4.6320	3.8856
Sixth interim	2.2188	0.4438	1.7750	1.7818	3.5568	4.1252
Seventh interim	2.4544	0.4909	1.9635	2.0513	4.0148	4.4392
Eighth interim	2.5850	0.5170	2.0680	2.0852	4.1532	4.2816
Ninth interim	2.4581	0.4916	1.9665	1.7255	3.6920	4.6164
Tenth interim	1.8864	0.0000	1.8864	2.9405	4.8269	3.6652
Eleventh interim	1.6023	0.0000	1.6023	2.0363	3.6386	3.4508
Final	2.4700	0.0000	2.4700	2.8479	5.3179	3.9168

Sterling Class 'R' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
First interim	0.4610	0.0922	0.3688	-	0.3688	0.2832
Second interim	0.4070	0.0814	0.3256	-	0.3256	0.3384
Third interim	0.4035	0.0807	0.3228	-	0.3228	0.3408
Fourth interim	0.3690	0.0738	0.2952	-	0.2952	0.3296
Fifth interim	0.5530	0.1106	0.4424	-	0.4424	0.3132
Sixth interim	0.4395	0.0879	0.3516	-	0.3516	0.3324
Seventh interim	0.4840	0.0968	0.3872	-	0.3872	0.3592
Eighth interim	0.5035	0.1007	0.4028	-	0.4028	0.3456
Ninth interim	0.4460	0.0892	0.3568	-	0.3568	0.3756
Tenth interim	0.4659	0.0000	0.4659	-	0.4659	0.2884
Eleventh interim	0.3625	0.0000	0.3625	-	0.3625	0.2704
Final	0.5115	0.0000	0.5115	-	0.5115	0.3028
Group 2						
First interim	0.0358	0.0072	0.0286	0.3402	0.3688	0.2832
Second interim	0.1813	0.0363	0.1450	0.1806	0.3256	0.3384
Third interim	0.1285	0.0257	0.1028	0.2200	0.3228	0.3408
Fourth interim	0.1876	0.0375	0.1501	0.1451	0.2952	0.3296
Fifth interim	0.0180	0.0036	0.0144	0.4280	0.4424	0.3132
Sixth interim	0.0113	0.0023	0.0090	0.3426	0.3516	0.3324
Seventh interim	0.2006	0.0401	0.1605	0.2267	0.3872	0.3592
Eighth interim	0.2124	0.0425	0.1699	0.2329	0.4028	0.3456
Ninth interim	0.0204	0.0041	0.0163	0.3405	0.3568	0.3756
Tenth interim	0.2307	0.0000	0.2307	0.2352	0.4659	0.2884
Eleventh interim	0.0300	0.0000	0.0300	0.3325	0.3625	0.2704
Final	0.0359	0.0000	0.0359	0.4756	0.5115	0.3028

Sterling Class 'R' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
First interim	0.5400	0.1080	0.4320	-	0.4320	0.3196
Second interim	0.4785	0.0957	0.3828	-	0.3828	0.3832
Third interim	0.4755	0.0951	0.3804	-	0.3804	0.3872
Fourth interim	0.4360	0.0872	0.3488	-	0.3488	0.3744
Fifth interim	0.5345	0.1069	0.4276	-	0.4276	0.3580
Sixth interim	0.4030	0.0806	0.3224	-	0.3224	0.3792
Seventh interim	0.4590	0.0918	0.3672	-	0.3672	0.4128
Eighth interim	0.4730	0.0946	0.3784	-	0.3784	0.3984
Ninth interim	0.4195	0.0839	0.3356	-	0.3356	0.4304
Tenth interim	0.4385	0.0000	0.4385	-	0.4385	0.3348
Eleventh interim	0.3238	0.0000	0.3238	-	0.3238	0.3148
Final	0.4808	0.0000	0.4808	-	0.4808	0.3576
Group 2						
First interim	0.5400	0.1080	0.4320	0.0000	0.4320	0.3196
Second interim	0.3808	0.0762	0.3046	0.0782	0.3828	0.3832
Third interim	0.0618	0.0124	0.0494	0.3310	0.3804	0.3872
Fourth interim	0.4360	0.0872	0.3488	0.0000	0.3488	0.3744
Fifth interim	0.5345	0.1069	0.4276	0.0000	0.4276	0.3580
Sixth interim	0.4030	0.0806	0.3224	0.0000	0.3224	0.3792
Seventh interim	0.4590	0.0918	0.3672	0.0000	0.3672	0.4128
Eighth interim	0.4730	0.0946	0.3784	0.0000	0.3784	0.3984
Ninth interim	0.4195	0.0839	0.3356	0.0000	0.3356	0.4304
Tenth interim	0.4385	0.0000	0.4385	0.0000	0.4385	0.3348
Eleventh interim	0.3238	0.0000	0.3238	0.0000	0.3238	0.3148
Final	0.4808	0.0000	0.4808	0.0000	0.4808	0.3576

Sterling Class 'X' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
First interim	0.2085	0.0417	0.1668	-	0.1668	0.1256
Second interim	0.1830	0.0366	0.1464	-	0.1464	0.1520
Third interim	0.1795	0.0359	0.1436	-	0.1436	0.1528
Fourth interim	0.1640	0.0328	0.1312	-	0.1312	0.1480
Fifth interim	0.2620	0.0524	0.2096	-	0.2096	0.1404
Sixth interim	0.2075	0.0415	0.1660	-	0.1660	0.1488
Seventh interim	0.2295	0.0459	0.1836	-	0.1836	0.1620
Eighth interim	0.2380	0.0476	0.1904	-	0.1904	0.1564
Ninth interim	0.2105	0.0421	0.1684	-	0.1684	0.1684
Tenth interim	0.2207	0.0000	0.2207	-	0.2207	0.1284
Eleventh interim	0.1714	0.0000	0.1714	-	0.1714	0.1204
Final	0.2420	0.0000	0.2420	-	0.2420	0.1364
Group 2						
First interim	0.0084	0.0017	0.0067	0.1601	0.1668	0.1256
Second interim	0.0888	0.0178	0.0710	0.0754	0.1464	0.1520
Third interim	0.0855	0.0171	0.0684	0.0752	0.1436	0.1528
Fourth interim	0.0061	0.0012	0.0049	0.1263	0.1312	0.1480
Fifth interim	0.0386	0.0077	0.0309	0.1787	0.2096	0.1404
Sixth interim	0.0159	0.0032	0.0127	0.1533	0.1660	0.1488
Seventh interim	0.1370	0.0274	0.1096	0.0740	0.1836	0.1620
Eighth interim	0.1001	0.0200	0.0801	0.1103	0.1904	0.1564
Ninth interim	0.0184	0.0037	0.0147	0.1537	0.1684	0.1684
Tenth interim	0.0146	0.0000	0.0146	0.2061	0.2207	0.1284
Eleventh interim	0.0114	0.0000	0.0114	0.1600	0.1714	0.1204
Final	0.0235	0.0000	0.0235	0.2185	0.2420	0.1364

Notes to the financial statements

24 Interest distribution tables (continued)

Sterling Class 'X' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
First interim	0.5025	0.1005	0.4020	-	0.4020	0.2924
Second interim	0.4425	0.0885	0.3540	-	0.3540	0.3536
Third interim	0.4355	0.0871	0.3484	-	0.3484	0.3576
Fourth interim	0.3990	0.0798	0.3192	-	0.3192	0.3460
Fifth interim	0.4945	0.0989	0.3956	-	0.3956	0.3300
Sixth interim	0.3690	0.0738	0.2952	-	0.2952	0.3516
Seventh interim	0.4205	0.0841	0.3364	-	0.3364	0.3836
Eighth interim	0.4325	0.0865	0.3460	-	0.3460	0.3708
Ninth interim	0.3945	0.0789	0.3156	-	0.3156	0.4012
Tenth interim	0.4003	0.0000	0.4003	-	0.4003	0.3072
Eleventh interim	0.2902	0.0000	0.2902	-	0.2902	0.2888
Final	0.4386	0.0000	0.4386	-	0.4386	0.3268
Group 2						
First interim	0.2404	0.0481	0.1923	0.2097	0.4020	0.2924
Second interim	0.1171	0.0234	0.0937	0.2603	0.3540	0.3536
Third interim	0.1290	0.0258	0.1032	0.2452	0.3484	0.3576
Fourth interim	0.2120	0.0424	0.1696	0.1496	0.3192	0.3460
Fifth interim	0.2035	0.0407	0.1628	0.2328	0.3956	0.3300
Sixth interim	0.1818	0.0364	0.1454	0.1498	0.2952	0.3516
Seventh interim	0.3981	0.0796	0.3185	0.0179	0.3364	0.3836
Eighth interim	0.3455	0.0691	0.2764	0.0696	0.3460	0.3708
Ninth interim	0.1376	0.0275	0.1101	0.2055	0.3156	0.4012
Tenth interim	0.0104	0.0000	0.0104	0.3899	0.4003	0.3072
Eleventh interim	0.1902	0.0000	0.1902	0.1000	0.2902	0.2888
Final	0.0904	0.0000	0.0904	0.3482	0.4386	0.3268

Swiss franc Class 'A-H' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	4.1491	-	4.1491	-	4.1491	n/a
Second interim	3.5311	-	3.5311	-	3.5311	n/a
Third interim	3.7272	-	3.7272	-	3.7272	n/a
Fourth interim	3.4802	-	3.4802	-	3.4802	3.7946
Fifth interim	4.1609	-	4.1609	-	4.1609	3.6746
Sixth interim	3.2717	-	3.2717	-	3.2717	3.9073
Seventh interim	3.6600	-	3.6600	-	3.6600	4.0069
Eighth interim	3.6210	-	3.6210	-	3.6210	3.8623
Ninth interim	3.2521	-	3.2521	-	3.2521	4.1447
Tenth interim	3.4350	-	3.4350	-	3.4350	3.2880
Eleventh interim	2.5393	-	2.5393	-	2.5393	3.1255
Final	3.7553	-	3.7553	-	3.7553	3.5626
Group 2						
First interim	4.1491	-	4.1491	0.0000	4.1491	n/a
Second interim	3.5311	-	3.5311	0.0000	3.5311	n/a
Third interim	3.7272	-	3.7272	0.0000	3.7272	n/a
Fourth interim	3.4802	-	3.4802	0.0000	3.4802	3.7946
Fifth interim	4.1609	-	4.1609	0.0000	4.1609	3.6746
Sixth interim	3.2717	-	3.2717	0.0000	3.2717	3.9073
Seventh interim	3.6600	-	3.6600	0.0000	3.6600	4.0069
Eighth interim	3.6210	-	3.6210	0.0000	3.6210	3.8623
Ninth interim	3.2521	-	3.2521	0.0000	3.2521	4.1447
Tenth interim	3.4350	-	3.4350	0.0000	3.4350	3.2880
Eleventh interim	2.5393	-	2.5393	0.0000	2.5393	3.1255
Final	3.7553	-	3.7553	0.0000	3.7553	3.5626

Swiss franc Class 'C-H' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	4.6703	-	4.6703	-	4.6703	n/a
Second interim	4.0478	-	4.0478	-	4.0478	n/a
Third interim	4.3246	-	4.3246	-	4.3246	n/a
Fourth interim	4.0265	-	4.0265	-	4.0265	4.2375
Fifth interim	4.7442	-	4.7442	-	4.7442	4.1741
Sixth interim	3.8219	-	3.8219	-	3.8219	4.4275
Seventh interim	4.2154	-	4.2154	-	4.2154	4.4997
Eighth interim	4.2238	-	4.2238	-	4.2238	4.3321
Ninth interim	3.7977	-	3.7977	-	3.7977	4.6391
Tenth interim	4.0193	-	4.0193	-	4.0193	3.7938
Eleventh interim	3.0661	-	3.0661	-	3.0661	3.6222
Final	4.4171	-	4.4171	-	4.4171	4.1239
Group 2						
First interim	4.6703	-	4.6703	0.0000	4.6703	n/a
Second interim	4.0478	-	4.0478	0.0000	4.0478	n/a
Third interim	4.3246	-	4.3246	0.0000	4.3246	n/a
Fourth interim	4.0265	-	4.0265	0.0000	4.0265	4.2375
Fifth interim	4.7442	-	4.7442	0.0000	4.7442	4.1741
Sixth interim	3.8219	-	3.8219	0.0000	3.8219	4.4275
Seventh interim	4.2154	-	4.2154	0.0000	4.2154	4.4997
Eighth interim	4.2238	-	4.2238	0.0000	4.2238	4.3321
Ninth interim	3.7977	-	3.7977	0.0000	3.7977	4.6391
Tenth interim	4.0193	-	4.0193	0.0000	4.0193	3.7938
Eleventh interim	3.0661	-	3.0661	0.0000	3.0661	3.6222
Final	4.4171	-	4.4171	0.0000	4.4171	4.1239

US dollar Class 'A-H' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	5.1391	-	5.1391	-	5.1391	4.0517
Second interim	4.2420	-	4.2420	-	4.2420	4.8708
Third interim	4.4964	-	4.4964	-	4.4964	4.8044
Fourth interim	4.1640	-	4.1640	-	4.1640	4.5900
Fifth interim	6.4888	-	6.4888	-	6.4888	4.4597
Sixth interim	5.2592	-	5.2592	-	5.2592	4.5852
Seventh interim	5.7310	-	5.7310	-	5.7310	5.1232
Eighth interim	6.0401	-	6.0401	-	6.0401	4.8151
Ninth interim	5.2193	-	5.2193	-	5.2193	5.2071
Tenth interim	5.6660	-	5.6660	-	5.6660	4.0857
Eleventh interim	4.4054	-	4.4054	-	4.4054	3.7835
Final	6.2141	-	6.2141	-	6.2141	4.2477
Group 2						
First interim	5.1391	-	5.1391	0.0000	5.1391	4.0517
Second interim	4.2420	-	4.2420	0.0000	4.2420	4.8708
Third interim	1.1963	-	1.1963	3.3001	4.4964	4.8044
Fourth interim	1.8103	-	1.8103	2.3537	4.1640	4.5900
Fifth interim	1.3691	-	1.3691	5.1197	6.4888	4.4597
Sixth interim	2.9495	-	2.9495	2.3097	5.2592	4.5852
Seventh interim	2.4146	-	2.4146	3.3164	5.7310	5.1232
Eighth interim	5.3711	-	5.3711	0.6690	6.0401	4.8151
Ninth interim	3.4484	-	3.4484	1.7709	5.2193	5.2071
Tenth interim	2.1678	-	2.1678	3.4982	5.6660	4.0857
Eleventh interim	3.4853	-	3.4853	0.9201	4.4054	3.7835
Final	3.7789	-	3.7789	2.4352	6.2141	4.2477

Notes to the financial statements

24 Interest distribution tables (continued)

US dollar Class 'A-H' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	5.5456	-	5.5456	-	5.5456	2.8535
Second interim	4.2063	-	4.2063	-	4.2063	5.0627
Third interim	4.8759	-	4.8759	-	4.8759	4.9963
Fourth interim	4.5422	-	4.5422	-	4.5422	4.7872
Fifth interim	5.4383	-	5.4383	-	5.4383	4.6442
Sixth interim	4.1519	-	4.1519	-	4.1519	4.8184
Seventh interim	4.6935	-	4.6935	-	4.6935	5.3972
Eighth interim	4.9033	-	4.9033	-	4.9033	5.1017
Ninth interim	4.2108	-	4.2108	-	4.2108	5.5404
Tenth interim	4.5973	-	4.5973	-	4.5973	4.3679
Eleventh interim	3.3423	-	3.3423	-	3.3423	4.0543
Final	5.2879	-	5.2879	-	5.2879	4.5645
Group 2						
First interim	3.0281	-	3.0281	2.5175	5.5456	2.8535
Second interim	2.5742	-	2.5742	1.6321	4.2063	5.0627
Third interim	1.5820	-	1.5820	3.2939	4.8759	4.9963
Fourth interim	4.0694	-	4.0694	0.4728	4.5422	4.7872
Fifth interim	1.3937	-	1.3937	4.0446	5.4383	4.6442
Sixth interim	2.3560	-	2.3560	1.7959	4.1519	4.8184
Seventh interim	1.3278	-	1.3278	3.3657	4.6935	5.3972
Eighth interim	1.8256	-	1.8256	3.0777	4.9033	5.1017
Ninth interim	1.5917	-	1.5917	2.6191	4.2108	5.5404
Tenth interim	0.6692	-	0.6692	3.9281	4.5973	4.3679
Eleventh interim	1.0379	-	1.0379	2.3044	3.3423	4.0543
Final	4.0393	-	4.0393	1.2486	5.2879	4.5645

US dollar Class 'C-H' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	5.8764	-	5.8764	-	5.8764	4.7882
Second interim	5.0253	-	5.0253	-	5.0253	5.6817
Third interim	5.3179	-	5.3179	-	5.3179	5.5877
Fourth interim	4.9130	-	4.9130	-	4.9130	5.3457
Fifth interim	6.6612	-	6.6612	-	6.6612	5.1710
Sixth interim	5.3829	-	5.3829	-	5.3829	5.3881
Seventh interim	5.8702	-	5.8702	-	5.8702	5.8587
Eighth interim	6.1874	-	6.1874	-	6.1874	5.5196
Ninth interim	5.3536	-	5.3536	-	5.3536	5.9307
Tenth interim	5.8068	-	5.8068	-	5.8068	4.8034
Eleventh interim	4.5142	-	4.5142	-	4.5142	4.4627
Final	6.3664	-	6.3664	-	6.3664	5.0167
Group 2						
First interim	5.8764	-	5.8764	0.0000	5.8764	4.7882
Second interim	5.0253	-	5.0253	0.0000	5.0253	5.6817
Third interim	5.3179	-	5.3179	0.0000	5.3179	5.5877
Fourth interim	4.9130	-	4.9130	0.0000	4.9130	5.3457
Fifth interim	6.6612	-	6.6612	0.0000	6.6612	5.1710
Sixth interim	5.3829	-	5.3829	0.0000	5.3829	5.3881
Seventh interim	5.8702	-	5.8702	0.0000	5.8702	5.8587
Eighth interim	6.1874	-	6.1874	0.0000	6.1874	5.5196
Ninth interim	5.3536	-	5.3536	0.0000	5.3536	5.9307
Tenth interim	5.8068	-	5.8068	0.0000	5.8068	4.8034
Eleventh interim	4.5142	-	4.5142	0.0000	4.5142	4.4627
Final	2.4261	-	2.4261	3.9403	6.3664	5.0167

US dollar Class 'C-H' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	6.4363	-	6.4363	-	6.4363	4.9647
Second interim	5.5294	-	5.5294	-	5.5294	5.4802
Third interim	5.8648	-	5.8648	-	5.8648	5.8525
Fourth interim	5.0021	-	5.0021	-	5.0021	5.6132
Fifth interim	5.8408	-	5.8408	-	5.8408	5.4701
Sixth interim	5.1732	-	5.1732	-	5.1732	5.3573
Seventh interim	5.7061	-	5.7061	-	5.7061	6.2404
Eighth interim	5.8994	-	5.8994	-	5.8994	5.9054
Ninth interim	5.2145	-	5.2145	-	5.2145	6.4361
Tenth interim	5.6183	-	5.6183	-	5.6183	5.2102
Eleventh interim	4.2328	-	4.2328	-	4.2328	4.8660
Final	6.1823	-	6.1823	-	6.1823	5.4848
Group 2						
First interim	6.4363	-	6.4363	0.0000	6.4363	4.9647
Second interim	5.5294	-	5.5294	0.0000	5.5294	5.4802
Third interim	5.8648	-	5.8648	0.0000	5.8648	5.8525
Fourth interim	3.4489	-	3.4489	1.5532	5.0021	5.6132
Fifth interim	2.1243	-	2.1243	3.7165	5.8408	5.4701
Sixth interim	0.0000	-	0.0000	5.1732	5.1732	5.3573
Seventh interim	1.1686	-	1.1686	4.5375	5.7061	6.2404
Eighth interim	3.3244	-	3.3244	2.5750	5.8994	5.9054
Ninth interim	1.9775	-	1.9775	3.2370	5.2145	6.4361
Tenth interim	0.0000	-	0.0000	5.6183	5.6183	5.2102
Eleventh interim	1.2001	-	1.2001	3.0327	4.2328	4.8660
Final	3.7781	-	3.7781	2.4042	6.1823	5.4848

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M&G Index-Linked Bond Fund

Authorised Corporate Director's Report

Investment objective up to 25 June 2017

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 up to 25 June 2017

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 objective from 26 June 2017

The Fund aims to provide income and capital growth.

Investment policy from 26 June 2017

At least 70% of the Fund is invested in 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. Derivatives may also be used for efficient portfolio management. The Fund may also invest in collective investment schemes, other transferable securities, cash, near cash, other money market securities, warrants and other derivative instruments.

Investment approach

The fund manager's investment approach is driven primarily by macroeconomic factors such as views on interest rates, inflation and economic growth. As different factors dominate returns at different stages of the economic cycle, the manager applies a dynamic investment approach.

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.

Low risk — High risk

Typically lower rewards — Typically higher rewards

1	2	3	4	**5**	6	7

The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has changed during this period. From 1 June 2016 to 23 February 2017 the risk number was 4.

Investment review

As at 1 June 2017, for the year ended 31 May 2017

Performance against objective

Between 1 June 2016 (the start of the review period) and 1 June 2017, 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 20.8% and 20.9%, respectively. This was slightly behind the average return from the fund's peer group, the IA UK Index Linked Gilts sector, which was 21.6% 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 June 2017, the fund has delivered positive total returns of around 13%p.a. and 8%p.a., respectively.* The rate of inflation in the UK, as measured by the Consumer Prices Index, was 1.1%p.a. over three years and 1.5%p.a. over five years.

Investment review

Investment performance

The 12 months under review have been underpinned by geopolitical events. As we entered the review period, 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.

As a result, 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 taken by the BoE 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. Several other major central banks also left interest rates unchanged or even reduced them. China's slowing economy remained a concern, for example, while inflation remained subdued.

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'.)

Towards the end of 2016, the surprise election result in the US saw global bonds generally react negatively as investors weighed how US government debt and inflation might increase if the incoming Trump administration were to implement big infrastructure spending and tax-cutting policies. 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.)

In the final months of 2016, sentiment towards bonds weakened and some of their gains from earlier in the year 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 as the value of the fixed interest payments is worth less in real terms) continued to weigh on global bond markets and they declined. Conversely demand for index-linked bonds increased.

As we entered 2017 government bond yields rose (prices fell) in response to fears of inflation, partially fuelled by the prospects of higher growth in the US and the promised base effects of oil filtering through into Europe and the UK. However a mix of strong macroeconomic data and political uncertainty regarding European elections, particularly in France and Italy led to demand for government bonds.

Following the results of the Netherlands and French elections, volatility subsided and demand for 'safe-haven' bonds fell towards the end of the review period. The financial markets benefited from the election of the progressive and pro-European candidate Emmanuel Macron as French president. The result was perceived to be a positive outcome for financial markets and led to a narrowing in the difference in yields of European corporate and government bonds and also saw German bund yields rise.

Nevertheless, longer dated index-linked UK government bonds 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 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.

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.

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. However, following a strong performance, we reduced our exposure to TIPS during the second half of the review period.

Towards the end of the review period we sold some index-linked bonds maturing in 2056 and bought bonds maturing in 2062 instead as these bonds were more attractively priced. We have an overweight position in bonds maturing in 15-20 years' time and again in those bonds maturing in 2040 and 2050 given the continued demand from pension funds.

Investment review

Outlook

The UK's vote to leave the EU has had wide repercussions for financial markets and the economic impact is likely to remain unclear for the foreseeable future. The uncertainties have been exacerbated since the end of the review period with the Conservatives failing to secure a majority in parliament in June's General Election.

As fluctuations and volatility in financial markets persist, we expect demand for UK government bonds to continue and prices to rise. 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.

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.

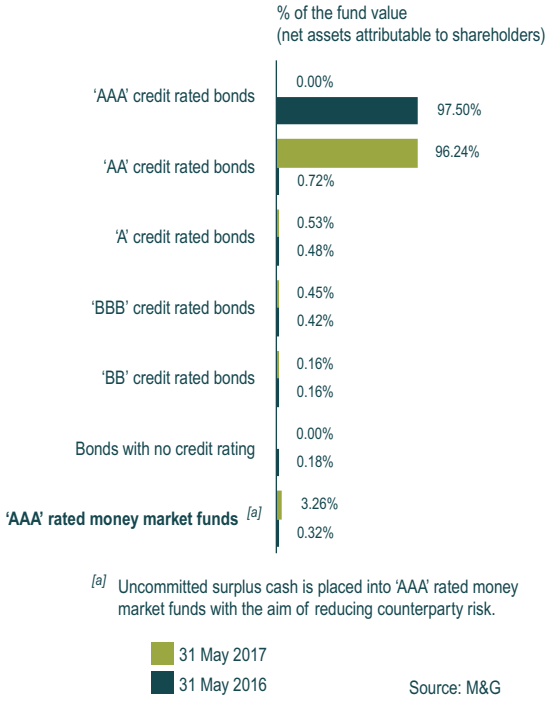
Ben Lord
Fund manager

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

* 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.

Investments

Portfolio statement

as at 31 May Holding		2017 £'000	2017 %	2016 %
	'AAA' credit rated bonds	**0**	**0.00**	**97.50**
	'AA' credit rated bonds	**385,067**	**96.24**	**0.72**
£1,000,000	Network Rail Infrastructure Finance 1.9618% IL 2025	1,944	0.49	
£11,615,000	Treasury 0.125% IL 2019	13,601	3.40	
£8,000,000	Treasury 0.125% IL 2026	10,117	2.53	
£32,350,000	Treasury 0.125% IL 2036	48,334	12.08	
£850,000	Treasury 0.125% IL 2044	1,532	0.38	
£3,464,000	Treasury 0.125% IL 2056	7,120	1.78	
£25,960,048	Treasury 0.125% IL 2065	64,901	16.22	
£8,158,000	Treasury 0.375% IL 2062	22,576	5.64	
£10,355,000	Treasury 0.5% IL 2050	25,711	6.43	
£93,000	Treasury 0.625% IL 2040	193	0.05	
£450,000	Treasury 0.75% IL 2034	784	0.20	
£6,923,000	Treasury 0.75% IL 2047	17,766	4.44	
£5,575,000	Treasury 1.25% IL 2027	10,699	2.67	
£17,585,000	Treasury 1.25% IL 2032	34,031	8.50	
£8,400,000	Treasury 1.25% IL 2055	30,639	7.66	
£12,702,000	Treasury 1.875% IL 2022	21,080	5.27	
£6,500,000	Treasury 2% IL 2035	17,724	4.43	
£4,450,000	Treasury 2.5% IL 2020	16,588	4.14	
£10,688,000	Treasury 2.5% IL 2024	39,727	9.93	
	'A' credit rated bonds	**2,104**	**0.53**	**0.48**
£450,000	DWR Cymru Financing 1.859% IL 2048	983	0.25	
£200,000	National Grid Electricity Transmission 2.817% IL 2032	469	0.12	
£319,000	Yorkshire Water Services 3.30666% IL 2033	652	0.16	
	'BBB' credit rated bonds	**1,782**	**0.45**	**0.42**
£400,000	London Power Networks 3.125% IL 2032	950	0.24	
£400,000	South East Water Finance 2.5329% IL 2041	832	0.21	
	'BB' credit rated bonds	**661**	**0.16**	**0.16**
£500,000	Tesco 1.982% IL 2036	661	0.16	
	Bonds with no credit rating	**0**	**0.00**	**0.18**
Portfolio of investments		**389,614**	**97.38**	**99.46**
	'AAA' rated money market funds [a]	**13,054**	**3.26**	**0.32**
13,054,000	Northern Trust Global Fund - Sterling	13,054	3.26	
Total portfolio (notes 2c & 2d on page 6)		**402,668**	**100.64**	**99.78**
Net other assets / (liabilities)		**(2,557)**	**(0.64)**	**0.22**
Net assets attributable to shareholders		**400,111**	**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.

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.

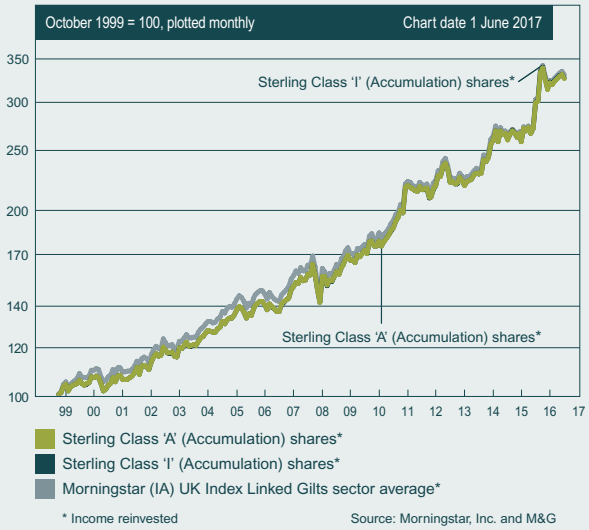
Fund level performance

Fund net asset value

as at 31 May	2017 £'000	2016 £'000	2015 £'000
Fund net asset value (NAV)	400,111	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.

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

	One year 01.06.16 % [a]	Three years 02.06.14 % p.a.	Five years 01.06.12 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	+20.8	+12.5	+8.1	+6.9 [c]
Class 'I'	+20.9	+12.7	n/a	+9.2 [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.

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 and method of execution. They are made up of direct and indirect portfolio transaction costs:

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

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

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

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

Portfolio transaction costs

as at 31 May Indirect portfolio transaction costs	2017 %	2016 %	2015 %	Average [a] %
Average portfolio dealing spread	0.12	0.09	0.21	0.14

[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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	117.96	115.95	99.95
Return before operating charges and after direct portfolio transaction costs	27.27	2.77	16.71
Operating charges	(0.92)	(0.76)	(0.71)
Return after operating charges	26.35	2.01	16.00
Distributions	0.00	0.00	0.00
Closing NAV	144.31	117.96	115.95
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.66	0.66	0.66
Return after operating charges	+22.34	+1.73	+16.01
Distribution yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.65	0.00	0.00
Other information			
Closing NAV (£'000)	26,078	23,653	47,980
Closing NAV percentage of total fund NAV (%)	6.51	6.75	12.77
Number of shares	18,071,199	20,051,070	41,378,278
Highest share price (UK p)	149.71	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	135.52	133.21	114.82
Return before operating charges and after direct portfolio transaction costs	31.31	3.18	19.21
Operating charges	(1.05)	(0.87)	(0.82)
Return after operating charges	30.26	2.31	18.39
Distributions	0.00	0.00	0.00
Retained distributions	0.00	0.00	0.00
Closing NAV	165.78	135.52	133.21
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.66	0.66	0.66
Return after operating charges	+22.33	+1.74	+16.02
Distribution yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	65,606	71,083	132,839
Closing NAV percentage of total fund NAV (%)	16.40	20.29	35.35
Number of shares	39,573,071	52,453,452	99,722,770
Highest share price (UK p)	171.99	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,261.18	1,238.45	1,066.40
Return before operating charges and after direct portfolio transaction costs	291.61	29.69	178.64
Operating charges	(8.35)	(6.96)	(6.59)
Return after operating charges	283.26	22.73	172.05
Distributions	0.00	0.00	0.00
Closing NAV	1,544.44	1,261.18	1,238.45
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.01	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.56	0.56	0.56
Return after operating charges	+22.46	+1.84	+16.13
Distribution yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.55	0.00	0.00
Other information			
Closing NAV (£'000)	106,652	74,418	69,660
Closing NAV percentage of total fund NAV (%)	26.66	21.25	18.54
Number of shares	6,905,591	5,900,674	5,624,735
Highest share price (UK p)	1,602.02	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,262.85	1,240.08	1,067.81
Return before operating charges and after direct portfolio transaction costs	291.94	29.75	178.89
Operating charges	(8.33)	(6.98)	(6.62)
Return after operating charges	283.61	22.77	172.27
Distributions	0.00	0.00	0.00
Retained distributions	0.00	0.00	0.00
Closing NAV	1,546.46	1,262.85	1,240.08
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.01	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.56	0.56	0.56
Return after operating charges	+22.46	+1.84	+16.13
Distribution yield	0.00	0.00	0.00
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	201,775	181,118	125,265
Closing NAV percentage of total fund NAV (%)	50.43	51.71	33.34
Number of shares	13,047,558	14,342,071	10,101,361
Highest share price (UK p)	1,604.11	1,288.56	1,268.50
Lowest share price (UK p)	1,262.71	1,188.78	1,053.94

[a] In respect of direct portfolio transaction costs.

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

M&G Index-Linked Bond Fund

Financial statements and notes

Financial statements

Statement of total return

for the year to 31 May	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Income					
Net capital gains / (losses)	3		71,358		5,094
Revenue	5	10,263		2,953	
Expenses	6	(2,458)		(2,146)	
Net revenue / (expense) before taxation		7,805		807	
Taxation	7	0		0	
Net revenue / (expense) after taxation			7,805		807
Total return before equalisation			**79,163**		**5,901**
Equalisation	8		539		151
Change in net assets attributable to shareholders from investment activities			**79,702**		**6,052**

Statement of change in net assets attributable to shareholders

for the year to 31 May	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Opening net assets attributable to shareholders		**350,272**		**375,744**
Amounts received on issue of shares	85,435		89,568	
Amounts paid on cancellation of shares	(115,392)		(121,142)	
		(29,957)		(31,574)
Dilution adjustments		94		50
Change in net assets attributable to shareholders from investment activities (see above)		79,702		6,052
Closing net assets attributable to shareholders		**400,111**		**350,272**

Balance sheet

as at 31 May	Note	2017 £'000	2016 £'000
Assets			
Fixed assets			
Investments		402,668	349,487
Current assets			
Debtors	9	557	585
Cash and bank balances	10	68	356
Total assets		**403,293**	**350,428**
Liabilities			
Creditors			
Overdrawn positions at futures clearing houses and collateral manager		(22)	0
Other creditors	11	(3,160)	(156)
Total liabilities		**(3,182)**	**(156)**
Net assets attributable to shareholders		**400,111**	**350,272**

Notes to the financial statements

1 Accounting policies

The financial statements have been prepared in accordance with the 'Summary of significant accounting policies' set out on pages 6 and 7.

2 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.

3 Net capital gains / (losses)

for the year to 31 May	2017 £'000	2016 £'000
Non-derivative securities	71,298	5,985
Derivative contracts	364	(947)
Currency gains / (losses)	(298)	59
Transaction charges	(6)	(3)
Net capital gains / (losses)	**71,358**	**5,094**

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 54.

for the year to 31 May	2017 £'000	% of transaction	2016 £'000	% of transaction
a) Purchases				
Debt securities [a]	**963,433**		**715,465**	
b) Sales				
Debt securities [a]	**1,001,080**		**743,755**	

c) Direct portfolio transaction costs	2017 £'000	% of average NAV	2016 £'000	% of average NAV
Commissions paid				
Derivatives	2	0.00	0	0.00
Total direct portfolio transaction costs	**2**	**0.00**	**0**	**0.00**
d) Indirect portfolio transaction costs		**%**		**%**
Portfolio dealing spread [b]		0.12		0.09

[a] These transaction types do not attract direct portfolio transaction costs.

[b] Average portfolio dealing spread at the balance sheet date.

5 Revenue

for the year to 31 May	2017 £'000	2016 £'000
Derivative revenue	(133)	(12)
Interest distributions	15	18
Interest on debt securities	10,381	2,947
Total revenue	**10,263**	**2,953**

Notes to the financial statements

6 Expenses

for the year to 31 May	2017 £'000	2016 £'000
Payable to the ACD or associate		
Annual management charge	1,782	1,575
Administration charge	630	537
	2,412	2,112
Payable to the Depositary or associate		
Depositary's charge (including VAT)	30	26
Other expenses		
Audit fee (including VAT)	15	7
Safe custody charge	1	1
	16	8
Total expenses	**2,458**	**2,146**

7 Taxation

for the year to 31 May	2017 £'000	2016 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Deferred tax (note 7c)	0	0
Total taxation	**0**	**0**
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	7,805	807
Corporation tax at 20%	1,561	161
Effects of:		
Retail Prices Index adjustment to gilts	(2,906)	(900)
Current year expenses not utilised	1,335	725
Prior year adjustment to expenses not utilised	10	14
Total tax charge (note 7a)	**0**	**0**
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	**0**	**0**

The fund has not recognised a deferred tax asset of £3,853,000 (2016: £2,518,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

for the year to 31 May	2017 Inc [a] £'000	2017 Acc [b] £'000	2016 Inc [a] £'000	2016 Acc [b] £'000
Interest distributions				
Interim	nil	nil	nil	nil
Final	nil	nil	nil	nil
Total net distributions		nil		nil
Income tax deducted at source		0		27
Interest distributions		0		27
Income deducted on cancellation of shares		(833)		(606)
Income received on issue of shares		294		428
Equalisation		**(539)**		**(151)**
Net revenue / (expense) per statement of total return		7,805		807
Expenses offset against capital		524		0
Effective yield adjustment not distributed		(14,529)		(4,500)
Income deficit transferred to capital		5,661		3,542
Equalisation		**(539)**		**(151)**

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 31 May	2017 £'000	2016 £'000
Amounts receivable on issues of shares	87	86
Debt security interest receivable	469	498
Distributions receivable	1	1
Total debtors	**557**	**585**

10 Cash and bank balances

as at 31 May	2017 £'000	2016 £'000
Amounts held at futures clearing houses and collateral manager	22	0
Cash held as bank balances	46	356
Total cash and bank balances	**68**	**356**

11 Other creditors

as at 31 May	2017 £'000	2016 £'000
ACD's annual management charge payable	43	90
Administration charge payable	15	31
Amounts payable on cancellation of shares	3,088	25
Expenses payable	14	10
Total other creditors	**3,160**	**156**

12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2016: same).

13 Shares in issue

The following table shows each class of share in issue during the year. Each share class has the same rights on winding up however they may have different charging structures as set out in note 14.

Share class	Opening 01.06.16	Movements Issued	Movements Cancelled	Closing 31.05.17
Sterling				
Class 'A' Income	20,051,070	1,223,382	(3,203,253)	18,071,199
Class 'A' Accumulation	52,453,452	2,450,750	(15,331,131)	39,573,071
Class 'I' Income	5,900,674	2,780,099	(1,775,182)	6,905,591
Class 'I' Accumulation	14,342,071	2,781,926	(4,076,439)	13,047,558

Notes to the financial statements

14 Charging structure

The table below sets out the charging structure for each class of share. The charging structure is the same for both Income and Accumulation shares of each class.

Share class	Entry charge %	Exit charge %	Annual management charge %
Sterling			
Class 'A'	nil	n/a	0.50
Class 'I'	1.00 [a]	n/a	0.40

[a] With effect from 16 December 2016, the entry charge has been discounted to zero on all new investments into sterling share classes.

15 Related parties

M&G Securities Limited, as Authorised Corporate Director (ACD), is a related party and acts as principal on all the transactions of shares in the fund except with in specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to shareholders' and note 8. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 9 and 11 where applicable.

Amounts paid to M&G Securities Limited in respect of the ACD's annual management charge and administration charge are disclosed in note 6. Amounts due at the year end in respect of the ACD's annual management charge and administration charge are disclosed in note 11.

At the balance sheet date, there were no material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary (2016: same).

16 Events after the balance sheet date

There were no events after the balance sheet date to disclose.

17 Portfolio fair value analysis

Financial instruments have been measured at their fair value and have been classified below using a hierarchy that reflects the significance of the inputs used in measuring their fair value:

Level 1: Quoted prices for identical instruments in active markets

This includes instruments such as publicly traded equities; highly liquid bonds (e.g. Government bonds) and exchange traded derivatives (e.g. futures) for which quoted prices are readily and regularly available.

Level 2: Valuation techniques using observable market data

This includes publicly traded corporate bonds and instruments which have been valued using models with observable market data inputs such as quoted prices for similar instruments, interest rates, yield curves or credit spreads. Over-the-counter instruments have also been included in the category.

Level 3: Valuation techniques using non-observable market data

This refers to instruments which have been valued using models with non-observable market data inputs. This includes private equity, unlisted closed-ended funds and investment analyst recommended prices where the market price is deemed to not be a true representation of fair value. However no such financial instruments were held.

as at 31 May Valuation technique	Assets 2017 £'000	Liabilities 2017 £'000	Assets 2016 £'000	Liabilities 2016 £'000
Level 1	383,123	0	339,779	0
Level 2	19,545	0	9,708	0
Level 3	0	0	0	0
	402,668	**0**	**349,487**	**0**

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 13 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 to 9.

19 Market risk

VaR is the risk measurement methodology used to assess the fund's leverage and market risk volatility. When VaR is calculated as a percentage of the net asset value it may not be greater than the VaR limit set for the fund.

The VaR limit set during the financial year to 31 May 2017 was 20% (2016: 20%).

The lowest, highest and average VaR calculated during the financial years ended 31 May 2017 and 31 May 2016 are disclosed in the table below. The lowest, highest and average utilisation of VaR is with reference to the limit above.

for the year to 31 May	2017 %	2016 %
Lowest	7.45	8.96
Highest	13.44	12.14
Average	11.59	10.47

20 Credit risk

as at 31 May	2017 £'000	2016 £'000
Investment grade securities	388,953	347,185
Below investment grade securities	661	570
Other investments	13,054	1,732
Total	**402,668**	**349,487**

Notes to the financial statements

21 Counterparty exposure

as at 31 May 2017	Futures £'000	Net exposure £'000
Bank of America Merrill Lynch	0	0
Total	**0**	**0**

as at 31 May 2016	Futures £'000	Net exposure £'000
Bank of America Merrill Lynch	0	0
Total	**0**	**0**

Net exposure represents the mark-to-market value of derivative contracts less any cash collateral held. Positive exposure represents the fund's exposure to that counterparty. Negative amounts are not an exposure to the fund.

22 Leverage risk

Funds using VaR approaches are required to disclose the level of leverage employed during the financial reporting period.

Derivatives can be used by the fund to generate market exposure to investments exceeding the net asset value. As a result of this exposure, the size of any positive or negative movement in markets may have a more significant effect on the net asset value of the fund.

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 31 May 2017 and 31 May 2016 are disclosed in the table below.

for the year to 31 May	2017 £'000	2017 %	2016 £'000	2016 %
Lowest	348,996	97	295,392	97
Highest	494,082	112	390,853	108
Average	434,950	103	359,940	101

23 Interest distribution tables

This fund pays semi-annual interest distributions and the following table sets out the distribution periods.

Semi-annual distribution periods

	Start	End	Xd	Payment
Interim	01.06.16	30.11.16	01.12.16	31.01.17
Final	01.12.16	31.05.17	01.06.17	31.07.17

The following tables set out for each distribution the rates per share for both Group 1 and Group 2 shares.

Group 1 shares are those purchased prior to a distribution period and therefore their net revenue rate is the same as the distribution rate.

Group 2 shares are those purchased during a distribution period and therefore their distribution rate is made up of net revenue and equalisation. Equalisation is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the net revenue and equalisation components.

Sterling Class 'A' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
Interim	0.0000	0.0000	0.0000	-	0.0000	0.0000
Final	0.0000	0.0000	0.0000	-	0.0000	0.0000
Group 2						
Interim	0.0000	0.0000	0.0000	-	0.0000	0.0000
Final	0.0000	0.0000	0.0000	-	0.0000	0.0000

Sterling Class 'A' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
Interim	0.0000	0.0000	0.0000	-	0.0000	0.0000
Final	0.0000	0.0000	0.0000	-	0.0000	0.0000
Group 2						
Interim	0.0000	0.0000	0.0000	-	0.0000	0.0000
Final	0.0000	0.0000	0.0000	-	0.0000	0.0000

Sterling Class 'I' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
Interim	0.0000	0.0000	0.0000	-	0.0000	0.0000
Final	0.0000	0.0000	0.0000	-	0.0000	0.0000
Group 2						
Interim	0.0000	0.0000	0.0000	-	0.0000	0.0000
Final	0.0000	0.0000	0.0000	-	0.0000	0.0000

Sterling Class 'I' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
Interim	0.0000	0.0000	0.0000	-	0.0000	0.0000
Final	0.0000	0.0000	0.0000	-	0.0000	0.0000
Group 2						
Interim	0.0000	0.0000	0.0000	-	0.0000	0.0000
Final	0.0000	0.0000	0.0000	-	0.0000	0.0000

M&G Index Tracker Fund

Authorised Corporate Director's Report

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.

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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.

Low risk — High risk

Typically lower rewards — Typically higher rewards

1	2	3	4	**5**	6	7

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 June 2017, for the year ended 31 May 2017

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 June 2017, the fund's Sterling Class 'A' shares produced a total return (the combination of income and growth of capital) of 25.9%.* Meanwhile, the FTSE All-Share Index produced a total return of 25.8% over the same period.

Investment performance

As the fund tracks the index, its overall performance can largely be explained by market developments over the 12 months under review. It is worth noting that, 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.

Investors in UK company shares (equities) largely shrugged aside an uncertain geopolitical and economic backdrop over the past 12 months. The performance of equities was positive despite a brief, but sharp, decline in the domestic stockmarket immediately after the UK's shock referendum vote in June 2016 to leave the European Union (EU).

Markets were broadly reassured by the swift appointment of a new prime minister in July as well as steps by the Bank of England (BoE) to support the economy. These measures included a cut in interest rates to 0.25%, additional asset purchases and a scheme to encourage bank lending. Although much uncertainty remains about the realities of Brexit, UK economic data has been generally better than expected, although it is somewhat weaker of late.

Meanwhile, sterling came under pressure following the referendum result, falling sharply against major currencies. The British pound subsequently recovered some ground, but it remains significantly weaker against the US dollar compared to pre-referendum levels.

Further afield, data from the major economies has mainly been encouraging, which has supported stockmarkets worldwide. The surprise win by Donald Trump in the US presidential election in November led to a rally in many global stockmarkets in late 2016 in anticipation of a significant increase in government spending in the US, although investors' expectations moderated in the new year. Investors were also encouraged as populist contenders failed to overturn mainstream candidates in key elections in the Netherlands and France in the spring. Investors remained generally optimistic, despite uncertainty ahead of the UK general election in June. In this environment, the FTSE All-Share Index and the fund produced robust returns over the 12 months under review.

Turning to the domestic economy, the UK economy grew by just 0.2% in the first quarter of 2017, compared with 0.7% for the final quarter of 2016, with a slowdown in the dominant services sector largely responsible for the shortfall, although manufacturing is relatively healthy.

Investment review

Investment performance (continued)

Meanwhile, sterling's weakness has made imports more expensive. This in turn is driving up inflation, as measured by the Consumer Prices Index, which already exceeds the BoE's target level of 2.0%. On the positive side, a more competitive British pound has proved advantageous for UK exporters. Furthermore, many large companies earn their revenues from overseas and have benefited from the weaker British pound as their revenues are worth more when converted into sterling.

In other data, unemployment in the UK continues to fall, standing at 4.6% in March 2017, down from 5.1% a year earlier. So far, consumer confidence has remained relatively stable, but lacklustre wage growth and higher prices could start to weigh on consumer expenditure and retail sales going forward. In this environment, interest rates in the UK remain on hold at 0.25% and the BoE has indicated that they are unlikely to increase in the near term.

In a largely buoyant environment, resources stocks and miners were among the stronger industries, due to improved commodity prices and a generally favourable outlook for the sector. Banking stocks also performed well as investors were able to shrug off concerns about Brexit-related uncertainty and worries about reduced profitability because of very low interest rates, although financial services stocks trailed the broader market. Meanwhile, weaker sectors included telecommunications, general retailers and utilities. Such 'defensive' sectors, which are considered to be more resilient in economic downturns, tend to be less appealing to generally confident investors.

In terms of individual stocks, banking group HSBC was among the market leaders, as were energy companies BP and Royal Dutch Shell and pharmaceutical firms AstraZeneca and GlaxoSmithKline. Miners Glencore and Rio Tinto were also solid performers. On the other hand, telecommunications business BT Group and clothing retailer Next were among the underperformers.

Investment activities

New holdings in the fund included Clydesdale and Yorkshire Banking Group (CYBG), which was spun out of National Australia Bank and floated on the London Stock Exchange (LSE). UK-headquartered ConvaTec also entered the fund after it listed on the LSE, making it the largest European healthcare company to float in London since 1993.

Paper-packaging firm Smurfit Kappa switched its main listing from the Irish Stock Exchange to the LSE and was then added to the fund. We bought more shares in payments-processing firm Worldpay, which issued new shares in a secondary placing, and in energy firm BP, which also issued more shares. In other purchases, we topped up the position in Lloyds Banking Group; the stock's weighting in the index has increased as the government continues to sell down its stake in the business.

It was a busy period for merger and acquisition activity. We added to our holding in pharmaceutical firm Shire to reflect the company's larger weighting in the index following its purchase of US company Baxalta. US firm Ball bought beverage can maker Rexam, which subsequently left the fund. Meanwhile, brewer SAB Miller and technology firm ARM were taken over by Belgian firm Anheuser-Busch InBev and Japanese company SoftBank, respectively. In our opinion, we could see a continuation in merger and acquisition activity as global companies look to buy their UK counterparts at an attractive price.

Finally, we undertook some sales and purchases for portfolio management purposes; such transactions involved shares in banking group HSBC, energy company Shell and pharmaceutical firm GlaxoSmithKline.

Outlook

The UK economy has shown remarkable resilience since the referendum last June, with many leading indicators throughout the year producing positive surprises. However, the most recent data suggests that domestic economic growth is slowing, with quarter-on-quarter growth figures easing notably. In May, the BoE reduced its growth forecasts for 2017 and increased expectations for inflation levels this year. The bank's longer term growth forecasts are more upbeat, although much depends on the nature of the UK's separation from the EU.

So far, the UK stockmarket has been less affected by the Brexit decision than anticipated as investors have been relatively optimistic about prospects for the UK. However, the recent general election unexpectedly resulted in the Conservative Party failing to achieve an overall majority, forcing it to seek a minority government with Northern Ireland's Democratic Unionist Party. The process towards leaving the EU is now under way and, aside from increased uncertainty post the general election, the government's hand has been weakened with regard to the Brexit negotiations, which may be lengthy and challenging. As a result, periodic volatility in the UK stockmarket can be expected, at least until greater clarity emerges about the UK's future trade and investment relationship with the EU. Nevertheless, UK corporate health is still fairly sound, while valuations for UK equities remain favourable.

Richard O'Connor
Fund manager

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

* 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 31 May Holding		2017 £'000	2017 %	2016 %
	Equities	**554,871**	**100.74**	**100.51**
	Oil & gas producers	**62,507**	**11.35**	**10.11**
4,397,996	BP	20,798	3.78	
146,838	Cairn Energy	299	0.05	
383,929	EnQuest	136	0.03	
171,134	Ophir Energy	142	0.03	
192,924	Premier Oil	114	0.02	
1,025,508	Royal Dutch Shell 'A'	21,710	3.94	
860,388	Royal Dutch Shell 'B'	18,623	3.38	
57,952	Soco International	77	0.01	
321,922	Tullow Oil	608	0.11	
	Oil equipment, services & distribution	**1,648**	**0.30**	**0.35**
91,066	Amec Foster Wheeler	468	0.08	
28,743	Cape	69	0.01	
32,704	Hunting	170	0.03	
86,756	John Wood Group	626	0.12	
75,272	Lamprell	83	0.02	
59,961	Petrofac	232	0.04	
	Chemicals	**3,702**	**0.67**	**0.64**
53,258	Carclo	76	0.01	
30,970	Croda International	1,233	0.22	
109,016	Elementis	327	0.06	
44,781	Johnson Matthey	1,396	0.25	
60,858	Synthomer	308	0.06	
18,711	Victrex	362	0.07	
	Forestry & paper	**1,719**	**0.31**	**0.25**
84,656	Mondi	1,719	0.31	
	Industrial metals & mining	**336**	**0.06**	**0.03**
111,468	Evraz	218	0.04	
68,390	Ferrexpo	118	0.02	
	Mining	**30,111**	**5.47**	**3.93**
36,524	Acacia Mining	103	0.02	
300,317	Anglo American	3,125	0.57	
87,038	Antofagasta	699	0.13	
485,747	BHP Billiton	5,746	1.04	
260,758	Centamin	434	0.08	
40,289	Fresnillo	632	0.12	
29,397	Gem Diamonds	27	0.00	
2,685,643	Glencore	7,697	1.40	
59,009	Hochschild Mining	166	0.03	
66,302	KAZ Minerals	326	0.06	
3,132	Kenmare Resources	8	0.00	
56	Kenmare Resources wts. 2019	0	0.00	
61,648	Lonmin	46	0.01	
120,997	Petra Diamonds	156	0.03	
61,066	Polymetal International	611	0.11	
21,546	Randgold Resources	1,551	0.28	
277,310	Rio Tinto	8,659	1.57	
20,128	Vedanta Resources	125	0.02	
	Construction & materials	**7,830**	**1.42**	**1.24**
171,310	Balfour Beatty	481	0.09	
32,276	Costain Group	156	0.03	
190,733	CRH	5,404	0.98	
20,421	Galliford Try	253	0.05	
28,988	Henry Boot	87	0.02	
88,734	Ibstock	219	0.04	
18,581	Keller Group	160	0.03	

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Construction & materials (continued)			
23,339	Kier Group	292	0.05	
96,187	Low & Bonar	85	0.01	
48,210	Marshalls	194	0.03	
9,357	Morgan Sindall	117	0.02	
21,082	Norcros	34	0.01	
46,055	Polypipe	191	0.03	
45,817	Tyman	157	0.03	
	Aerospace & defence	**11,032**	**2.00**	**1.78**
6,707	Avon Rubber	73	0.01	
727,683	BAE Systems	4,846	0.88	
69,509	Chemring Group	125	0.02	
551,558	Cobham	764	0.14	
175,150	Meggitt	886	0.16	
135,024	QinetiQ Group	424	0.08	
382,948	Rolls-Royce Holdings	3,332	0.61	
100,908	Senior	240	0.04	
16,139	Ultra Electronics Holdings	342	0.06	
	General industrials	**3,546**	**0.64**	**0.80**
208,253	DS Smith	911	0.17	
105,360	RPC Group	904	0.16	
89,728	Smiths Group	1,441	0.26	
50,382	Vesuvius	290	0.05	
	Electronic & electrical equipment	**2,723**	**0.50**	**0.46**
7,665	Dialight	79	0.01	
82,761	Halma	951	0.17	
69,363	Morgan Advanced Materials	206	0.04	
13,436	Oxford Instruments	148	0.03	
8,968	Renishaw	332	0.06	
28,089	Spectris	738	0.14	
55,780	TT Electronics	110	0.02	
17,246	Xaar	64	0.01	
3,641	XP Power	95	0.02	
	Industrial engineering	**4,084**	**0.74**	**0.65**
46,912	Bodycote	366	0.07	
46,004	Fenner	144	0.02	
3,042	Goodwin	48	0.01	
18,805	Hill & Smith Holdings	267	0.05	
65,393	IMI	822	0.15	
67,066	Renold	36	0.01	
211,840	Rotork	505	0.09	
69,710	Severfield	59	0.01	
15,892	Spirax-Sarco Engineering	900	0.16	
51,126	Weir Group	937	0.17	
	Industrial transportation	**2,375**	**0.43**	**0.46**
244,127	BBA Aviation	789	0.14	
3,455	Braemar Shipping Services	10	0.00	
8,159	Clarkson	220	0.04	
10,291	James Fisher & Sons	173	0.03	
201,124	Royal Mail	888	0.16	
74,400	Stobart Group	202	0.04	
30,574	Wincanton	93	0.02	
	Support services	**28,325**	**5.14**	**5.10**
58,875	Aggreko	510	0.09	
116,617	Ashtead Group	1,852	0.34	
112,835	Babcock International Group	1,063	0.19	
41,651	Berendsen	455	0.08	
77,279	Bunzl	1,896	0.34	
148,909	Capita Group	875	0.16	
104,391	Carillion	212	0.04	
58,424	Connect Group	73	0.01	
20,441	DCC	1,516	0.28	
23,584	De La Rue	159	0.03	

Investments

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Support services (continued)			
26,590	Diploma	298	0.05	
102,107	Electrocomponents	594	0.11	
45,455	Equiniti	100	0.02	
63,414	Essentra	364	0.07	
220,937	Experian	3,592	0.65	
372,555	G4S	1,212	0.22	
52,000	Grafton Group Units	403	0.07	
347,564	Hays	577	0.10	
67,066	Hogg Robinson	47	0.01	
61,358	Homeserve	452	0.08	
148,528	Howden Joinery Group	676	0.12	
35,947	Interserve	82	0.02	
37,065	Intertek Group	1,591	0.29	
159,300	IWG (formerly Regus)	532	0.10	
22,348	John Menzies	158	0.03	
25,681	Mears Group	131	0.02	
75,070	Michael Page International	357	0.06	
85,169	Mitie Group	207	0.04	
31,624	Northgate	167	0.03	
15,904	PayPoint	151	0.03	
436,491	Rentokil Initial	1,162	0.21	
13,784	Ricardo	121	0.02	
16,475	Robert Walters	72	0.01	
55,347	RPS Group	152	0.03	
273,336	Serco Group	325	0.06	
143,021	Shanks Group	133	0.02	
150,196	SIG	232	0.04	
54,496	Smurfit Kappa	1,196	0.22	
136,075	Speedy Hire	77	0.01	
32,807	St. Ives	15	0.00	
29,569	SThree	92	0.02	
58,870	Travis Perkins	970	0.18	
3,773	Vp	31	0.01	
23,860	W.S. Atkins	497	0.09	
57,981	Wolseley	2,948	0.54	
	Automobiles & parts	**1,389**	**0.25**	**0.23**
394,425	GKN	1,389	0.25	
	Beverages	**15,345**	**2.79**	**4.65**
20,044	A.G. Barr	131	0.02	
60,372	Britvic	424	0.08	
45,012	Coca-Cola Hellenic	1,013	0.19	
580,380	Diageo	13,665	2.48	
65,456	Stock Spirits Group	112	0.02	
	Food producers	**16,477**	**2.99**	**2.79**
80,468	Associated British Foods	2,431	0.44	
12,218	Cranswick	362	0.06	
33,103	Dairy Crest Group	202	0.04	
43,284	Devro	93	0.02	
164,185	Greencore	393	0.07	
166,618	Premier Foods	67	0.01	
109,090	Tate & Lyle	803	0.15	
278,337	Unilever	12,126	2.20	
	Household goods & home construction	**19,681**	**3.57**	**3.74**
234,321	Barratt Developments	1,424	0.26	
28,525	Bellway	806	0.15	
30,413	Berkeley Group Holdings	992	0.18	
32,574	Bovis Homes Group	296	0.05	

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Household goods & home construction (continued)			
60,000	Crest Nicholson	376	0.07	
70,212	McBride	137	0.03	
138,605	McCarthy & Stone	257	0.05	
19,105	MJ Gleeson	120	0.02	
70,506	Persimmon	1,731	0.31	
145,084	Reckitt Benckiser	11,702	2.12	
51,209	Redrow	288	0.05	
767,289	Taylor Wimpey	1,552	0.28	
	Leisure goods	**122**	**0.02**	**0.02**
73,700	Photo-Me International	122	0.02	
	Personal goods	**2,208**	**0.40**	**0.32**
102,125	Burberry Group	1,842	0.34	
52,316	PZ Cussons	181	0.03	
11,827	SuperGroup	185	0.03	
	Tobacco	**31,965**	**5.80**	**5.74**
430,060	British American Tobacco	23,894	4.34	
222,404	Imperial Brands	8,071	1.46	
	Healthcare equipment & services	**5,590**	**1.01**	**0.87** [a]
12,913	Consort Medical	134	0.02	
247,553	ConvaTec	796	0.15	
94,143	Mediclinical International	752	0.14	
15,103	NMC Health	332	0.06	
204,035	Smith & Nephew	2,771	0.50	
83,002	Spire Healthcare	282	0.05	
64,324	UDG Healthcare	523	0.09	
	Pharmaceuticals & biotechnology	**46,488**	**8.44**	**7.82**
290,853	AstraZeneca	15,279	2.77	
92,641	BTG	601	0.11	
22,028	Dechra Pharmaceuticals	415	0.08	
17,209	Genus	322	0.06	
1,133,143	GlaxoSmithKline	19,156	3.48	
33,399	Hikma Pharmaceuticals	562	0.10	
171,391	Indivior	548	0.10	
207,328	Shire	9,391	1.70	
180,540	Vectura Group	214	0.04	
	Food & drug retailers	**7,105**	**1.29**	**1.34** [a]
388,764	Booker Group	776	0.14	
24,944	Greggs	270	0.05	
385,122	J Sainsbury	1,084	0.20	
95,804	Ocado Group	301	0.05	
1,890,411	Tesco	3,484	0.63	
480,266	WM Morrison Supermarkets	1,190	0.22	
	General retailers	**11,436**	**2.08**	**2.71**
146,475	AA	345	0.06	
155,052	B&M European Value Retail	562	0.10	
51,838	Card Factory	174	0.03	
33,414	Carpetright	70	0.01	
306,023	Debenhams	154	0.03	
28,153	DFS Furniture	77	0.01	
9,796	Dignity	248	0.04	
230,640	Dixons Carphone	760	0.14	
22,551	Dunelm Group	140	0.03	
21,315	Findel	43	0.01	
48,578	Halfords Group	179	0.03	
103,755	Inchcape	854	0.16	
95,780	JD Sports Fashion	432	0.08	
120,594	JUST EAT	803	0.15	
538,664	Kingfisher	1,755	0.32	
61,504	Laura Ashley Holdings	8	0.00	
81,746	Lookers	105	0.02	
369,253	Marks & Spencer Group	1,424	0.26	

Investments

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	General retailers (continued)			
35,146	Mothercare	42	0.01	
48,869	N Brown Group	138	0.03	
34,153	Next	1,494	0.27	
337,904	Pendragon	122	0.02	
75,000	Pets at Home	124	0.02	
268,345	Saga	542	0.10	
60,566	Sports Direct International	179	0.03	
6,838	Ted Baker	169	0.03	
34,479	Topps Tiles	31	0.01	
25,853	WH Smith	462	0.08	
	Media	**20,339**	**3.69**	**3.96**
9,581	4imprint Group	161	0.03	
63,126	Ascential	222	0.04	
228,805	Auto Trader Group	945	0.17	
11,581	Bloomsbury Publishing	20	0.00	
60,666	Entertainment One	149	0.03	
10,593	Euromoney Institutional Investor	123	0.02	
70,989	Gocompare.Com	65	0.01	
196,405	Informa	1,318	0.24	
65,293	ITE Group	103	0.02	
897,377	ITV	1,769	0.32	
117,735	Moneysupermarket.com	410	0.07	
191,893	Pearson	1,360	0.25	
255,614	RELX	4,276	0.78	
21,086	Rightmove	912	0.17	
240,857	Sky	2,389	0.43	
58,726	Trinity Mirror	64	0.01	
93,279	UBM	678	0.12	
295,292	WPP	5,165	0.94	
57,293	Zoopla Property Group	210	0.04	
	Travel & leisure	**25,929**	**4.71**	**4.72**
41,117	Carnival	2,052	0.37	
50,177	Cineworld	359	0.07	
381,989	Compass Group	6,402	1.16	
100,293	Domino's Pizza	317	0.06	
59,574	easyJet	845	0.15	
122,704	Enterprise Inns	175	0.03	
280,496	FirstGroup	424	0.08	
8,404	Fuller Smith & Turner 'A'	89	0.01	
66,617	GVC Holdings	535	0.10	
9,796	Go-Ahead Group	182	0.03	
71,211	Greene King	533	0.10	
24,530	HostelWorld	84	0.02	
43,673	InterContinental Hotels Group	1,911	0.35	
405,092	International Consolidated Airlines Group	2,477	0.45	
29,673	J.D.Wetherspoon	305	0.06	
234,689	Ladbrokes Coral	281	0.05	
143,101	Marston's	194	0.03	
158,541	Merlin Entertainment	831	0.15	
38,526	Millennium & Copthorne Hotels	180	0.03	
64,892	Mitchells & Butlers	158	0.03	
99,357	National Express	368	0.07	
19,545	Paddy Power Betfair	1,555	0.28	
56,272	Playtech	555	0.10	
64,084	Rank Group	141	0.03	
47,418	Restaurant Group	172	0.03	
92,480	SSP	453	0.08	
102,684	Stagecoach Group	217	0.04	

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Travel & leisure (continued)			
349,133	Thomas Cook Group	322	0.06	
103,145	TUI	1,238	0.22	
42,254	Whitbread	1,799	0.33	
211,957	William Hill	604	0.11	
7,457	Wizz Air Holdings	171	0.03	
	Fixed line telecommunications	**6,491**	**1.18**	**2.00**
1,924,625	BT Group	5,923	1.08	
132,444	KCOM Group	125	0.02	
148,352	TalkTalk Telecom	259	0.05	
14,060	Telecom Plus	184	0.03	
	Mobile telecommunications	**15,086**	**2.74**	**3.23**
109,414	Inmarsat	869	0.16	
6,129,622	Vodafone Group	14,217	2.58	
	Electricity	**3,888**	**0.71**	**0.82**
97,507	Drax Group	336	0.06	
236,007	SSE	3,552	0.65	
	Gas, water & multi-utilities	**15,096**	**2.74**	**3.22**
1,253,049	Centrica	2,520	0.46	
798,262	National Grid	8,705	1.58	
99,144	Pennon Group	914	0.16	
54,186	Severn Trent	1,356	0.25	
155,276	United Utilities	1,601	0.29	
	Banks	**59,595**	**10.82**	**9.44**
57,704	Aldermore Group	143	0.03	
3,902,519	Barclays	8,119	1.47	
9,871	BGEO Group	364	0.07	
209,000	CYBG	563	0.10	
4,639,433	HSBC Holdings	31,627	5.74	
15,534,613	Lloyds Banking Group	11,062	2.01	
17,424	Metro Bank	648	0.12	
34,905	OneSavings Bank	145	0.03	
761,183	Royal Bank of Scotland Group	2,010	0.36	
629,875	Standard Chartered	4,693	0.85	
73,284	Virgin Money Holdings (UK)	221	0.04	
	Non-life insurance	**6,080**	**1.10**	**1.11**
46,723	Admiral Group	955	0.17	
124,169	Beazley	589	0.11	
317,029	Direct Line Insurance Group	1,101	0.20	
60,000	esure	162	0.03	
52,250	Hastings Group	164	0.03	
67,041	Hiscox	822	0.15	
34,469	Jardine Lloyd Thompson Group	407	0.07	
40,879	Lancashire Holdings	282	0.05	
13,566	Novae Group	74	0.01	
241,984	RSA Insurance Group	1,524	0.28	
	Life insurance	**25,038**	**4.55**	**4.53**
932,592	Aviva	4,910	0.89	
38,408	Chesnara	144	0.03	
110,519	JRP	151	0.03	
1,374,292	Legal & General Group	3,481	0.63	
1,123,857	Old Mutual	2,159	0.39	
94,456	Phoenix Group	718	0.13	
592,249	Prudential [b]	10,299	1.87	
119,562	St. James's Place	1,421	0.26	
453,737	Standard Life	1,755	0.32	
	Real estate investment & services	**4,271**	**0.78**	**0.84**
169,518	Capital & Counties Properties	544	0.10	
190,529	Capital & Regional	110	0.02	
53,320	CLS Holdings	105	0.02	
36,000	Countrywide	61	0.01	
983	Daejan Holdings	66	0.01	
123,795	F&C Commercial Property Trust	184	0.03	

Investments

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Real estate investment & services (continued)			
59,655	F&C UK Real Estate	62	0.01	
55,000	Foxtons Group	61	0.01	
99,935	Grainger Trust	271	0.05	
29,362	Helical Bar	98	0.02	
23,317	Kennedy Wilson Europe Real Estate	242	0.04	
23,460	LSL Property Services	55	0.01	
86,307	Medicx Fund	77	0.01	
55,000	NewRiver Retail	192	0.04	
127,327	Picton Property Income	108	0.02	
109,425	Raven Russia	53	0.01	
335,117	Redefine International	129	0.02	
74,152	Safestore	325	0.06	
31,357	Savills	272	0.05	
120,865	Schroder Real Estate Investment Trust	78	0.02	
43,703	St. Modwen Properties	152	0.03	
92,278	Standard Life Investment Property Income Trust	82	0.02	
255,033	Tritax Big Box	374	0.07	
54,660	U and I	107	0.02	
147,517	UK Commercial Property Trust	129	0.02	
52,758	UNITE Group	334	0.06	
	Real estate investment trusts	**9,717**	**1.77**	**2.14**
406,835	Assura Group	257	0.05	
33,178	Big Yellow Group	261	0.05	
241,920	British Land	1,552	0.28	
24,261	Derwent London	678	0.12	
78,777	Great Portland Estates	505	0.09	
182,934	Hammerson	1,075	0.20	
183,113	Hansteen Holdings	234	0.04	
210,191	Intu Properties	574	0.11	
186,787	Land Securities Group	2,025	0.37	
152,304	LondonMetric Property	257	0.05	
192,839	Primary Health Properties	216	0.04	
233,590	Segro	1,175	0.21	
61,814	Shaftesbury	600	0.11	
22,910	Town Centre Securities	65	0.01	
27,762	Workspace Group	243	0.04	
	Financial services	**16,901**	**3.07**	**2.98**
223,236	3i Group	1,998	0.36	
237,247	Aberdeen Asset Management	693	0.13	
40,790	Allied Minds	61	0.01	
91,792	Ashmore Group	325	0.06	
69,960	Brewin Dolphin Holdings	236	0.04	
15,367	Charles Taylor Consulting	35	0.01	
35,971	Close Brothers Group	580	0.11	
52,018	Hargreaves Lansdown	733	0.13	
89,675	IG Group Holdings	511	0.09	
69,264	Intermediate Capital Group	610	0.11	
61,570	International Personal Finance	99	0.02	
147,000	Investec	903	0.16	
129,574	IP Group	182	0.03	
9,967	IP Group (Subscription shares)	0	0.00	
26,272	Janus Henderson Group	626	0.11	
103,664	Jupiter Fund Management	513	0.09	
72,866	London Stock Exchange	2,521	0.46	
314,877	Man Group	497	0.09	
74,982	Nex Group	489	0.09	
72,188	Paragon Group of Companies	333	0.06	

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Financial services (continued)			
104,276	Paysafe Group	522	0.10	
34,527	Provident Financial	1,061	0.19	
12,022	Rathbone Brothers	316	0.06	
12,692	Sanne	85	0.02	
27,758	Schroders	880	0.16	
18,864	SVG Capital	139	0.03	
127,928	TP ICAP (formerly Tullett Prebon)	619	0.11	
424,746	Worldpay	1,334	0.24	
	Equity investment instruments	**23,530**	**4.27**	**3.90**
175,411	3i Infrastructure	349	0.06	
49,232	Aberdeen Asian Income Fund	104	0.02	
14,869	Aberdeen Asian Smaller Companies Investment Trust	153	0.03	
35,696	Aberdeen New Dawn Investment Trust	78	0.01	
23,204	Aberforth Smaller Companies Trust	305	0.05	
102,407	Alliance Trust	720	0.13	
11,508	Artemis Alpha Trust	33	0.01	
1,001	Artemis Alpha Trust (Subscription shares)	0	0.00	
16,767	Baillie Gifford Japan Trust	109	0.02	
36,648	Bankers Investment Trust	287	0.05	
4,784	Baring Emerging Europe	35	0.01	
7,235	BH Global (Sterling shares)	92	0.02	
10,152	BH Macro (Sterling shares)	207	0.04	
22,605	Biotech Growth Trust	158	0.03	
19,051	BlackRock Commodities Income Investment Trust	14	0.00	
36,406	BlackRock Frontier Investment Trust	54	0.01	
116,749	BlackRock Income Trust	134	0.02	
9,332	BlackRock Latin American Investment Trust	39	0.01	
15,746	BlackRock Smaller Companies Investment Trust	195	0.03	
19,967	BlackRock Throgmorton Trust	87	0.02	
44,057	BlackRock World Mining Trust	149	0.03	
81,569	Bluefield Solar Income Fund	95	0.02	
37,724	British Empire Securities & General Trust	257	0.05	
7,952	Brunner Investment Trust	55	0.01	
9,571	Caledonia Investments	275	0.05	
646	Capital Gearing Trust	25	0.00	
48,759	City Merchants High Yield Trust	97	0.02	
12,000	City of London Investment Group	46	0.01	
68,252	City of London Investment Trust	300	0.05	
51,879	Dragon Capital Vietnam Enterprise Investments	181	0.03	
36,288	Dunedin Income Growth Investment Trust	98	0.02	
19,162	Dunedin Smaller Companies Investment Trust	46	0.01	
52,621	Ecofin Global Utilities and Infrastructure	65	0.01	
49,418	Edinburgh Dragon Trust	173	0.03	
48,494	Edinburgh Investment Trust	372	0.07	
12,019	Edinburgh Worldwide Investment Trust	74	0.01	
13,155	EF Realisation	4	0.00	
5,282	Electra Private Equity	144	0.03	
14,371	EP Global Opportunities	43	0.01	
21,354	F&C Capital & Income Investment Trust	69	0.01	
17,778	F&C Global Smaller Companies	228	0.04	
26,956	F&C Private Equity Trust	97	0.02	
12,948	Fidelity Asian Values	52	0.01	

Investments

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Equity investment instruments (continued)			
2,589	Fidelity Asian Values (Subscription shares)	1	0.00	
156,951	Fidelity China Special Situations	318	0.06	
105,890	Fidelity European Values	234	0.04	
64,515	Fidelity Special Values	156	0.03	
30,229	Finsbury Growth & Income Trust	223	0.04	
119,698	Foreign & Colonial Investment Trust	704	0.13	
36,000	Foresight Solar Fund	40	0.01	
6,000	Fundsmith Emerging Equities Trust	69	0.01	
154,796	GCP Infrastructure	195	0.03	
31,754	Genesis Emerging Markets	210	0.04	
159,754	Greencoat UK Wind	198	0.04	
1,000	Hansa Trust	9	0.00	
13,000	Harbourvest Global Private Equity	169	0.03	
12,144	Henderson Alternative Strategies Trust	33	0.01	
96,266	Henderson Diversified Income	89	0.02	
7,185	Henderson European Focus Trust	98	0.02	
4,288	Henderson EuroTrust	48	0.01	
22,794	Henderson Far East Income	82	0.01	
28,474	Henderson High Income Trust	56	0.01	
20,599	Henderson Smaller Companies Investment Trust	163	0.03	
20,371	Herald Investment Trust	201	0.04	
9,684	HG Capital Trust	147	0.03	
340,473	HICL Infrastructure	581	0.11	
18,845	IGG Enterprise	143	0.03	
64,010	Impax Environmental Markets	149	0.03	
269,118	International Public Partnerships	434	0.08	
18,633	INVESCO Asia Trust	50	0.01	
13,876	INVESCO Income Growth Trust	43	0.01	
11,694	INVESCO Perpetual UK Smaller Companies Investment Trust	55	0.01	
87,094	John Laing	258	0.05	
186,128	John Laing Infrastructure Fund	259	0.05	
64,465	JPMorgan American Investment Trust	245	0.04	
24,860	JPMorgan Asian Investment Trust	80	0.01	
19,298	JPMorgan Chinese Investment Trust (Bonus issue)	45	0.01	
14,381	JPMorgan Claverhouse Investment Trust	98	0.02	
31,308	JPMorgan Emerging Markets Investment Trust	249	0.04	
30,134	JPMorgan European Investment Trust	90	0.02	
41,600	JPMorgan European Smaller Companies Investment Trust	155	0.03	
84,000	JPMorgan Global Convertibles Income Fund	83	0.01	
70,540	JPMorgan Global Emerging Market	88	0.02	
43,965	JPMorgan Global Growth Investment Trust	133	0.02	
30,674	JPMorgan Indian Investment Trust	223	0.04	
9,427	JPMorgan Japan Smaller Companies Investment Trust	33	0.01	
37,340	JPMorgan Japanese Investment Trust	134	0.02	
5,749	JPMorgan Mid Cap Investment Trust	61	0.01	
13,206	JPMorgan Russian Securities	61	0.01	
4,461	JPMorgan Smaller Companies Investment Trust	42	0.01	

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Equity investment instruments (continued)			
892	JPMorgan Smaller Companies Investment Trust (Subscription shares)	0	0.00	
20,877	Jupiter European Opportunities Trust	144	0.02	
4,455	Jupiter US Smaller Companies	35	0.01	
4,407	Keystone Investment Trust	80	0.01	
28,440	Law Debenture	164	0.03	
9,558	Lowland Investment	147	0.03	
6,893	Majedie Investments	20	0.00	
6,477	Martin Currie Asia Unconstrained Trust	25	0.00	
30,524	Martin Currie Global Portfolio Trust	71	0.01	
22,110	Mercantile Investment Trust	435	0.08	
22,619	Merchants Trust	110	0.02	
44,162	Middlefield Canadian Income Trusts	45	0.01	
49,929	Monks Investment Trust	353	0.06	
9,072	Montanaro UK Smaller Companies Investment Trust	50	0.01	
15,376	Murray Income Trust	126	0.02	
29,533	Murray International Trust	370	0.07	
250,550	NB Global Floating Rate Income Fund	243	0.04	
11,497	New India Investment Trust	52	0.01	
87,514	NextEnergy Solar Fund	100	0.02	
8,548	North American Income Trust	99	0.02	
2,919	North Atlantic Smaller Companies Investment Trust	79	0.01	
20,848	P2P Global Investments	184	0.03	
28,753	Pacific Assets Trust	74	0.01	
10,174	Pacific Horizon Investment Trust	26	0.00	
13,513	Pantheon International	242	0.04	
57,585	Perpetual Income & Growth Investment Trust	234	0.04	
394	Personal Assets Trust	163	0.03	
23,952	Polar Capital Global Healthcare Growth and Income Trust	49	0.01	
32,466	Polar Capital Technology Trust	330	0.06	
11,976	Polar Capital Technology Trust (Subscription shares)	0	0.00	
29,859	RIT Capital Partners	558	0.10	
33,743	Ruffer Investment Company Red. Pref. shares	80	0.01	
36,469	Schroder Asia Pacific Fund	149	0.03	
18,284	Schroder Asian Total Return Investment Company	54	0.01	
18,236	Schroder Income Growth Fund	54	0.01	
19,162	Schroder Japan Growth Fund	38	0.01	
46,527	Schroder Oriental Income Fund	115	0.02	
32,730	Schroder UK Growth Fund	57	0.01	
7,670	Schroder UK Mid & Small Cap Fund	41	0.01	
31,306	Scottish American Investment	110	0.02	
22,562	Scottish Investment Trust	182	0.03	
302,599	Scottish Mortgage Investment Trust	1,216	0.22	
8,864	Scottish Oriental Small Companies Trust	90	0.02	
20,541	Securities Trust of Scotland	35	0.01	
168,939	Sequoia Economic Infrastructure	189	0.03	
13,252	Standard Life Equity Income Trust	59	0.01	
19,011	Standard Life European Private Equity Trust	60	0.01	
29,578	Standard Life UK Smaller	130	0.02	
170,615	Syncona (formerly BACIT Investment Trust)	271	0.05	
14,154	Temple Bar Investment Trust	185	0.03	

Investments

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Equity investment instruments (continued)			
61,258	Templeton Emerging Markets Investment Trust	421	0.08	
70,000	The Diverse Income Trust	71	0.01	
13,277	The European Investment Trust	121	0.02	
202,253	The Renewables Infrastructure Group	226	0.04	
12,510	TR European Growth Trust	128	0.02	
76,502	TR Property Investment Trust	268	0.05	
45,234	Troy Income & Growth Trust	37	0.01	
70,000	TwentyFour Income Fund	83	0.02	
63,982	Utilico Emerging Markets	143	0.03	
17,183	Value & Income Trust	47	0.01	
42,674	Witan Investment Trust	434	0.08	
17,102	Witan Pacific Investment Trust	53	0.01	
193,141	Woodford Patient Capital Trust	180	0.03	
11,052	Worldwide Healthcare Trust	262	0.05	
	Non-equity investment instruments	**279**	**0.05**	**0.05**
110,728	BBGI	159	0.03	
21,000	International Biotechnology Trust	120	0.02	
	Software & computer services	**4,454**	**0.81**	**0.74**
17,445	AVEVA	338	0.06	
21,300	Computacenter	183	0.03	
11,560	Fidessa Group	287	0.05	
52,210	Micro Focus International	1,255	0.23	
84,545	NCC Group	135	0.02	
247,489	Sage Group	1,778	0.32	
22,606	SDL	139	0.03	
31,792	Servelec Group	91	0.02	
55,176	Sophos	248	0.05	
	Technology hardware & equipment	**433**	**0.08**	**0.80**
62,171	Imagination Technologies Group	72	0.01	
115,018	Laird	162	0.03	
162,534	Spirent Communications	199	0.04	
	Unquoted / unlisted	**0**	**0.00**	**0.00**
10,204	Bioscience Investment Trust [c]	0	0.00	
21,000	Dexion Equity Alternative [c]	0	0.00	
12,707	Electric & General Investment Trust [c]	0	0.00	
3,374	Gartmore Irish Growth Fund [c]	0	0.00	
	Futures contracts	**113**	**0.02**	**0.01**
52	FTSE 100 June 2017	113	0.02	
Portfolio of investments		**554,984**	**100.76**	**100.52**
	'AAA' rated money market funds [d]	**738**	**0.13**	**0.30**
738,000	Northern Trust Global Fund - Sterling	738	0.13	
Total portfolio (notes 2c & 2d on page 6)		**555,722**	**100.89**	**100.82**
Net other assets / (liabilities)		**(4,902)**	**(0.89)**	**(0.82)**
Net assets attributable to shareholders		**550,820**	**100.00**	**100.00**

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

[a] The comparative sector weightings have been re-analysed to reflect changes to the sector classifications.

[b] Related party to the fund.

[c] Delisted.

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

Top ten portfolio transactions

for the year to 31 May 2017

Largest purchases	£'000
Shire	3,149
Royal Dutch Shell 'A'	1,700
HSBC Holdings	1,699
BP	1,465
Smurfit Kappa	982
Melrose Industries	701
ConvaTec	621
CYBG	572
Ball	555
Lloyds Banking Group	504
Other purchases	8,293
Total purchases	**20,241**

Largest sales	£'000
SABMiller	10,140
ARM Holdings	5,717
HSBC Holdings	1,763
BP	1,427
Rexam	1,210
Royal Dutch Shell 'A'	1,099
Royal Dutch Shell 'B'	869
British American Tobacco	747
Melrose Industries	701
GlaxoSmithKline	653
Other sales	16,836
Total sales	**41,162**

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 31 May 2017 was +0.29% (31 May 2016: +0.02%). 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 31 May 2017 was +0.12% (31 May 2016: +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 31 May	2017 £'000	2016 £'000	2015 £'000
Fund net asset value (NAV)	550,820	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

	One year 01.06.16 % [a]	Three years 02.06.14 % p.a.	Five years 01.06.12 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	+25.9	+7.6	+11.9	+5.3 [c]
Class 'C'	+26.3	+7.9	+12.3	+10.0 [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.

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 and method of execution. They are made up of direct and indirect portfolio transaction costs:

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

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

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. The table below shows direct portfolio transaction costs paid by the fund before and after that part of the dilution adjustment relating to direct portfolio transaction costs. To give an indication of the indirect portfolio dealing costs the table also shows the average portfolio dealing spread.

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

Portfolio transaction costs

for the year to 31 May Direct portfolio transaction costs [b]	2017 %	2016 %	2015 %	Average [a] %
Broker commission	0.00	0.01	0.00	0.00
Taxes	0.01	0.01	0.01	0.01
Costs before dilution adjustments	0.01	0.02	0.01	0.01
Dilution adjustments [c]	(0.01)	(0.01)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.00	0.01	0.00	0.00

as at 31 May Indirect portfolio transaction costs	2017 %	2016 %	2015 %	Average [a] %
Average portfolio dealing spread	0.08	0.11	0.11	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.

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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	63.91	71.27	68.13
Return before operating charges and after direct portfolio transaction costs	15.87	(4.90)	5.56
Operating charges	(0.33)	(0.30)	(0.31)
Return after operating charges	15.54	(5.20)	5.25
Distributions	(2.63)	(2.16)	(2.11)
Closing NAV	76.82	63.91	71.27
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments [a]	(0.01)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.01	0.00
Operating charges	0.46	0.46	0.46
Return after operating charges	+24.32	-7.30	+7.71
Historic yield [c]	3.59	3.44	3.05
Effect on yield of charges offset against capital	0.45	0.00	0.00
Other information			
Closing NAV (£'000)	355,226	304,040	333,720
Closing NAV percentage of total fund NAV (%)	64.49	63.47	62.54
Number of shares	462,417,555	475,765,937	468,218,074
Highest share price (UK p)	78.25	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	106.54	114.92	106.56
Return before operating charges and after direct portfolio transaction costs	26.79	(7.90)	8.85
Operating charges	(0.55)	(0.48)	(0.49)
Return after operating charges	26.24	(8.38)	8.36
Distributions	(4.06)	(3.52)	(3.33)
Retained distributions	4.06	3.52	3.33
Closing NAV	132.78	106.54	114.92
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.02	0.02	0.01
Dilution adjustments [a]	(0.01)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.01	0.01	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.01	0.00
Operating charges	0.46	0.46	0.46
Return after operating charges	+24.63	-7.29	+7.85
Historic yield	3.09	3.36	2.98
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	143,147	127,481	146,006
Closing NAV percentage of total fund NAV (%)	25.99	26.61	27.36
Number of shares	107,808,878	119,656,185	127,047,849
Highest share price (UK p)	132.71	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	64.18	71.58	68.41
Return before operating charges and after direct portfolio transaction costs	15.95	(4.93)	5.60
Operating charges	(0.11)	(0.10)	(0.11)
Return after operating charges	15.84	(5.03)	5.49
Distributions	(2.72)	(2.37)	(2.32)
Closing NAV	77.30	64.18	71.58
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments [a]	(0.01)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.01	0.00
Operating charges	0.16	0.16	0.16
Return after operating charges	+24.68	-7.03	+8.03
Historic yield [c]	3.59	3.75	3.34
Effect on yield of charges offset against capital	0.15	0.00	0.00
Other information			
Closing NAV (£'000)	52,447	47,503	53,916
Closing NAV percentage of total fund NAV (%)	9.52	9.92	10.10
Number of shares	67,845,339	74,016,122	75,324,364
Highest share price (UK p)	78.74	71.29	73.29
Lowest share price (UK p)	60.87	57.34	62.04

[a] In respect of direct portfolio transaction costs.

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

[c] Current year figures have been estimated to reflect the change in charging structure and therefore you may see variances between comparative and current year figures.

Financial statements

Statement of total return

for the year to 31 May	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Income					
Net capital gains / (losses)	3		95,921		(55,408)
Revenue	5	20,012		18,666	
Expenses	6	(2,226)		(2,083)	
Net revenue / (expense) before taxation		17,786		16,583	
Taxation	7	(71)		(114)	
Net revenue / (expense) after taxation			17,715		16,469
Total return before distributions			**113,636**		**(38,939)**
Distributions	8		(18,785)		(16,469)
Change in net assets attributable to shareholders from investment activities			**94,851**		**(55,408)**

Statement of change in net assets attributable to shareholders

for the year to 31 May	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Opening net assets attributable to shareholders		**479,024**		**533,642**
Amounts received on issue of shares	13,978		19,453	
Amounts paid on cancellation of shares	(41,568)		(23,109)	
		(27,590)		(3,656)
Dilution adjustments		77		97
Change in net assets attributable to shareholders from investment activities (see above)		94,851		(55,408)
Retained distributions on Accumulation shares		4,457		4,347
Unclaimed distributions		1		2
Closing net assets attributable to shareholders		**550,820**		**479,024**

Balance sheet

as at 31 May	Note	2017 £'000	2016 £'000
Assets			
Fixed assets			
Investments		555,722	482,934
Current assets			
Debtors	9	3,752	2,689
Cash and bank balances	10	290	779
Total assets		**559,764**	**486,402**
Liabilities			
Creditors			
Bank overdrafts		(417)	0
Distribution payable		(7,799)	(6,306)
Other creditors	11	(728)	(1,072)
Total liabilities		**(8,944)**	**(7,378)**
Net assets attributable to shareholders		**550,820**	**479,024**

Notes to the financial statements

1 Accounting policies

The financial statements have been prepared in accordance with the 'Summary of significant accounting policies' set out on pages 6 and 7.

2 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.

3 Net capital gains / (losses)

for the year to 31 May	2017 £'000	2016 £'000
Non-derivative securities	95,039	(55,275)
Derivative contracts	887	(121)
Currency gains / (losses)	4	(5)
Transaction charges	(9)	(7)
Net capital gains / (losses)	**95,921**	**(55,408)**

Notes to the financial statements

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 70.

for the year to 31 May	2017 £'000	% of transaction	2016 £'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	18,385		16,148	
Commissions	6	0.03	7	0.04
Taxes	50	0.27	66	0.41
Equities after transaction costs	**18,441**		**16,221**	
Other transaction types				
Corporate actions	**1,800**		**1,739**	
Total purchases after transaction costs	**20,241**		**17,960**	
b) Sales				
Equities				
Equities before transaction costs	40,170		13,676	
Commissions	(11)	0.03	(3)	0.02
Equities after transaction costs	**40,159**		**13,673**	
Other transaction types				
Corporate actions	**1,003**		**1,108**	
Total sales after transaction costs	**41,162**		**14,781**	

c) Direct portfolio transaction costs	2017 £'000	% of average NAV	2016 £'000	% of average NAV
Commissions paid				
Equities	17	0.00	10	0.01
Derivatives	1	0.00	0	0.00
Total commissions paid	**18**	**0.00**	**10**	**0.01**
Taxes paid				
Equities	50	0.01	66	0.01
Total taxes paid	**50**	**0.01**	**66**	**0.01**
Total direct portfolio transaction costs [a]	**68**	**0.01**	**76**	**0.02**
d) Indirect portfolio transaction costs		%		%
Portfolio dealing spread [b]		0.08		0.11

[a] Costs before dilution adjustments. Please refer to the 'Financial highlights' section for the effect of dilution adjustments.

[b] Average portfolio dealing spread at the balance sheet date.

5 Revenue

for the year to 31 May	2017 £'000	2016 £'000
Dividends from equity investments: non-taxable	15,176	16,689
Dividends from equity investments: taxable	281	197
Interest distributions	11	10
Stock dividends	4,532	1,760
Underwriting commission	12	10
Total revenue	**20,012**	**18,666**

6 Expenses

for the year to 31 May	2017 £'000	2016 £'000
Payable to the ACD or associate		
Annual management charge	1,402	1,311
Administration charge	776	729
	2,178	2,040
Payable to the Depositary or associate		
Depositary's charge (including VAT)	36	34
Other expenses		
Audit fee (including VAT)	10	7
Interest payable	2	2
	12	9
Total expenses	**2,226**	**2,083**

7 Taxation

for the year to 31 May	2017 £'000	2016 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	72	115
Withholding tax recovered: previously written off	0	(1)
Prior year adjustment	(1)	0
Deferred tax (note 7c)	0	0
Total taxation	**71**	**114**
b) Factors affecting taxation charge for the year		
Net revenue/ (expense) before taxation	17,786	16,583
Corporation tax at 20%	3,557	3,317
Effects of:		
Dividends from equity investments: non-taxable	(3,036)	(3,338)
Stock dividends not taxable	(906)	(352)
Current year expenses not utilised	385	373
Withholding tax	72	115
Withholding tax recovered: previously written off	0	(1)
Prior year adjustment	(1)	0
Total tax charge (note 7a)	**71**	**114**
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	**0**	**0**

The fund has not recognised a deferred tax asset of £4,365,000 (2016: £3,980,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

for the year to 31 May	2017 Inc [a] £'000	2017 Acc [b] £'000	2016 Inc [a] £'000	2016 Acc [b] £'000
Dividend distributions				
Interim	6,305	2,077	5,689	2,126
Final	7,799	2,380	6,306	2,221
Total net distributions		18,561		16,342
Income deducted on cancellation of shares		298		196
Income received on issue of shares		(74)		(69)
Distributions		**18,785**		**16,469**
Net revenue per statement of total return		17,715		16,469
Expenses offset against capital		1,070		0
Distributions		**18,785**		**16,469**

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

Notes to the financial statements

9 Debtors

as at 31 May	2017 £'000	2016 £'000
Amounts receivable on issues of shares	165	48
Distributions receivable	0	1
Dividends receivable	2,774	2,547
Sales awaiting settlement	785	1
Tax recoverable	3	1
Withholding tax recoverable	25	91
Total debtors	**3,752**	**2,689**

10 Cash and bank balances

as at 31 May	2017 £'000	2016 £'000
Amounts held at futures clearing houses and collateral manager	145	175
Cash held as bank balances	145	604
Total cash and bank balances	**290**	**779**

11 Other creditors

as at 31 May	2017 £'000	2016 £'000
ACD's annual management charge payable	37	78
Administration charge payable	21	43
Amounts payable on cancellation of shares	659	939
Expenses payable	11	12
Total other creditors	**728**	**1,072**

12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2016: same).

13 Shares in issue

The following table shows each class of share in issue during the year. Each share class has the same rights on winding up however they may have different charging structures as set out in note 14.

Share class	Opening 01.06.16	Movements Issued	Movements Cancelled	Closing 31.05.17
Sterling				
Class 'A' Income	475,765,937	15,106,082	(28,454,464)	462,417,555
Class 'A' Accumulation	119,656,185	1,123,538	(12,970,845)	107,808,878
Class 'C' Income	74,016,121	2,799,547	(8,970,329)	67,845,339

14 Charging structure

The table below sets out the charging structure for each class of share. The charging structure is the same for both Income and Accumulation shares of each class.

Share class	Entry charge %	Exit charge %	Annual management charge %
Sterling			
Class 'A'	nil	n/a	0.30
Class 'C'	nil	n/a	0.00

15 Related parties

M&G Securities Limited, as Authorised Corporate Director (ACD), is a related party and acts as principal on all the transactions of shares in the fund except with in specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to shareholders' and note 8. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 9 and 11 where applicable.

Amounts paid to M&G Securities Limited in respect of the ACD's annual management charge and administration charge are disclosed in note 6. Amounts due at the year end in respect of the ACD's annual management charge and administration charge are disclosed in note 11.

During the year, there were transactions in shares in related parties of M&G Securities Limited with a total value of £401,000 (2016: £33,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £10,299,000 (2016: £8,426,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 5.45% (2016: 5.84%) of the fund's shares.

16 Events after the balance sheet date

There were no events after the balance sheet date to disclose.

Notes to the financial statements

17 Portfolio fair value analysis

Financial instruments have been measured at their fair value and have been classified below using a hierarchy that reflects the significance of the inputs used in measuring their fair value:

Level 1: Quoted prices for identical instruments in active markets

This includes instruments such as publicly traded equities; highly liquid bonds (e.g. Government bonds) and exchange traded derivatives (e.g. futures) for which quoted prices are readily and regularly available.

Level 2: Valuation techniques using observable market data

This includes publicly traded corporate bonds and instruments which have been valued using models with observable market data inputs such as quoted prices for similar instruments, interest rates, yield curves or credit spreads. Over-the-counter instruments have also been included in the category.

Level 3: Valuation techniques using non-observable market data

This refers to instruments which have been valued using models with non-observable market data inputs. This includes private equity, unlisted closed-ended funds and investment analyst recommended prices where the market price is deemed to not be a true representation of fair value. However no such financial instruments were held.

as at 31 May Valuation technique	Assets 2017 £'000	Liabilities 2017 £'000	Assets 2016 £'000	Liabilities 2016 £'000
Level 1	554,984	0	481,515	0
Level 2	738	0	1,419	0
Level 3	0	0	0	0
	555,722	**0**	**482,934**	**0**

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 13 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 to 9.

19 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by £27,786,000 (2016: £24,147,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity

Currency risk is not considered significant for the fund and is therefore not disclosed.

21 Interest rate risk sensitivity

As the majority of the fund's financial assets are non-interest bearing, the risk is not considered significant and is therefore not disclosed.

22 Credit risk sensitivity

Credit risk is not considered significant for the fund and is therefore not disclosed.

23 Counterparty exposure

as at 31 May 2017	Futures £'000	Collateral held as cash £'000	Net exposure £'000
Bank of America Merrill Lynch	113	(145)	(32)
Total	**113**	**(145)**	**(32)**

as at 31 May 2016	Futures £'000	Collateral held as cash £'000	Net exposure £'000
Bank of America Merrill Lynch	67	(175)	(108)
Total	**67**	**(175)**	**(108)**

Net exposure represents the mark-to-market value of derivative contracts less any cash collateral held. Positive exposure represents the fund's exposure to that counterparty. Negative amounts are not an exposure to the fund.

24 Dividend distribution tables

This fund pays semi-annual ordinary distributions and the following table sets out the distribution periods.

Semi-annual distribution periods

	Start	End	Xd	Payment
Interim	01.06.16	30.11.16	01.12.16	31.01.17
Final	01.12.16	31.05.17	01.06.17	31.07.17

Notes to the financial statements

24 Dividend distribution tables (continued)

The following tables set out for each distribution the rates per share for both Group 1 and Group 2 shares.

Group 1 shares are those purchased prior to a distribution period and therefore their net revenue rate is the same as the distribution rate.

Group 2 shares are those purchased during a distribution period and therefore their distribution rate is made up of net revenue and equalisation. Equalisation is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the net revenue and equalisation components.

Sterling Class 'A' Income shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Interim	0.7180	0.4466	1.1646	1.0296
Final	0.9578	0.5116	1.4694	1.1334

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Interim	0.8470	1.0084	1.8554	1.6604
Final	1.3063	0.9011	2.2074	1.8565

Sterling Class 'C' Income shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Interim	0.5753	0.6613	1.2366	1.1345
Final	1.0548	0.4248	1.4796	1.2338

M&G Short Dated Corporate Bond Fund

Authorised Corporate Director's Report

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 three years. It is, therefore, subject to the price volatility of the global bond market as well as the performance of individual issuers. In addition, the fund is subject to fluctuations in currency exchange rates.

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

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

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

Low risk — High risk

Typically lower rewards — Typically higher rewards

1	**2**	3	4	5	6	7

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 June 2017, for the year ended 31 May 2017

Performance against objective

Between 1 June 2016 (the start of the review period) and 1 June 2017, 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.

The fund's objective is to provide income with stability of capital over a rolling three- to five-year period. Over both three- and five-year periods to 1 June 2017, the fund has provided income* and positive total returns.**

Investment performance

On the whole, the 12 months under review was a positive period for corporate bonds in what was a 'game of two halves' for the global economy. (Bonds are loans in the form of a security, usually issued by a government (government bonds) or company (corporate bonds), which normally pay a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.) Considerable economic and political turbulence occurred during the first half of the period that gave way to a steady pick-up in activity in 2017.

As the period opened, the UK's June 2016 referendum regarding its membership of the European Union (EU) produced an unexpected 'leave' result, which most economists expected would weaken the economic outlook, not only in the UK but also in the EU. In October, a few months after the momentous Brexit vote, the Bank of England began a new programme of buying selected corporate bonds, with the aim of keeping interest rates low and promoting lending activity.

Brexit-related uncertainty – over the timing, and exact form that the country's departure from the EU might take – was a significant driver of market movements for the remainder of 2016. The final months of 2016 delivered further political surprises, the most significant of which was Donald Trump's US presidential election victory in November. The result caused US government bonds (also known as US Treasuries) to suffer their worst month in seven years.

Investment review

Investment performance (continued)

Politics continued to dominate financial markets into 2017, with Dutch parliamentary elections, the UK's formal triggering of Article 50, and the hotly contested presidential elections in France, among the main events. This took place against a backdrop of broadly positive economic data releases, indicating that the global economy is in good health. The election of progressive and pro-European candidate Emmanuel Macron as French president was widely seen as a positive by markets.

The current environment of low interest rates and steady economic growth proved supportive for corporate bond markets. The fund delivered a steady return over the review period, helped by its allocation to lower rated bonds, which performed better than higher rated assets during the period as a whole. The fund's 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, during the first half of the period, we took steps to lock in profits by closing or significantly reducing several of the positions that had performed well (and we therefore saw less potential for further gains).

As we moved into 2017, we grew somewhat cautious of the increasing optimism in the market and this, coupled with a lack of compelling opportunities, meant that we positioned the fund more defensively – that is, to avoid riskier assets. This positioning should be viewed in context of the fund's investment style, which is typically conservative; 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. Interest rate risk reflects the fact that when interest rates rise, the interest payments on conventional fixed rate bonds become less attractive to investors, causing their prices to fall. Bonds with less time until their maturity date (that is, short-dated bonds) tend to be less sensitive to changes in interest rates than longer dated bonds. Meanwhile, credit risk refers to a borrower's creditworthiness, that is, the likelihood of a borrower failing to service a loan, or default. As with rising interest rates, if investors perceive that a bond issuer's credit risk has increased, this would also tend to weigh on corporate bond prices. Broadly, we continue to have a positive outlook on corporate bonds.

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 towards the end of 2016 in favour of euro- or sterling-denominated corporate bonds. Following these adjustments, the fund was more or less evenly weighted across the US, Europe and the UK.

Towards the end of the period, we took the opportunity to buy new issues, in the investment grade (higher rated) market (such as Imperial Tobacco) as well as the financial sector, including bonds from J.P.Morgan, Bank of America and Morgan Stanley. We also added a small exposure to asset-backed securities (ABS) including Ripon Mortgages. ABS are bonds backed by assets including credit card receivables, car loans or mortgages, whose creditworthiness is based on the underlying assets, rather than on the company that issued the bonds.

Outlook

We believe we are entering a period of normalisation: growth and inflation are picking up and central banks are adjusting their policies accordingly. In our opinion, US and UK politics will remain key throughout 2017, while there is a busy political calendar in Europe this year that is also exerting an influence on markets. President Trump's policies of reducing taxation and encouraging companies to repatriate funds currently held offshore should prove supportive for US corporate bond markets. However, the biggest danger to markets is Trump's unpredictability – something that markets and investors will have to get used to.

Yet while President Trump may be able to stop the march of globalisation partially, from a US perspective, we expect that this theme will remain intact, albeit less aggressively. Meanwhile, with UK politics in uncertain territory following a hung parliament and imminent Brexit negotiations, it will be several years until any deal is concluded. Notwithstanding this, the UK's economy seems to be making steady progress.

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

Over the coming months, we intend to maintain the fund's defensive positioning. We will continue to invest in countries, industries and companies that are likely to benefit from the generally improving economic picture, retaining a focus on 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.

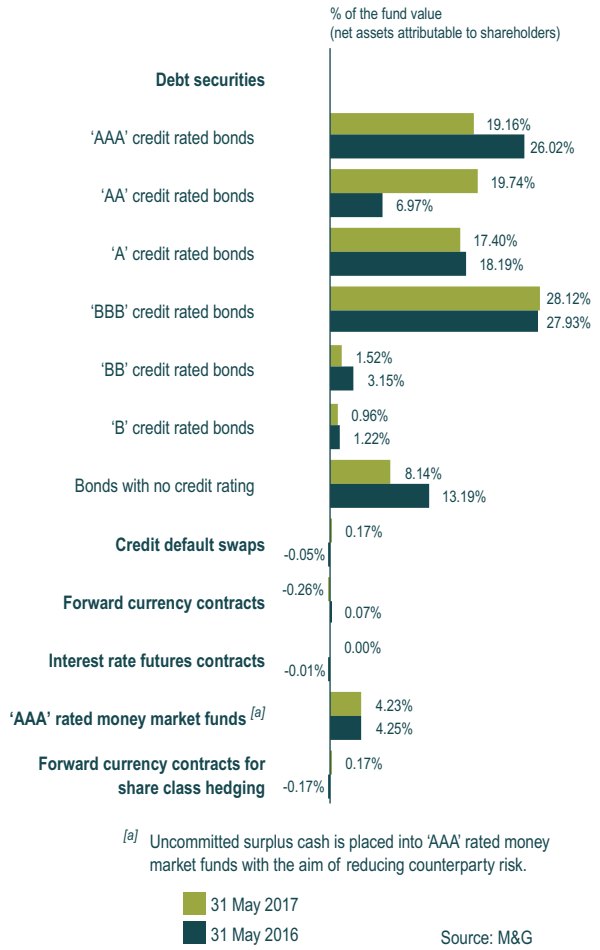
* The fund's distribution and distribution yield are shown in the 'Specific share class performance' tables in the 'Fund performance' section of this report. This fund provides a variable level of income.

** 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.

Investment review

Classification of investments



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

Source: M&G

Investments

Portfolio statement

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Debt securities	**431,831**	**95.04**	**96.67**
	'AAA' credit rated bonds	**87,089**	**19.16**	**26.02**
£497,710	Alba FRN 2037	477	0.11	
£2,082,344	Alba FRN 2042	1,974	0.43	
€31,000,000	Germany (Federal Republic of) 0% 2021	27,698	6.10	
€8,000,000	Germany (Federal Republic of) 2.25% 2021	7,830	1.72	
€4,094,000	Harvest CLO VII FRN 2031	3,578	0.79	
£4,000,000	Inter-American Development Bank 0.625% 2021	4,012	0.88	
€2,170,000	Johnson & Johnson 0.25% 2022	1,909	0.42	
£4,000,000	KfW 1.125% 2019	4,076	0.90	
£2,755,858	Moorgate Funding FRN 2050	2,769	0.61	
£2,264,000	Nationwide Building Society FRN 2019	2,278	0.50	
$1,068,418	Paragon Mortgages No.14 FRN 2039	801	0.18	

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	'AAA' credit rated bonds (continued)			
£612,024	Precise Mortgage Funding FRN 2047	612	0.13	
£1,649,434	Precise Mortgage Funding FRN 2048	1,655	0.36	
£1,094,373	Residential Mortgage Securities No.26 FRN 2041	1,124	0.25	
£2,786,370	Residential Mortgage Securities No.28 FRN 2046	2,805	0.62	
£5,000,000	Ripon Mortgages FRN 2056	5,006	1.10	
£1,448,264	Rochester Financing No.1 FRN 2046	1,454	0.32	
£1,622,276	Slate FRN 2052	1,632	0.36	
£1,107,027	Slate No.2 FRN 2044	1,110	0.24	
£397,629	Tenterden Funding FRN 2044	398	0.09	
£3,659,919	THRONES Mortgages FRN 2050 A	3,673	0.81	
£2,221,323	Trinity Square FRN 2051	2,244	0.49	
£7,856,554	Warwick Finance Residential Mortgage FRN 2049	7,974	1.75	
	'AA' credit rated bonds	**89,696**	**19.74**	**6.97**
€4,000,000	Apple 1% 2022	3,617	0.80	
$6,000,000	Exxon Mobil FRN 2022	4,684	1.03	
£5,000,000	Metro Life 1.125% 2021	5,027	1.11	
$7,000,000	Nestle Holdings 2.25% 2022	5,464	1.20	
£4,999,000	New York Life Global Funding 1% 2021	5,036	1.11	
$2,625,000	New York Life Global Funding 1.95% 2020	2,042	0.45	
€2,200,000	Pacific Life FRN 2021	1,823	0.40	
£1,010,545	Paragon Mortgages No.8 FRN 2035	986	0.22	
$479,654	Paragon Mortgages No.13 FRN 2039	458	0.10	
£2,877,922	Paragon Mortgages No.13 FRN 2041	2,140	0.47	
€1,471,000	Pfizer FRN 2019	1,290	0.28	
$2,976,000	Procter & Gamble 1.7% 2021	2,282	0.50	
€2,700,000	Sanofi 0% 2020	2,360	0.52	
£2,277,000	Slate No.1 FRN 2051	2,238	0.49	
£4,500,000	SLM Student Loan Trust 5.15% 2039	4,201	0.92	
£4,958,000	Towd Point Mortgage Funding FRN 2046	4,987	1.10	
£3,560,000	Toyota Motor Credit 1.125% 2021	3,594	0.79	
£4,000,000	Toyota Motor Credit 1% 2022	3,985	0.88	
£32,000,000	Treasury 1.5% 2021	33,482	7.37	
	'A' credit rated bonds	**79,055**	**17.40**	**18.19**
$3,733,000	ABN AMRO Bank 1.8% 2018	2,909	0.64	
£1,432,200	Alba FRN 2038	1,360	0.30	
$5,000,000	Anheuser-Busch InBev 7.75% 2019	4,250	0.94	
£5,000,000	BMW International Investment 1% 2021	5,000	1.10	
£5,000,000	Canadian Imperial Bank of Commerce FRN 2022	5,020	1.10	
€4,000,000	Daimler 0.5% 2019	3,535	0.78	
£3,500,000	Daimler 2.75% 2020	3,718	0.82	
$1,400,000	Daimler Finance FRN 2020	1,092	0.24	
£4,000,000	Deutsche Pfandbriefbank FRN 2017	4,001	0.88	
£1,000,000	Eddystone Finance FRN 2021	997	0.22	
£540,000	Friends Life 8.25% 2022	704	0.15	
$2,409,470	Great Hall Mortgages No.1 FRN 2039	1,813	0.40	
£4,052,700	Greene King Finance FRN 2033	3,940	0.87	
$5,000,000	ING Groep FRN 2022	3,940	0.87	
$5,000,000	JPMorgan Chase FRN 2023	3,888	0.86	
$5,000,000	JPMorgan Chase FRN 2022	3,946	0.87	
€3,584,218	Magellan Mortgages No.4 FRN 2059	2,819	0.62	
£1,761,384	Mitchells & Butlers Finance FRN 2030 A1N	1,585	0.35	
£1,350,000	Mitchells & Butlers Finance FRN 2033	1,039	0.23	
£372,934	Newgate Funding FRN 2050 A2	370	0.08	
£375,813	Newgate Funding FRN 2050 A3	359	0.08	

Investments

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	'A' credit rated bonds (continued)			
£774,767	Newgate Funding FRN 2050 A4	747	0.16	
€3,000,000	Paragon Mortgages No.13 FRN 2039	2,318	0.51	
$7,000,000	PNC Bank 2.3% 2020	5,481	1.21	
$992,368	RMAC 2005-Nsp2 FRN 2037	745	0.16	
£4,000,000	Standard Life Var. Rate Perp. (6.546%)	4,398	0.97	
€3,780,000	UBS FRN 2022	3,332	0.73	
$2,000,000	UBS Stamford FRN 2018	1,563	0.34	
€4,500,000	Wells Fargo 4.375% 2018	4,186	0.92	
	'BBB' credit rated bonds	**127,756**	**28.12**	**27.93**
£4,313,000	AA Bond Company 2.875% 2043	4,429	0.97	
€1,300,000	American International Group Var. Rate 2067 (4.875%)	1,067	0.23	
$5,000,000	AT&T 3.2% 2022	3,956	0.87	
£4,000,000	AXA Var. Rate Perp. (6.772%)	4,408	0.97	
£3,000,000	Bank of America 6.125% 2021	3,595	0.79	
$7,000,000	Bank of America Corp 2.15% 2023	5,452	1.20	
$5,000,000	BellSouth 4.29% 2021	3,973	0.87	
€5,000,000	Channel Link Enterprises Finance FRN 2050	4,389	0.97	
$7,000,000	Citicorp FRN 2024	5,435	1.20	
$4,000,000	CS Group Funding 1.25% 2022	3,575	0.79	
€2,500,000	Deutsch Annington 0.875% Nts 2020	2,228	0.49	
$5,000,000	Diamond 1 Finance 3.48% 2019	3,983	0.88	
€700,000	FCE Bank 0.869% 2021	611	0.13	
€5,000,000	Ford Motor Credit FRN 2019	3,921	0.86	
$2,330,104	GAMMA - Sociedade de Titularização de Créditos FRN 2060	1,874	0.41	
€1,667,000	Goldman Sachs Group FRN 2022	1,456	0.32	
€4,000,000	Goldman Sachs Group FRN 2027	3,215	0.71	
$4,000,000	HSBC Holdings Var. Rate 2022 (6.375%)	4,069	0.90	
£6,000,000	Imperial Brands Finance 0.5% 2021	5,247	1.16	
€2,000,000	Lloyds Bank Var. Rate 2025 (5.75%)	2,218	0.49	
£4,000,000	Lloyds Bank 9.625% 2023	5,551	1.22	
£10,000,000	Morgan Stanley FRN 2024	7,812	1.72	
$3,000,000	Nationwide Building Society 4.125% 2023	2,698	0.59	
€2,500,000	Orange 0.75% IL 2023	2,204	0.49	
€5,000,000	Rabobank Var. Rate Perp. (11%)	4,542	1.00	
£2,000,000	Royal Bank of Scotland 6.625% 2018	2,143	0.47	
$2,753,000	Royal Bank of Scotland FRN 2023	2,146	0.47	
€5,000,000	Ryanair DAC 1.125% 2023	4,413	0.97	
€1,042,000	Santander FRN 2023	910	0.20	
$7,000,000	Sherwin-Williams 2.25% 2020	5,467	1.20	
€5,000,000	Société Générale FRN 2024	4,358	0.96	
€4,000,000	Southern Power 1% 2022	3,490	0.77	
£4,000,000	Telefónica Emisiones 5.597% 2020	4,483	0.99	
$7,500,000	Verizon Communications FRN 2022	5,900	1.30	
£2,359,000	Wales & West Utilities Finance Var. Rate 2036 (6.75%)	2,538	0.56	
	'BB' credit rated bonds	**6,893**	**1.52**	**3.15**
€6,070,130	Lusitano Mortgages No.5 FRN 2059	4,533	1.00	
£2,000,000	National Westminster Bank 6.5% 2021	2,360	0.52	
	'B' credit rated bonds	**4,363**	**0.96**	**1.22**
€4,982,000	Matterhorn Telecom FRN 2023	4,363	0.96	

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Bonds with no credit rating	**36,979**	**8.14**	**13.19**
$1,268,000	AASET 2017-1 Trust 3.97% 2042	991	0.22	
£2,294,000	Anheuser-Busch InBev 7.75% 2019	2,294	0.50	
€1,862,000	Arbour Clo FRN 2030	1,641	0.36	
€5,000,000	ASML 0.63% 2022	4,383	0.96	
€3,590,461	Bavarian Sky FRN 2023	3,142	0.69	
€1,667,000	Channel Link Enterprises Finance Variable Rate 2050 (1.761%)	1,473	0.32	
£2,071,000	Coventry Building Society 1% 2020	2,074	0.46	
€443,317	Deco 14 Gondola FRN 2026	387	0.09	
£2,429,319	Duncan Funding FRN 2063	2,447	0.54	
£813,783	Gemgarto 2015-1 FRN 2047	816	0.18	
$1,968,866	Home Partners Of America Trust HPA 2016 2 A 144A	1,534	0.34	
£2,981,000	LaSer ABS FRN 2030	2,982	0.66	
£3,571,000	Logistics UK FRN 2015	3,570	0.79	
£2,098,000	Orbita Funding FRN 2023	2,109	0.46	
€4,200,000	Santander Consumer Bank 0.375% 2020	3,685	0.81	
£3,468,000	Westfield Stratford FRN 2024	3,451	0.76	
	Credit default swaps	**785**	**0.17**	**(0.05)**
£(5,000,000)	Deutsche Telekom International Finance Dec 2021	123	0.03	
€(4,500,000)	EDF Jun 2023	49	0.02	
$(10,000,000)	Markit CDX North American Investment Grade Series 23 5 Year Dec 2019	135	0.03	
$(5,000,000)	Markit CDX North American Investment Grade Series 26 5 Year Jun 2021	83	0.01	
$(15,000,000)	Markit iTraxx Europe Series 25 5 Year Jun 2021	281	0.06	
€(10,000,000)	Markit iTraxx Europe Snr Fin Series 26 5 Year Dec 2021	147	0.03	
$(2,500,000)	Rio Tinto Jun 2020	28	0.00	
$(4,500,000)	Rio Tinto Mar 2020	49	0.01	
$(5,000,000)	Telecom Italia Dec 2021	(110)	(0.02)	
	Forward currency contracts	**(1,188)**	**(0.26)**	**0.07**
€(145,872,562)	Sold for £126,487,557 (expires 28.06.17)	(994)	(0.22)	
$(138,870,079)	Sold for £107,882,209 (expires 28.06.17)	(194)	(0.04)	
	Interest rate futures contracts	**21**	**0.00**	**(0.01)**
80	Euro Bobl Jun 2017	21	0.00	
Portfolio of investments		**431,449**	**94.95**	**96.68**
	'AAA' rated money market funds [a]	**19,207**	**4.23**	**4.25**
19,207,000	Northern Trust Global Fund - Sterling	19,207	4.23	
	Forward currency contracts for share class hedging	**756**	**0.17**	**(0.17)**
€72,898,501	Bought for £62,977,272 (expires 28.06.17)	731	0.16	
CHF121,149	Bought for £95,705 (expires 28.06.17)	2	0.00	
$3,161,943	Bought for £2,436,938 (expires 28.06.17)	24	0.01	
$(62,206)	Sold for £47,950 (expires 28.06.17)	(1)	0.00	
Total portfolio (notes 2c & 2d on page 6)		**451,412**	**99.35**	**100.76**
Net other assets / (liabilities)		**2,971**	**0.65**	**(0.76)**
Net assets attributable to shareholders		**454,383**	**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.

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.

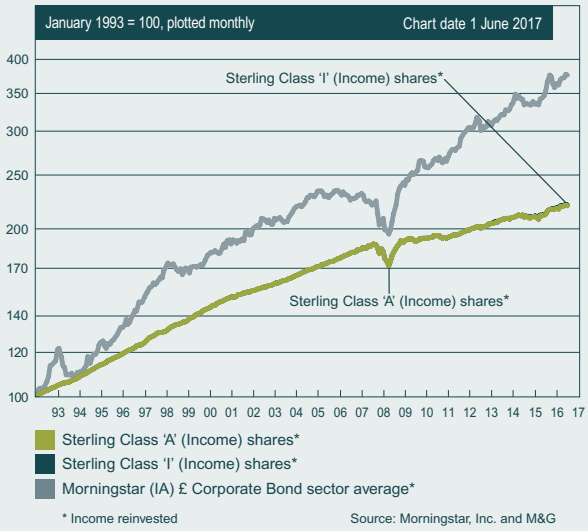
Fund level performance

Fund net asset value

as at 31 May	2017 £'000	2016 £'000	2015 £'000
Fund net asset value (NAV)	454,383	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 against a comparable sector.



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.

M&G Short Dated Corporate 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

	One year 01.06.16 % [a]	Three years 02.06.14 % p.a.	Five years 01.06.12 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A-H'	+2.8	+1.2	n/a	+1.6 [c]
Class 'C-H'	+3.2	+1.6	n/a	+2.1 [c]
Sterling [d]				
Class 'A'	+3.7	+2.0	+2.4	+3.3 [e]
Class 'I'	+3.8	+2.0	n/a	+2.3 [f]
Swiss franc [b]				
Class 'A-H'	+2.3	+0.6	n/a	+1.1 [c]
Class 'C-H'	+2.9	+1.1	n/a	+1.6 [c]
US dollar [b]				
Class 'A-H'	+4.5	+2.0	n/a	+2.3 [c]
Class 'C-H'	+5.0	+2.6	n/a	+2.8 [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.

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 and method of execution. They are made up of direct and indirect portfolio transaction costs:

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

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

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

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

Portfolio transaction costs

as at 31 May Indirect portfolio transaction costs	2017 %	2016 %	2015 %	Average [a] %
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.

for the year to 31 May Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	988.29	1,005.35	1,009.64
Return before operating charges and after direct portfolio transaction costs	36.39	6.91	24.66
Operating charges	(10.89)	(10.67)	(10.86)
Return after operating charges	25.50	(3.76)	13.80
Distributions	(15.26)	(13.30)	(18.09)
Closing NAV	998.53	988.29	1,005.35
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	1.08	1.07	1.07
Return after operating charges	+2.58	-0.37	+1.37
Distribution yield [c]	1.55	1.47	1.46
Effect on yield of charges offset against capital	1.07	0.00	0.00
Other information			
Closing NAV (£'000)	2,320	1,276	998
Closing NAV percentage of total fund NAV (%)	0.51	0.38	0.23
Number of shares	265,982	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.

for the year to 31 May Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,032.41	1,036.21	1,021.03
Return before operating charges and after direct portfolio transaction costs	38.43	7.23	26.25
Operating charges	(11.54)	(11.03)	(11.07)
Return after operating charges	26.89	(3.80)	15.18
Distributions	(8.56)	(13.77)	(18.41)
Retained distributions	8.56	13.77	18.41
Closing NAV	1,059.30	1,032.41	1,036.21
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	1.08	1.07	1.07
Return after operating charges	+2.60	-0.37	+1.49
Distribution yield	0.50	1.47	1.46
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	14,865	4,167	4,750
Closing NAV percentage of total fund NAV (%)	3.27	1.24	1.08
Number of shares	1,606,684	528,990	637,787
Highest share price (Euro ¢)	1,062.50	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.

for the year to 31 May Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	988.18	1,005.08	1,009.58
Return before operating charges and after direct portfolio transaction costs	36.61	7.21	24.27
Operating charges	(5.77)	(5.66)	(5.76)
Return after operating charges	30.84	1.55	18.51
Distributions	(17.03)	(18.45)	(23.01)
Closing NAV	1,001.99	988.18	1,005.08
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.58	0.57	0.57
Return after operating charges	+3.12	+0.15	+1.83
Distribution yield [c]	1.56	1.98	1.98
Effect on yield of charges offset against capital	0.57	0.00	0.00
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 ¢)	1,009.20	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.

for the year to 31 May Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,047.37	1,046.29	1,025.70
Return before operating charges and after direct portfolio transaction costs	38.19	7.04	26.42
Operating charges	(6.24)	(5.96)	(5.83)
Return after operating charges	31.95	1.08	20.59
Distributions	(14.01)	(19.13)	(23.60)
Retained distributions	14.01	19.13	23.60
Closing NAV	1,079.32	1,047.37	1,046.29
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.58	0.57	0.57
Return after operating charges	+3.05	+0.10	+2.01
Distribution yield	1.00	1.98	1.98
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	47,540	30,849	37,227
Closing NAV percentage of total fund NAV (%)	10.46	9.18	8.45
Number of shares	5,042,933	3,860,547	4,950,464
Highest share price (Euro ¢)	1,082.60	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	25.27	25.50	25.41
Return before operating charges and after direct portfolio transaction costs	1.19	0.39	0.81
Operating charges	(0.17)	(0.17)	(0.17)
Return after operating charges	1.02	0.22	0.64
Distributions	(0.43)	(0.45)	(0.55)
Closing NAV	25.86	25.27	25.50
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.00	0.00	0.00
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.00	0.00	0.00
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.67	0.65	0.65
Return after operating charges	+4.04	+0.86	+2.52
Distribution yield [c]	1.58	1.84	1.88
Effect on yield of charges offset against capital	0.65	0.00	0.00
Other information			
Closing NAV (£'000)	142,455	129,225	217,343
Closing NAV percentage of total fund NAV (%)	31.35	38.46	49.31
Number of shares	550,814,268	511,362,901	852,416,997
Highest share price (UK p)	26.05	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,013.17	1,022.28	1,018.78
Return before operating charges and after direct portfolio transaction costs	47.97	15.60	32.40
Operating charges	(5.85)	(5.62)	(5.69)
Return after operating charges	42.12	9.98	26.71
Distributions	(17.73)	(19.09)	(23.21)
Closing NAV	1,037.56	1,013.17	1,022.28
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.57	0.55	0.55
Return after operating charges	+4.16	+0.98	+2.62
Distribution yield [c]	1.58	1.94	1.98
Effect on yield of charges offset against capital	0.55	0.00	0.00
Other information			
Closing NAV (£'000)	244,668	169,319	177,897
Closing NAV percentage of total fund NAV (%)	53.85	50.39	40.36
Number of shares	23,580,994	16,711,914	17,402,016
Highest share price (UK p)	1,044.98	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.

for the year to 31 May Change in NAV per share	2017 Swiss ¢	2016 Swiss ¢	2015 Swiss ¢
Opening NAV	1,019.53	1,031.22	1,020.12
Return before operating charges and after direct portfolio transaction costs	32.81	(0.75)	22.39
Operating charges	(11.34)	(10.94)	(11.29)
Return after operating charges	21.47	(11.69)	11.10
Distributions	(8.39)	(13.78)	(18.13)
Retained distributions	8.39	13.78	18.13
Closing NAV	1,041.00	1,019.53	1,031.22
Direct portfolio transaction costs	**Swiss ¢**	**Swiss ¢**	**Swiss ¢**
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	1.08	1.07	1.07
Return after operating charges	+2.11	-1.13	+1.09
Distribution yield	0.51	1.47	1.46
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	89	42	43
Closing NAV percentage of total fund NAV (%)	0.02	0.01	0.01
Number of shares	10,700	6,000	6,000
Highest share price (Swiss ¢)	1,044.20	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.

for the year to 31 May Change in NAV per share	2017 Swiss ¢	2016 Swiss ¢	2015 Swiss ¢
Opening NAV	1,034.60	1,040.85	1,024.46
Return before operating charges and after direct portfolio transaction costs	33.44	(0.33)	22.24
Operating charges	(5.71)	(5.92)	(5.85)
Return after operating charges	27.73	(6.25)	16.39
Distributions	(14.20)	(19.12)	(23.49)
Retained distributions	14.20	19.12	23.49
Closing NAV	1,062.33	1,034.60	1,040.85
Direct portfolio transaction costs	**Swiss ¢**	**Swiss ¢**	**Swiss ¢**
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.54	0.57	0.56
Return after operating charges	+2.68	-0.60	+1.60
Distribution yield	1.03	1.97	1.96
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	9	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 ¢)	1,065.58	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.

for the year to 31 May Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,014.07	1,023.44	1,021.29
Return before operating charges and after direct portfolio transaction costs	53.92	15.14	28.79
Operating charges	(11.23)	(10.90)	(9.17)
Return after operating charges	42.69	4.24	19.62
Distributions	(15.78)	(13.61)	(17.47)
Closing NAV	1,040.98	1,014.07	1,023.44
Direct portfolio transaction costs	**US ¢**	**US ¢**	**US ¢**
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	1.08	1.07	1.07
Return after operating charges	+4.21	+0.41	+1.92
Distribution yield [c]	1.57	1.44	1.41
Effect on yield of charges offset against capital	1.07	0.00	0.00
Other information			
Closing NAV (£'000)	338	180	189
Closing NAV percentage of total fund NAV (%)	0.07	0.05	0.04
Number of shares	41,720	25,948	28,206
Highest share price (US ¢)	1,048.49	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.

for the year to 31 May Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,043.73	1,039.28	1,022.49
Return before operating charges and after direct portfolio transaction costs	56.26	15.48	28.01
Operating charges	(11.64)	(11.03)	(11.22)
Return after operating charges	44.62	4.45	16.79
Distributions	(8.67)	(13.86)	(17.78)
Retained distributions	8.67	13.86	17.78
Closing NAV	1,088.35	1,043.73	1,039.28
Direct portfolio transaction costs	**US ¢**	**US ¢**	**US ¢**
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	1.08	1.07	1.07
Return after operating charges	+4.28	+0.43	+1.64
Distribution yield	0.50	1.44	1.41
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	588	770	1,729
Closing NAV percentage of total fund NAV (%)	0.13	0.23	0.39
Number of shares	69,324	107,779	253,699
Highest share price (US ¢)	1,091.68	1,043.84	1,044.40
Lowest share price (US ¢)	1,044.19	1,017.71	1,021.27

US dollar Class 'C-H' Income share performance

The share class was launched on 8 August 2014.

for the year to 31 May Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,018.05	1,027.65	1,026.71
Return before operating charges and after direct portfolio transaction costs	54.23	15.02	28.62
Operating charges	(6.07)	(5.83)	(4.90)
Return after operating charges	48.16	9.19	23.72
Distributions	(17.54)	(18.79)	(22.78)
Closing NAV	1,048.67	1,018.05	1,027.65
Direct portfolio transaction costs	**US ¢**	**US ¢**	**US ¢**
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.58	0.57	0.57
Return after operating charges	+4.73	+0.89	+2.31
Distribution yield [c]	1.56	1.95	1.91
Effect on yield of charges offset against capital	0.57	0.00	0.00
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 ¢)	1,056.26	1,031.17	1,039.28
Lowest share price (US ¢)	1,018.63	1,001.11	1,020.53

Specific share class performance

US dollar Class 'C-H' Accumulation share performance

The share class was launched on 26 July 2013.

for the year to 31 May Change in NAV per share	2017 US ¢	2016 US ¢	2015 US ¢
Opening NAV	1,060.37	1,050.16	1,026.76
Return before operating charges and after direct portfolio transaction costs	57.03	16.13	29.60
Operating charges	(6.65)	(5.92)	(6.20)
Return after operating charges	50.38	10.21	23.40
Distributions	(14.16)	(19.24)	(23.08)
Retained distributions	14.16	19.24	23.08
Closing NAV	1,110.75	1,060.37	1,050.16
Direct portfolio transaction costs	**US ¢**	**US ¢**	**US ¢**
Costs before dilution adjustments	0.01	0.01	0.01
Dilution adjustments [a]	0.00	0.00	0.00
Total direct portfolio transaction costs	0.01	0.01	0.01
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.00	0.00	0.00
Operating charges	0.58	0.57	0.57
Return after operating charges	+4.75	+0.97	+2.28
Distribution yield	1.00	1.95	1.91
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	1,478	152	589
Closing NAV percentage of total fund NAV (%)	0.33	0.05	0.13
Number of shares	170,794	20,925	85,496
Highest share price (US ¢)	1,114.15	1,060.39	1,054.14
Lowest share price (US ¢)	1,060.97	1,032.44	1,026.71

[a] In respect of direct portfolio transaction costs.

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

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

Financial statements

Statement of total return

for the year to 31 May	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Income					
Net capital gains / (losses)	3		14,749		(2,706)
Revenue	5	6,831		9,798	
Expenses	6	(2,208)		(2,426)	
Net revenue / (expense) before taxation		4,623		7,372	
Taxation	7	(47)		(202)	
Net revenue / (expense) after taxation			4,576		7,170
Total return before distributions			**19,325**		**4,464**
Distributions	8		(5,864)		(7,172)
Change in net assets attributable to shareholders from investment activities			**13,461**		**(2,708)**

Statement of change in net assets attributable to shareholders

for the year to 31 May	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Opening net assets attributable to shareholders		**336,016**		**440,800**
Amounts received on issue of shares	185,242		70,706	
Amounts paid on cancellation of shares	(81,262)		(173,765)	
		103,980		(103,059)
Dilution adjustments		344		344
Change in net assets attributable to shareholders from investment activities (see above)		13,461		(2,708)
Retained distributions on Accumulation shares		581		638
Unclaimed distributions		1		1
Closing net assets attributable to shareholders		**454,383**		**336,016**

Balance sheet

as at 31 May	Note	2017 £'000	2016 £'000
Assets			
Fixed assets			
Investments		452,711	340,861
Current assets			
Debtors	9	13,018	4,059
Cash and bank balances	10	3,494	3,297
Total assets		**469,223**	**348,217**
Liabilities			
Investment liabilities		(1,299)	(2,284)
Creditors			
Bank overdrafts		(2,293)	0
Overdrawn positions at futures clearing houses and collateral manager		(56)	0
Distribution payable		(1,582)	(1,693)
Other creditors	11	(9,610)	(8,224)
Total liabilities		**(14,840)**	**(12,201)**
Net assets attributable to shareholders		**454,383**	**336,016**

Notes to the financial statements

1 Accounting policies

The financial statements have been prepared in accordance with the 'Summary of significant accounting policies' set out on pages 6 and 7.

2 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 the share class hedging charge are now offset against capital, increasing the amount available for distribution whilst restraining capital performance to an equivalent extent.

3 Net capital gains / (losses)

for the year to 31 May	2017 £'000	2016 £'000
Non-derivative securities	26,622	2,998
Derivative contracts	(10,307)	(6,208)
Currency gains / (losses)	(1,559)	505
Transaction charges	(7)	(1)
Net capital gains / (losses)	**14,749**	**(2,706)**

The following fees are borne by the ACD:

	2017 £'000	2016 £'000
Transaction charges	**0**	**5**

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 82.

for the year to 31 May	2017 £'000	2016 £'000
a) Purchases		
Debt securities [a]	**407,565**	**128,820**
b) Sales		
Debt securities [a]	**319,423**	**227,901**
Other transaction types		
Corporate actions	**5,926**	**13,046**
Total sales after transaction costs	**325,349**	**240,947**

c) Direct portfolio transaction costs	2017 £'000	% of average NAV	2016 £'000	% of average NAV
Commissions paid				
Derivatives	3	0.00	4	0.00
Total direct portfolio transaction costs	**3**	**0.00**	**4**	**0.00**
d) Indirect portfolio transaction costs		**%**		**%**
Portfolio dealing spread [b]		0.31		0.40

[a] These transaction types do not attract direct portfolio transaction costs.

[b] Average portfolio dealing spread at the balance sheet date.

Notes to the financial statements

5 Revenue

for the year to 31 May	2017 £'000	2016 £'000
Bank interest	1	0
Derivative revenue	693	1,096
Interest distributions	41	45
Interest on debt securities	6,096	8,657
Total revenue	**6,831**	**9,798**

6 Expenses

for the year to 31 May	2017 £'000	2016 £'000
Payable to the ACD or associate		
Annual management charge	1,607	1,801
Administration charge	538	592
Share class hedging charge	9	7
	2,154	2,400
Payable to the Depositary or associate		
Depositary's charge (including VAT)	26	6
Other expenses		
Audit fee (including VAT)	12	8
Interest payable	4	10
Safe custody charge	12	2
	28	20
Total expenses	**2,208**	**2,426**

The following fees are borne by the ACD:	2017	2016
Payable to the Depositary or associate	**£'000**	**£'000**
Depositary's charge (including VAT)	0	24
Other expenses		
Safe custody charge	0	13
Total expenses borne by the ACD	**0**	**37**

7 Taxation

for the year to 31 May	2017 £'000	2016 £'000
a) Analysis of charge in the year		
Corporation tax	0	40
Withholding tax	47	202
Current double taxation relief	0	(40)
Deferred tax (note 7c)	0	0
Total taxation	**47**	**202**
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	4,623	7,372
Corporation tax at 20%	925	1,474
Effects of:		
Interest distributions	(925)	(1,434)
Withholding tax	47	202
Total double taxation relief	0	(40)
Total tax charge (note 7a)	**47**	**202**
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	**0**	**0**

The fund has not recognised a deferred tax asset in the current financial year (2016: same).

Interest distributions have been made in respect of all distributions during the current and preceding periods. Income tax at 20% will be accounted for on shareholders' behalf to HM Revenue & Customs up to 30 November 2016.

8 Distributions

for the year to 31 May	2017		2016	
Interest distributions	**Inc [a] £'000**	**Acc [b] £'000**	**Inc [a] £'000**	**Acc [b] £'000**
First interim	1,008	164	1,500	160
Second interim	1,122	165	1,160	142
Third interim	1,384	105	1,183	172
Final	1,582	147	1,150	164
Total net distributions		5,677		5,631
Income tax deducted at source		520		1,300
Interest distributions		6,197		6,931
Income deducted on cancellation of shares		113		364
Income received on issue of shares		(446)		(123)
Distributions		**5,864**		**7,172**
Net revenue / (expense) per statement of total return		4,576		7,170
Expenses offset against capital		1,288		0
Undistributed income brought forward		0		2
Distributions		**5,864**		**7,172**

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

9 Debtors

as at 31 May	2017 £'000	2016 £'000
Amounts receivable on issues of shares	5,693	1,370
Currency deals outstanding	4,700	0
Debt security interest receivable	2,516	2,515
Derivative revenue receivable	104	164
Distributions receivable	3	5
Withholding tax recoverable	2	5
Total debtors	**13,018**	**4,059**

Notes to the financial statements

10 Cash and bank balances

as at 31 May	2017 £'000	2016 £'000
Amounts held at futures clearing houses and collateral manager	128	699
Cash held as bank balances	3,366	2,598
Total cash and bank balances	**3,494**	**3,297**

11 Other creditors

as at 31 May	2017 £'000	2016 £'000
ACD's annual management charge payable	50	92
Administration charge payable	17	31
Amounts payable on cancellation of shares	53	5,033
Currency deals outstanding	4,735	0
Expenses payable	18	13
Purchases awaiting settlement	4,737	3,055
Total other creditors	**9,610**	**8,224**

12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2016: same).

13 Shares in issue

The following table shows each class of share in issue during the year. Each share class has the same rights on winding up however they may have different charging structures as set out in note 14.

Share class	Opening 01.06.16	Movements Issued	Movements Cancelled	Closing 31.05.17
Euro				
Class 'A-H' Income	169,241	137,205	(40,464)	265,982
Class 'A-H' Accumulation	528,990	1,241,393	(163,699)	1,606,684
Class 'C-H' Income	2,428	0	0	2,428
Class 'C-H' Accumulation	3,860,547	2,389,063	(1,206,677)	5,042,933
Sterling				
Class 'A' Income	511,362,901	193,563,992	(154,112,625)	550,814,268
Class 'I' Income	16,711,914	9,588,308	(2,719,228)	23,580,994
Swiss franc				
Class 'A-H' Accumulation	6,000	4,700	0	10,700
Class 'C-H' Accumulation	1,000	0	0	1,000
US dollar				
Class 'A-H' Income	25,948	28,830	(13,058)	41,720
Class 'A-H' Accumulation	107,779	49,902	(88,357)	69,324
Class 'C-H' Income	1,454	0	0	1,454
Class 'C-H' Accumulation	20,925	189,946	(40,077)	170,794

14 Charging structure

The table below sets out the charging structure for each class of share. The charging structure is the same for both Income and Accumulation shares of each class.

Share class	Entry charge %	Exit charge %	Annual management charge %	Share class hedging charge %
Euro				
Class 'A-H'	3.25	n/a	0.90	[b]
Class 'C-H'	1.25	n/a	0.40	[b]
Sterling				
Class 'A'	nil	n/a	0.50	n/a
Class 'I'	1.00 [a]	n/a	0.40	n/a
Swiss franc				
Class 'A-H'	3.25	n/a	0.90	[b]
Class 'C-H'	1.25	n/a	0.40	[b]
US dollar				
Class 'A-H'	3.25	n/a	0.90	[b]
Class 'C-H'	1.25	n/a	0.40	[b]

[a] With effect from 16 December 2016, the entry charge has been discounted to zero on all new investments into sterling share classes.

[b] This charge may vary between 0.01% and 0.055%.

15 Related parties

M&G Securities Limited, as Authorised Corporate Director (ACD), is a related party and acts as principal on all the transactions of shares in the fund except with in specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to shareholders' and note 8. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 9 and 11 where applicable.

Amounts paid to M&G Securities Limited in respect of the ACD's annual management charge, administration charge and share class hedging charge are disclosed in note 6. Amounts due at the year end in respect of the ACD's annual management charge, administration charge and share class hedging charge are disclosed in note 11.

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 52.78% (2016: 30.12%) of the fund's shares.

16 Events after the balance sheet date

There were no events after the balance sheet date to disclose.

Notes to the financial statements

17 Portfolio fair value analysis

Financial instruments have been measured at their fair value and have been classified below using a hierarchy that reflects the significance of the inputs used in measuring their fair value:

Level 1: Quoted prices for identical instruments in active markets

This includes instruments such as publicly traded equities; highly liquid bonds (e.g. Government bonds) and exchange traded derivatives (e.g. futures) for which quoted prices are readily and regularly available.

Level 2: Valuation techniques using observable market data

This includes publicly traded corporate bonds and instruments which have been valued using models with observable market data inputs such as quoted prices for similar instruments, interest rates, yield curves or credit spreads. Over-the-counter instruments have also been included in the category.

Level 3: Valuation techniques using non-observable market data

This refers to instruments which have been valued using models with non-observable market data inputs. This includes private equity, unlisted closed-ended funds and investment analyst recommended prices where the market price is deemed to not be a true representation of fair value. However, no such financial instruments were held.

as at 31 May Valuation technique	Assets 2017 £'000	Liabilities 2017 £'000	Assets 2016 £'000	Liabilities 2016 £'000
Level 1	69,031	0	46,359	(31)
Level 2	383,680	(1,299)	294,502	(2,253)
Level 3	0	0	0	0
	452,711	**(1,299)**	**340,861**	**(2,284)**

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 13 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 to 9.

19 Market risk

VaR is the risk measurement methodology used to assess the fund's leverage and market risk volatility. When VaR is calculated as a percentage of the net asset value it may not be greater than the VaR limit set for the fund.

The VaR limit set during the financial year to 31 May 2017 was 3% (2016: 3%).

The lowest, highest and average VaR calculated during the financial years ended 31 May 2017 and 31 May 2016 are disclosed in the table below. The lowest, highest and average utilisation of VaR is with reference to the limit above.

for the year to 31 May	2017 %	2016 %
Lowest	0.66	0.66
Highest	1.67	1.07
Average	0.91	0.83

20 Credit risk

as at 31 May	2017 £'000	2016 £'000
Investment grade securities	383,596	265,820
Below investment grade securities	11,256	14,691
Unrated securities	36,979	44,310
Other investments	19,581	13,756
Total	**451,412**	**338,577**

21 Counterparty exposure

as at 31 May 2017	Credit default swaps £'000	Forward currency contracts £'000	Futures £'000	Collateral held as cash £'000	Net exposure £'000
Bank of America Merrill Lynch	0	0	21	71	92
Citigroup	93	0	0	0	93
Credit Suisse	290	0	0	0	290
Goldman Sachs	162	0	0	0	162
J.P.Morgan	240	(194)	0	0	46
State Street Bank	0	(238)	0	0	(238)
Total	**785**	**(432)**	**21**	**71**	**445**

as at 31 May 2016	Credit default swaps £'000	Forward currency contracts £'000	Futures £'000	Collateral held as cash £'000	Net exposure £'000
Bank of America Merrill Lynch	226	0	(31)	699	894
Barclays	(563)	0	0	0	(563)
Credit Suisse	161	0	0	0	161
Goldman Sachs	(51)	0	0	0	(51)
J.P.Morgan	54	0	0	0	54
State Street Bank	0	(311)	0	0	(311)
Total	**(173)**	**(311)**	**(31)**	**699**	**184**

Net exposure represents the mark-to-market value of derivative contracts less any cash collateral held. Positive exposure represents the fund's exposure to that counterparty. Negative amounts are not an exposure to the fund.

Notes to the financial statements

22 Leverage risk

Funds using VaR approaches are required to disclose the level of leverage employed during the financial reporting period.

Derivatives can be used by the fund to generate market exposure to investments exceeding the net asset value. As a result of this exposure, the size of any positive or negative movement in markets may have a more significant effect on the net asset value of the fund.

The lowest, highest and average level of leverage employed and utilisation of the leverage level calculated during the financial years ended 31 May 2017 and 31 May 2016 are disclosed in the table below.

for the year to 31 May	2017 £'000	2017 %	2016 £'000	2016 %
Lowest	573,563	159	622,000	180
Highest	1,147,722	264	1,138,429	261
Average	679,179	189	776,521	196

23 Exchange rate risk for hedged share classes

This fund contains hedged share classes. These share classes operate currency hedges designed to reduce the impact of exchange rates in certain circumstances. As a result, profit and loss on the currency hedges may impact the liquidity of the overall fund. On a day to day basis this is monitored using reporting from the outsourced provider of the hedged share class service. On an ongoing basis the size of the hedged share classes is monitored to ensure that unforeseen exchange rate volatility can be adequately managed without significantly impacting all shareholders.

24 Interest distribution tables

This fund pays quarterly interest distributions and the following table sets out the distribution periods.

Quarterly distribution periods

	Start	End	Xd	Payment
First interim	01.06.16	31.08.16	01.09.16	31.10.16
Second interim	01.09.16	30.11.16	01.12.16	31.01.17
Third interim	01.12.16	28.02.17	01.03.17	30.04.17
Final	01.03.17	31.05.17	01.06.17	31.07.17

The following tables set out for each distribution the rates per share for both Group 1 and Group 2 shares.

Group 1 shares are those purchased prior to a distribution period and therefore their net revenue rate is the same as the distribution rate.

Group 2 shares are those purchased during a distribution period and therefore their distribution rate is made up of net revenue and equalisation. Equalisation is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the net revenue and equalisation components.

Euro Class 'A-H' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	2.9904	-	2.9904	-	2.9904	3.3812
Second interim	4.2672	-	4.2672	-	4.2672	3.0422
Third interim	3.9345	-	3.9345	-	3.9345	3.4393
Final	4.0671	-	4.0671	-	4.0671	3.4346
Group 2						
First interim	0.0000	-	0.0000	2.9904	2.9904	3.3812
Second interim	2.5871	-	2.5871	1.6801	4.2672	3.0422
Third interim	0.8070	-	0.8070	3.1275	3.9345	3.4393
Final	1.8957	-	1.8957	2.1714	4.0671	3.4346

Euro Class 'A-H' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	3.1254	-	3.1254	-	3.1254	3.4863
Second interim	2.5952	-	2.5952	-	2.5952	3.1379
Third interim	1.4631	-	1.4631	-	1.4631	3.5713
Final	1.3749	-	1.3749	-	1.3749	3.5751
Group 2						
First interim	1.6067	-	1.6067	1.5187	3.1254	3.4863
Second interim	0.8351	-	0.8351	1.7601	2.5952	3.1379
Third interim	0.6522	-	0.6522	0.8109	1.4631	3.5713
Final	0.5638	-	0.5638	0.8111	1.3749	3.5751

Euro Class 'C-H' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	4.2687	-	4.2687	-	4.2687	4.6294
Second interim	4.7175	-	4.7175	-	4.7175	4.3328
Third interim	3.9371	-	3.9371	-	3.9371	4.6590
Final	4.1092	-	4.1092	-	4.1092	4.8316
Group 2						
First interim	4.2687	-	4.2687	0.0000	4.2687	4.6294
Second interim	4.7175	-	4.7175	0.0000	4.7175	4.3328
Third interim	3.9371	-	3.9371	0.0000	3.9371	4.6590
Final	4.1092	-	4.1092	0.0000	4.1092	4.8316

Euro Class 'C-H' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	4.4783	-	4.4783	-	4.4783	4.7941
Second interim	3.9883	-	3.9883	-	3.9883	4.5101
Third interim	2.7574	-	2.7574	-	2.7574	4.8630
Final	2.7907	-	2.7907	-	2.7907	4.9594
Group 2						
First interim	2.9498	-	2.9498	1.5285	4.4783	4.7941
Second interim	0.0023	-	0.0023	3.9860	3.9883	4.5101
Third interim	1.5409	-	1.5409	1.2165	2.7574	4.8630
Final	0.9830	-	0.9830	1.8077	2.7907	4.9594

Notes to the financial statements

24 Interest distribution tables (continued)

Sterling Class 'A' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
First interim	0.1060	0.0212	0.0848	-	0.0848	0.0908
Second interim	0.1195	0.0239	0.0956	-	0.0956	0.0816
Third interim	0.1034	0.0000	0.1034	-	0.1034	0.0944
Final	0.1048	0.0000	0.1048	-	0.1048	0.0940
Group 2						
First interim	0.0564	0.0113	0.0451	0.0397	0.0848	0.0908
Second interim	0.0381	0.0076	0.0305	0.0651	0.0956	0.0816
Third interim	0.0236	0.0000	0.0236	0.0798	0.1034	0.0944
Final	0.0532	0.0000	0.0532	0.0516	0.1048	0.0940

Sterling Class 'I' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	p	p	p	p	p	p
First interim	4.5140	0.9028	3.6112	-	3.6112	3.8440
Second interim	4.8800	0.9760	3.9040	-	3.9040	3.4732
Third interim	4.1233	0.0000	4.1233	-	4.1233	3.9844
Final	4.2131	0.0000	4.2131	-	4.2131	3.9740
Group 2						
First interim	2.3366	0.4673	1.8693	1.7419	3.6112	3.8440
Second interim	1.9088	0.3818	1.5270	2.3770	3.9040	3.4732
Third interim	1.2473	0.0000	1.2473	2.8760	4.1233	3.9844
Final	2.3007	0.0000	2.3007	1.9124	4.2131	3.9740

Swiss franc Class 'A-H' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	3.0496	-	3.0496	-	3.0496	3.5830
Second interim	2.5475	-	2.5475	-	2.5475	3.1093
Third interim	1.4329	-	1.4329	-	1.4329	3.5258
Final	1.3557	-	1.3557	-	1.3557	3.5668
Group 2						
First interim	3.0496	-	3.0496	0.0000	3.0496	3.5830
Second interim	2.5475	-	2.5475	0.0000	2.5475	3.1093
Third interim	1.0963	-	1.0963	0.3366	1.4329	3.5258
Final	1.3557	-	1.3557	0.0000	1.3557	3.5668

Swiss franc Class 'C-H' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	4.4735	-	4.4735	-	4.4735	5.0120
Second interim	3.9890	-	3.9890	-	3.9890	4.3210
Third interim	2.8256	-	2.8256	-	2.8256	4.7687
Final	2.9130	-	2.9130	-	2.9130	5.0230
Group 2						
First interim	4.4735	-	4.4735	0.0000	4.4735	5.0120
Second interim	3.9890	-	3.9890	0.0000	3.9890	4.3210
Third interim	2.8256	-	2.8256	0.0000	2.8256	4.7687
Final	2.9130	-	2.9130	0.0000	2.9130	5.0230

US dollar Class 'A-H' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	3.0924	-	3.0924	-	3.0924	3.4347
Second interim	4.3432	-	4.3432	-	4.3432	2.9631
Third interim	4.0503	-	4.0503	-	4.0503	3.6233
Final	4.2909	-	4.2909	-	4.2909	3.5845
Group 2						
First interim	2.4458	-	2.4458	0.6466	3.0924	3.4347
Second interim	4.3432	-	4.3432	0.0000	4.3432	2.9631
Third interim	4.0503	-	4.0503	0.0000	4.0503	3.6233
Final	1.9106	-	1.9106	2.3803	4.2909	3.5845

US dollar Class 'A-H' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	3.1762	-	3.1762	-	3.1762	3.5025
Second interim	2.5845	-	2.5845	-	2.5845	2.9857
Third interim	1.4736	-	1.4736	-	1.4736	3.6987
Final	1.4349	-	1.4349	-	1.4349	3.6704
Group 2						
First interim	1.4801	-	1.4801	1.6961	3.1762	3.5025
Second interim	1.0722	-	1.0722	1.5123	2.5845	2.9857
Third interim	0.2270	-	0.2270	1.2466	1.4736	3.6987
Final	0.8999	-	0.8999	0.5350	1.4349	3.6704

US dollar Class 'C-H' Income shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equalisation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	4.3500	-	4.3500	-	4.3500	4.7097
Second interim	4.7908	-	4.7908	-	4.7908	4.2799
Third interim	4.0501	-	4.0501	-	4.0501	4.8266
Final	4.3507	-	4.3507	-	4.3507	4.9703
Group 2						
First interim	4.3500	-	4.3500	0.0000	4.3500	4.7097
Second interim	4.7908	-	4.7908	0.0000	4.7908	4.2799
Third interim	4.0501	-	4.0501	0.0000	4.0501	4.8266
Final	4.3507	-	4.3507	0.0000	4.3507	4.9703

Notes to the financial statements

24 Interest distribution tables (continued)

US dollar Class 'C-H' Accumulation shares

Interest distributions for the year to 31 May	Gross revenue 2017	Income tax deducted 2017	Net revenue 2017	Equal-isation 2017	Distribution 2017	Distribution 2016
Group 1	¢	¢	¢	¢	¢	¢
First interim	4.4240	-	4.4240	-	4.4240	4.8586
Second interim	3.9950	-	3.9950	-	3.9950	4.3154
Third interim	2.8208	-	2.8208	-	2.8208	5.0042
Final	2.9187	-	2.9187	-	2.9187	5.0594
Group 2						
First interim	4.4240	-	4.4240	0.0000	4.4240	4.8586
Second interim	1.0052	-	1.0052	2.9898	3.9950	4.3154
Third interim	0.6496	-	0.6496	2.1712	2.8208	5.0042
Final	1.6889	-	1.6889	1.2298	2.9187	5.0594

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M&G UK Income Distribution Fund

Authorised Corporate Director's Report

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 changed during this period. From 1 June 2016 to 23 February 2017 the risk number was 5.

Investment review

As at 1 June 2017, for the year ended 31 May 2017

Performance against objective

The fund achieved the objective of growing its income over the 12-month period. In addition, as at 1 June 2017, the 4.3% yield on the fund's Sterling Class 'A' (Income) shares was 24.6% above the broad market FTSE All-Share Index yield of 3.5%, meeting the fund's target to exceed the index yield.*

Two quarterly distributions of 6.10p per Sterling Class 'A' (Income) share were declared in respect of the first half of the review period, followed by a third quarterly distribution of 6.10p and a final quarterly distribution of 16.32p in respect of the second half of the review period. The fund's total distribution over the year of 34.62p represents an increase of 4.0% on the corresponding period last year. The latest annual inflation rate, as measured by the Retail Prices Index (RPI), was 3.7% in May.

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

Investment review

Performance against objective (continued)

Between 1 June 2016 (the start of the review period) and 1 June 2017, the fund delivered a positive total return (the combination of income and growth of capital) across all of its share classes**. Accordingly, over this time frame, the fund grew its capital, which is a secondary consideration after the income growth requirement. The fund's performance reflected the positive trend in share and fixed income markets, and was broadly in line with the 18.8% return by a comparable composite index that comprises two-thirds the FTSE All-Share Index and one third the FTSE British Government UK Gilts All Stocks Index. Longer term to 31 May 2017, the fund is in line with the composite index over three years, ahead of it over five and seven years, but lags it over 10 years.

Investment performance

Overall, UK company shares (equities) made solid progress during the 12 months, recording positive returns in nine months and a broadly flat performance in two. After reacting badly, initially, to the Brexit outcome to the UK's referendum on membership of the European Union in June 2016, the market ended the month ahead. The sharpest falls were recorded by more domestically focused medium-sized and smaller companies, and at first the rebound mainly reflected gains by larger companies. However, by the end of the 12-month period, all three market segments were recording all-time highs as the domestic economy proved to be more resilient than expected through 2016.

Arguably, the referendum result had a greater impact on sterling, which finished June down by 8.2%, and 2016 as a whole down by 15% on its trade-weighted index, and at a 30-year low against the US dollar, before staging a recovery to end the 12 months to 31 May 2017 down by 12%. The decline in the pound provided a buffer to the shock of the Brexit vote, as it benefited the many multinationals in the UK market. In addition, the swift appointment of a new prime minister in July and prompt action by the Bank of England in August to support the economy did much to improve sentiment. The Bank's measures included a cut in interest rates to 0.25%, additional quantitative easing and a scheme to encourage bank lending.

There was a short-lived market setback in October, after Prime Minister Theresa May's hard-line Brexit speech to the Conservative Party conference. However, the upward momentum was resumed in the autumn, assisted initially by the strength of the energy and mining sectors. The surprise election of Donald Trump to the White House in November brought a further upward leg to the equity market, as investors anticipated a significant boost to an already robust US economy from the incoming president's tax-cutting and spending plans.

The advent of 2017 saw the market drivers change for a while. Sterling staged a temporary recovery, which helped medium-sized and smaller companies, and some defensive stocks also outperformed. April witnessed another temporary setback when the prime minister announced the snap election for June. Towards the end of the reporting period, though, larger companies reasserted themselves as opinion polls showed the gap between the Conservative and Labour parties narrowing in the run-up to the election, resulting in another sell-off in sterling.

Meanwhile, a rise in geopolitical tensions and, at home, the triggering of Article 50 of the Lisbon Treaty in March to begin the two-year Brexit negotiations, were shrugged aside by investors, who also paid little heed to first-quarter data showing a deterioration in the UK economy and a pick-up in inflation.

In the fixed income markets, rising inflation dampened sentiment towards government bonds, and the effect of two increases in US interest rates during the 12 months was felt internationally given the importance of the US market. UK government bonds (gilts) held up relatively well, however, delivering solid gains in the second half of the period, despite unattractive valuation levels. As well as maintaining interest rates at low levels, the Bank of England provided some support to corporate bonds, enabling them to outperform gilts. (Bonds are loans in the form of a security, usually issued by a government (government bonds) or company (corporate bonds), which normally pay a fixed rate of interest over a given time period, at the end of which the initial amount borrowed is repaid.)

The fund ended the 12-month period broadly in line with the comparable composite index. In the market environment, the fund benefited from having a larger weighting in UK equities than the index, at almost 75%, 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 companies and preference shares, which lagged the broader market. The fund's larger company holdings, where it has a significant exposure, albeit lower than the index, made a neutral contribution, while the smaller company holdings outperformed.

The fund's bond holdings, representing approximately 25% of the portfolio, assisted its overall performance. These were primarily weighted towards good-quality corporate bonds that pay a slightly higher coupon than gilts but, although they delivered very respectable returns, they lagged the equity market.

Within the equity segment, sector allocation also detracted value, primarily as a result of below-market positions in resources and technology companies, reflecting caution about their dividends in the case of the former and low yields with respect to the latter. (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.) Brexit-related concerns, mostly, weighed on the fund's above-market positions in telecommunications, insurance and real estate companies. The utilities sector, meanwhile, was affected by Conservative Party election proposals to impose price caps on the energy companies.

On the other hand, there were positive contributions from the fund's below-market positions in the industrials and healthcare sectors, as well as its long-term below-market exposure to consumer staples (ex tobacco) companies, where valuations are rich, and also retailers in view of the ongoing pressures on the high street from falling sales and online competition.

Stock selection, however, added value overall, particularly in the pharmaceuticals, industrials, tobacco, media, chemicals and financial services sectors. Conversely, it was less successful within banks, insurers, miners and travel & leisure companies.

Investment review

Investment performance (continued)

Amongst the most notable individual performers for the fund at the stock level were cigarette manufacturer British American Tobacco (BAT), electronic parts distributor Electrocomponents, drug maker AstraZeneca and camera equipment manufacturer Vitec. BAT was boosted by an agreed bid for the remaining 58% of Reynolds American that it did not own already, creating the world's largest listed tobacco company by sales. Electrocomponents confirmed previous very positive estimates for first-half results. AstraZeneca's drug pipeline newsflow continued to be strong with the announcement that immune-oncology drug Imfinzi had been approved in the US for bladder cancer. Vitec also produced market-pleasing results and in particular benefited from the Rio Olympics.

The holdings that subtracted the most value were primarily ones that underperformed following the Brexit vote and included water companies, brewers and housebuilders.

Investment activities

Investment activity on the fund over the 12 months under review was somewhat overtaken by the receipt of approximately £275 million as a result of the winding up of the M&G High Income Investment Trust in March 2017, as the M&G UK Income Distribution Fund was one of the reinvestment options for the trust's investors. The rollover boosted the fund's assets under management by over a third to £674 million by the end of the reporting period.

The broad thrust of the fund was unchanged, though. Most of the portfolio's weighting remained 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, outside the receipt of the rollover funds, was concentrated on growing the distribution. Profits were realised in some of the medium-sized company holdings, such as Electrocomponents, Elementis and UBM. In addition, Premier Farnell, which manufactures the Raspberry Pi computer, was the subject of competing bids and eventually succumbed to a US rival for a substantial premium. A few holdings were sold as conviction in the investment case had diminished, including two larger companies, high street retailer Next and educational publisher Pearson. Elsewhere within the fund's larger company holdings, shares in Sky were reduced following a bid for the broadcaster from 21st Century Fox, which had lifted them to a substantial premium.

New positions were started in home furnishings retailer Dunelm, electronic components manufacturer Acal and a real estate investment trust, McKay Securities. These companies offered an attractive level of income and have a history of increasing their dividends. In addition, sweeteners producer Tate & Lyle was added to the portfolio following a period of underperformance which made the income more attractive. Elsewhere, a number of existing holdings were increased, including media group Informa, retailer DFS Furniture, property company Redefine International, emerging market-focused bank HSBC and Lloyds Banking Group.

There was limited trading activity within the fixed income portion of the portfolio, which remains defensively positioned against a rise in interest rates. Transactions mainly revolved around recycling the proceeds from maturing bonds back into the market, with the emphasis on raising the corporate bond exposure relative to gilts for an increase in income. This segment of the fund continues to be defensively positioned from a quality perspective and through an emphasis on sectors such as utilities, telecommunications and consumer goods. Notably, one focus of activity was to increase the portfolio's exposure to high quality mortgage-backed securities and insurance company bonds. The former provided the fund with a floating income stream, to take advantage of any rise in interest rates, while the latter represented attractive value.

Outlook

Despite UK equities delivering a strong performance over the past year, valuations do not look stretched. The main driver of the market has swung, with earnings contributing positively to performance rather than valuation ratios expanding. In addition, valuations look attractive relative to bonds. The market has been assisted over the last 12 months by a pick-up in merger and acquisition activity, but whether this will be sustained in the post-election uncertainty, remains to be seen.

Investors have been remarkably sanguine so far about the election result. The biggest reaction to the 'hung parliament' has been in the currency markets with renewed sterling weakness. Even this has been small, though, in the context of the plunge last year following the Brexit vote. If the currency's immediate weakness is extended, this could provide a further boost to forecasts for the market's overseas earners. The Brexit negotiations began on 19 June and the market has been buoyed by the possibility of a softer Brexit, but the uncertainty over the UK's position is likely to weigh on sentiment.

Meanwhile, the momentum of UK economic growth has been fading as 2017 has progressed. Retail sales growth, house prices and inflation-adjusted incomes have all weakened in what remains a very consumption-driven economy. The election result and the continued uncertainty it brings suggest that this trend will continue. Furthermore, sterling weakness, while helping exports, is driving up import costs and maintaining upward pressure on inflation, which exceeds the Bank of England's 2% target. The reluctance of the Bank to raise interest rates, in large part, supports the UK equity market, but ensures the UK bond market continues to look expensive.

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.

Investment review

Distribution prospects

The fund's income generation has been better than expected and assisted by the significant devaluation in sterling since last summer, which mainly helped larger companies. The currency boost is expected to continue until later in 2017 – assuming sterling remains at current levels. Outside the larger company universe, there has also been good progress in dividends from many other companies in the past 12 months and this should 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 oil 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 dividends, 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 complete 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 continue to represent a substantial proportion of the income paid out by the market. These are normally irregular dividends, but some companies adopt this method of paying some of their profits back to investors annually. Although special dividends 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 the 2017/18 year.

Richard Hughes
Fund manager

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

* 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.

** 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 31 May Holding		2017 £'000	2017 %	2016 %
	Equities	**538,106**	**79.86**	**79.40**
	Oil & gas producers	**54,789**	**8.13**	**6.23**
5,750,000	BP	27,192	4.04	
1,275,000	Royal Dutch Shell 'B'	27,597	4.09	
	Chemicals	**9,977**	**1.48**	**1.59**
600,000	Elementis	1,801	0.27	
100,000	Johnson Matthey	3,116	0.46	
1,000,000	Synthomer	5,060	0.75	
	Mining	**19,375**	**2.88**	**2.00**
450,000	BHP Billiton	5,324	0.79	
450,000	Rio Tinto	14,051	2.09	
	Construction & materials	**4,013**	**0.60**	**0.56**
1,000,000	Marshalls	4,013	0.60	
	Aerospace & defence	**5,628**	**0.84**	**0.56**
845,000	BAE Systems	5,628	0.84	
	General industrials	**4,858**	**0.72**	**0.73**
560,000	DS Smith	2,449	0.36	
150,000	Smiths Group	2,409	0.36	
	Electronic & electrical equipment	**8,882**	**1.32**	**1.74**
450,000	Halma	5,171	0.77	
1,250,000	Morgan Advanced Materials	3,711	0.55	
	Industrial engineering	**7,834**	**1.16**	**0.74**
90,000	IMI	1,131	0.17	
700,000	Vitec Group	6,703	0.99	
	Support services	**11,393**	**1.69**	**2.42**
1,000,000	Acal	2,748	0.41	
1,385,000	Connect Group	1,731	0.26	
275,000	De La Rue	1,851	0.27	
870,000	Electrocomponents	5,063	0.75	
	Automobiles & parts	**1,761**	**0.26**	**0.35**
500,000	GKN	1,761	0.26	
	Beverages	**1,506**	**0.22**	**0.00**
64,000	Diageo	1,506	0.22	
	Food producers	**13,741**	**2.04**	**0.94**
470,000	Tate & Lyle	3,459	0.51	
236,000	Unilever	10,282	1.53	
	Household goods & home construction	**7,360**	**1.09**	**1.36**
140,000	Bellway	3,957	0.59	
375,000	Bovis Homes Group	3,403	0.50	
	Leisure goods	**1,948**	**0.29**	**0.00**
210,000	Games Workshop Group	1,948	0.29	
	Tobacco	**51,267**	**7.61**	**8.93**
700,000	British American Tobacco	38,892	5.77	
341,000	Imperial Brands	12,375	1.84	
	Pharmaceuticals & biotechnology	**45,615**	**6.77**	**5.92**
450,000	AstraZeneca	23,638	3.51	
1,300,000	GlaxoSmithKline	21,977	3.26	
	General retailers	**4,658**	**0.69**	**0.71**
537,537	DFS Furniture	1,476	0.22	
150,000	Dunelm Group	932	0.14	
126,000	WH Smith	2,250	0.33	

Investments

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Media	**19,861**	**2.95**	**3.84**
800,000	Informa	5,368	0.80	
575,000	Moneysupermarket.com	2,003	0.30	
390,000	RELX	6,525	0.97	
125,000	Sky	1,240	0.18	
650,000	UBM	4,725	0.70	
	Travel & leisure	**21,911**	**3.25**	**3.69**
300,000	Compass Group	5,028	0.74	
600,000	Greene King	4,494	0.67	
3,100,000	Marston's	4,198	0.62	
1,250,000	National Express	4,631	0.69	
1,250,000	William Hill	3,560	0.53	
	Fixed line telecommunications	**11,208**	**1.66**	**2.05**
1,855,000	BT Group	5,709	0.84	
3,340,000	KCOM Group	3,140	0.47	
1,350,000	TalkTalk Telecom	2,359	0.35	
	Mobile telecommunications	**21,455**	**3.18**	**3.15**
9,250,000	Vodafone Group	21,455	3.18	
	Electricity	**3,010**	**0.45**	**0.83**
200,000	SSE	3,010	0.45	
	Gas, water & multi-utilities	**44,822**	**6.65**	**7.56**
2,000,000	Centrica	4,022	0.60	
925,833	National Grid	10,096	1.50	
811,189	Pennon Group	7,479	1.11	
310,000	Severn Trent	7,760	1.15	
1,500,000	United Utilities	15,465	2.29	
	Banks	**28,022**	**4.16**	**2.23**
3,275,000	HSBC Holdings	22,325	3.31	
8,000,000	Lloyds Banking Group	5,697	0.85	
	Non-life insurance	**4,739**	**0.70**	**0.68**
1,365,000	Direct Line Insurance Group	4,739	0.70	
	Life insurance	**43,790**	**6.50**	**5.82**
2,352,000	Aviva	12,383	1.84	
1,400,000	Chesnara	5,261	0.78	
4,500,000	Legal & General Group	11,399	1.69	
1,500,000	Old Mutual	2,881	0.43	
460,000	Prudential [a]	7,999	1.19	
1,000,000	Standard Life	3,867	0.57	
	Real estate investment & services	**7,158**	**1.06**	**1.63**
2,000,000	Channel Islands Property Fund	2,040	0.30	
8,028,405	Redefine International	3,083	0.46	
2,300,000	Standard Life Investment Property Income Trust	2,035	0.30	
	Real estate investment trusts	**16,699**	**2.48**	**2.08**
425,000	A&J Mucklow Group	2,125	0.32	
202,127	British Land	1,297	0.19	
1,500,000	Hansteen Holdings	1,918	0.29	
325,000	Land Securities Group	3,523	0.52	
1,010,000	McKay Securities Group	2,303	0.34	
1,100,000	Segro	5,533	0.82	
	Financial services	**21,505**	**3.19**	**2.44**
1,200,000	Ashmore Group	4,248	0.63	
425,000	Close Brothers Group	6,859	1.02	
486,111	Intermediate Capital Group	4,280	0.63	
105,000	Provident Financial	3,226	0.48	
597,600	TP ICAP (formerly Tullett Prebon)	2,892	0.43	

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Equity investment instruments	**4,115**	**0.61**	**1.12**
1,498,400	Carador Income Fund	834	0.13	
1,110,000	Ecofin Global Utilities and Infrastructure	1,365	0.20	
462,500	EF Realisation	148	0.02	
1,750,000	Middlefield Canadian Income Trusts	1,768	0.26	
	Software & computer services	**4,850**	**0.72**	**0.35**
675,000	Sage Group	4,850	0.72	
	Non-convertible preference shares	**30,356**	**4.51**	**7.15**
1,500,000	Aviva 8.375% Cum. Irrd. Pref.	2,250	0.33	
3,800,000	General Accident 7.875% Cum. Irrd. Pref.	5,225	0.78	
5,000,000	General Accident 8.875% Cum. Irrd. Pref.	7,975	1.18	
7,725,000	Lloyds Banking Group 9.25% Non-cum. Irrd. Pref.	11,819	1.75	
6,250	Nationwide Building Society 10.25% CCD Non-cum. Irrd. Pref.	927	0.14	
1,600,000	Standard Chartered 8.25% Non-cum. Irrd. Pref.	2,160	0.33	
	Debt securities	**135,997**	**20.19**	**20.23**
	'AAA' credit rated bonds	**19,158**	**2.84**	**4.97**
£2,808,378	Dukinfield FRN 2052	2,837	0.42	
£6,030,000	European Investment Bank FRN 2020	6,064	0.90	
£400,000	Johnson & Johnson 5.5% 2024	522	0.08	
£2,700,000	KfW 5.55% 2021	3,238	0.48	
£1,469,080	Paragon Mortgages No.14 FRN 2039	1,418	0.21	
£167,421	Residential Mortgage Securities No.28 FRN 2046	168	0.02	
£3,000,000	Ripon Mortgages 1.17237% 2056	3,004	0.45	
£1,897,619	Towd Point Mortgage Funding FRN 2045	1,907	0.28	
	'AA' credit rated bonds	**34,852**	**5.17**	**0.56**
£1,306,000	Land Securities Capital Markets Var. Rate 2026 (1.974%)	1,346	0.20	
£2,442,000	Metropolitan Life Global Funding I 1.125% 2021	2,455	0.37	
£510,000	MetLife Global Funding 2.625% 2022	548	0.08	
£2,500,000	New York Life Global Funding 1% 2021	2,518	0.37	
£3,000,000	Procter & Gamble Co/The 1.375% 2025	3,015	0.45	
£315,000	SLM Student Loan Trust 5.15% 2039	278	0.04	
£1,335,000	Toyota Motor Credit 1.125% 2021	1,348	0.20	
£11,633,000	Treasury 1.25% 2018	11,782	1.75	
£3,360,000	Treasury 1.875% IL 2022	5,576	0.83	
£1,500,000	Treasury 3.75% 2019	1,625	0.24	
£2,490,000	Treasury 4% 2022	2,927	0.43	
£1,330,000	Treasury 4.5% 2019	1,434	0.21	
	'A' credit rated bonds	**31,063**	**4.61**	**5.35**
£1,750,000	Amgen 5.5% 2026	2,243	0.33	
£1,000,000	Anheuser-Busch InBev 6.5% 2017	1,003	0.15	
£650,000	Anheuser-Busch InBev 9.75% 2024	1,005	0.15	
£1,000,000	ASIF III Jersey 5% 2018	1,063	0.16	
£2,500,000	BMW International Investment BV 1% 2021	2,500	0.37	
£2,000,000	BNP Paribas 1.125% 2022	1,971	0.29	
£1,000,000	Canadian Imperial Bank of Commerce FRN 2022	1,004	0.15	
£2,320,000	Daimler AG 1.5% 2022	2,357	0.35	
£250,000	EDF 6.125% 2034	346	0.05	
£1,950,000	EDF 6.875% 2022	2,524	0.37	
£1,473,000	Heathrow Funding Var. Rate 2025 (5.225%)	1,756	0.26	
£1,525,000	London Merchant Securities 6.5% 2026	1,988	0.30	
£100,000	London Stock Exchange 9.125% 2019	119	0.02	

Investments

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	'A' credit rated bonds (continued)			
£096,000	Motability Operations Group 6.625% 2019	110	0.02	
£1,000,000	Munich Re Finance Var. Rate 2042 (6.625%)	1,206	0.18	
£500,000	National Grid Gas 6% 2017	500	0.07	
£1,770,000	Rabobank Nederland 3.25% 2017	1,789	0.27	
£940,737	RMAC 2003-Nsp4 Var. Rate 2026 (1.33063%)	913	0.14	
£1,500,000	Standard Life Var. Rate Perp. (6.546%)	1,649	0.24	
£422,000	Thames Water Utilities Cayman Var. Rate 2024 (1.875%)	429	0.06	
£1,950,000	Wells Fargo 5.25% 2023	2,349	0.35	
£1,750,000	Yorkshire Water Services Odsal Finance 6.5876% 2023	2,239	0.33	
	'BBB' credit rated bonds	**34,139**	**5.07**	**6.48**
£2,000,000	Aviva Var. Rate 2041 (6.625%)	2,300	0.34	
£1,500,000	Bank of America 5.5% 2021	1,751	0.26	
£2,180,000	Deutsche Telekom International Finance Var. Rate 2019 (7.375%)	2,531	0.38	
£1,173,000	FCE Bank 2.625% 2018	1,200	0.18	
£300,000	FirstGroup 6.875% 2024	393	0.06	
£366,000	GKN Holdings PLC 3.375% 2032	375	0.06	
£003,000	Glencore Canada 7.375% 2020	3	0.00	
£850,000	Glencore Finance Europe 6.5% 2019	926	0.14	
£375,000	Go-Ahead Group 5.375% 2017	380	0.06	
£1,000,000	Goldman Sachs Group 5.5% 2021	1,161	0.17	
£265,000	Heathrow Funding 6.25% 2018	282	0.04	
£1,050,000	HSBC Holdings Var. Rate 2022 (6.375%)	1,068	0.16	
£878,000	Imperial Tobacco Finance 8.125% 2024	1,217	0.18	
£1,250,000	Imperial Tobacco Finance Var. Rate 2022 (9%)	1,675	0.25	
£1,750,000	InterContinental Hotels 3.875% 2022	1,938	0.29	
£426,000	LafargeHolcim Sterling Finance Netherlands BV 3% 2032	432	0.06	
£795,000	Legal & General Group 10% IL 2041	1,049	0.16	
£700,000	Lloyds Bank 9.625% 2023	971	0.14	
£200,000	McDonalds 6.375% 2020	229	0.03	
£369,000	McKesson Corporation 3.125% 2029	386	0.06	
£990,000	Rolls-Royce 3.375% 2026	1,096	0.16	
£1,650,000	Sky Group 5.75% 2017	1,681	0.25	
£241,000	Student Finance 2.6663% 2024	245	0.04	
£1,000,000	Talisman Energy 6.625% 2017	1,028	0.15	
£1,000,000	Telefónica Emisiones 5.375% 2026	1,233	0.18	
£918,000	United Utilities Water 5.375% 2018	957	0.14	
£2,256,000	Verizon Communications 4.073% 2024	2,569	0.38	
£2,500,000	Volkswagen Financial Services NV 1.5% 2021	2,524	0.37	
£2,530,000	Westfield America 2.125% 2025	2,539	0.38	
	'BB' credit rated bonds	**4,079**	**0.61**	**0.74**
£200,000	Telecom Italia 6.375% 2019	220	0.03	
£3,334,000	Tesco 6.125% 2022	3,859	0.58	

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Bonds with no credit rating	**12,706**	**1.89**	**2.13**
£846,000	Channel Link Enterprises Finance PLC 3.043% 2050	867	0.13	
£1,242,000	Coventry Building Society 1% 2020	1,244	0.18	
£253,562	Feldspar 2016-1 FRN 2045	255	0.04	
£475,000	Hammerson 3.5% 2025	519	0.08	
£1,898,000	Hammerson 6.875% 2020	2,209	0.33	
£1,536,000	John Lewis 6.125% 2025	1,903	0.28	
£520,000	John Lewis 8.375% 2019	585	0.09	
£1,000,000	National Express 2.5% 2023	1,027	0.15	
£688,000	PCL Funding II FRN 2022	688	0.10	
£350,000	Phoenix Natural Gas Finance 5.5% 2017	352	0.05	
£1,000,000	Segro Var. Rate 2019 (6%)	1,115	0.17	
£297,000	WM Morrison Supermarkets 3.5% 2026	320	0.05	
£1,500,000	Yorkshire Building Society 3.5% 2026	1,622	0.24	
Portfolio of investments		**674,103**	**100.05**	**99.63**
	'AAA' rated money market funds [b]	**8,791**	**1.30**	**1.69**
8,791,000	Northern Trust Global Fund - Sterling	8,791	1.30	
Total portfolio (notes 2c & 2d on page 6)		**682,894**	**101.35**	**101.32**
Net other assets / (liabilities)		**(9,124)**	**(1.35)**	**(1.32)**
Net assets attributable to shareholders		**673,770**	**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.

Top ten portfolio transactions

for the year to 31 May 2017

Largest purchases	£'000
Treasury 1.25% 2018 (£)	39,618
Royal Dutch Shell 'B'	13,561
British American Tobacco	12,576
BP	11,465
HSBC Holdings	10,309
AstraZeneca	10,134
GlaxoSmithKline	9,501
Vodafone Group	8,445
Rio Tinto	8,041
Legal & General Group	6,016
Other purchases	190,838
Total purchases	**320,504**

Largest sales	£'000
Treasury 1.25% 2018 (£)	28,299
British American Tobacco	9,386
Ecofin Water & Power Opportunities	2,857
AT&T 5.875% 2017	2,750
AstraZeneca	2,659
Premier Farnell	2,313
UBM	2,163
Halma	1,834
Pearson	1,827
JPMorgan Chase 5.375% 2016 (£)	1,750
Other sales	34,562
Total sales	**90,400**

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.

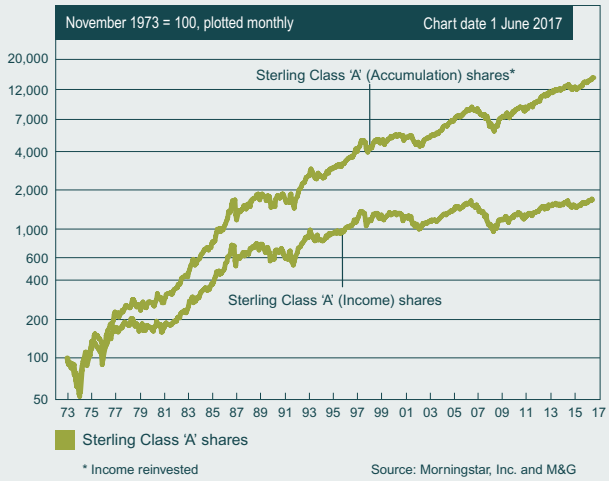
Fund level performance

Fund net asset value

as at 31 May	2017 £'000	2016 £'000	2015 £'000
Fund net asset value (NAV)	673,770	387,799	435,293

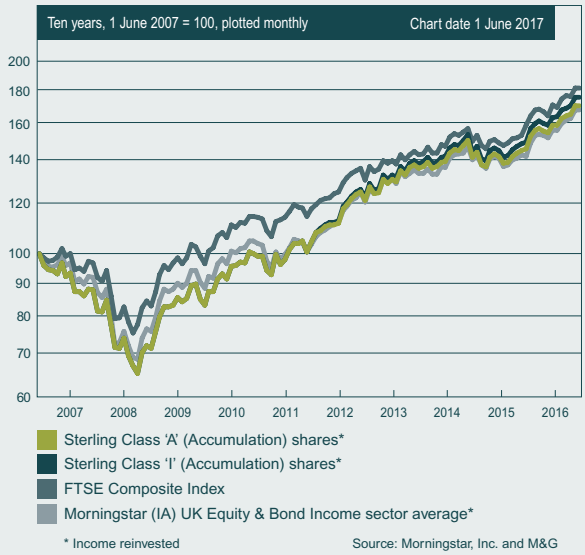
Share class performance since launch

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 British 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.

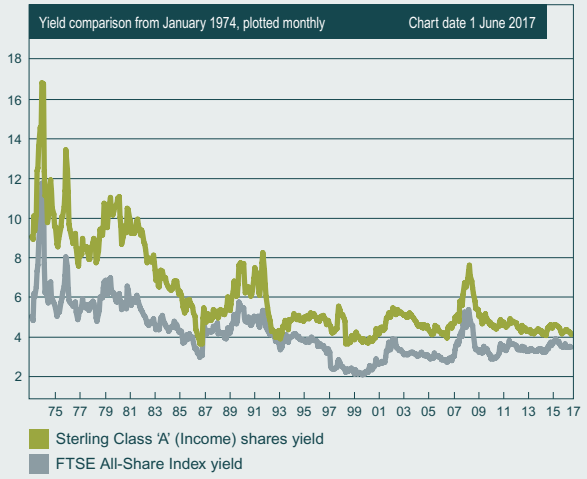
M&G UK Income Distribution Fund

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.

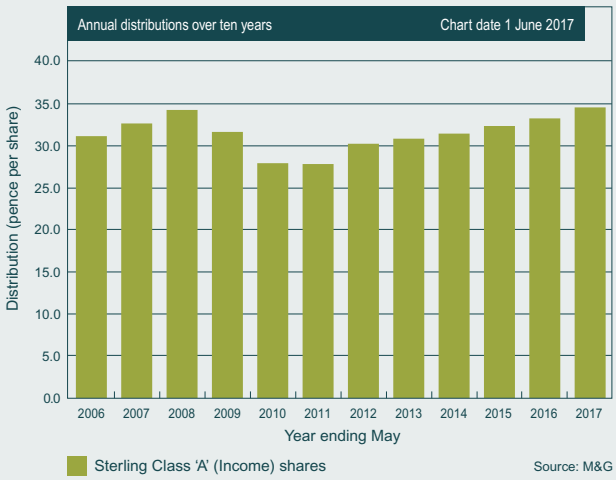


Source: Morningstar, Inc. and M&G

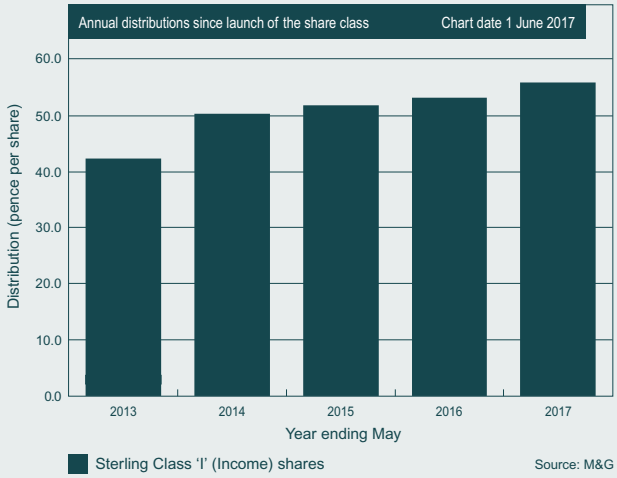
Historic yield: The historic yield reflects distributions declared over the past twelve months as a percentage of the mid-market price, as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions.

Distribution since launch

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



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

	One year 01.06.16 % [a]	Three years 02.06.14 % p.a.	Five years 01.06.12 % p.a.	Since launch % p.a.
Sterling [b]				
Class 'A'	+18.3	+7.4	+11.2	+12.2 [c]
Class 'C'	+19.6	+8.5	+12.4	+7.9 [d]
Class 'I'	+18.9	+7.9	n/a	+10.4 [e]
Class 'R'	+18.6	+7.6	n/a	+10.2 [e]
Class 'X'	+18.3	+7.4	+11.2	+8.5 [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 and method of execution. They are made up of direct and indirect portfolio transaction costs:

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

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

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. The table below shows direct portfolio transaction costs paid by the fund before and after that part of the dilution adjustment relating to direct portfolio transaction costs.To give an indication of the indirect portfolio dealing costs the table also shows the average portfolio dealing spread.

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

Portfolio transaction costs

for the year to 31 May Direct portfolio transaction costs [b]	2017 %	2016 %	2015 %	Average [a] %
Broker commission	0.00	0.02	0.01	0.01
Taxes	0.23	0.02	0.02	0.09
Costs before dilution adjustments	0.23	0.04	0.03	0.10
Dilution adjustments [c]	(0.11)	(0.01)	(0.01)	(0.04)
Total direct portfolio transaction costs	0.12	0.03	0.02	0.06

as at 31 May Indirect portfolio transaction costs	2017 %	2016 %	2015 %	Average [a] %
Average portfolio dealing spread	0.26	0.43	0.35	0.35

[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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	714.43	770.88	741.13
Return before operating charges and after direct portfolio transaction costs	133.89	(13.01)	72.67
Operating charges	(10.80)	(10.16)	(10.48)
Return after operating charges	123.09	(23.17)	62.19
Distributions	(34.62)	(33.28)	(32.44)
Closing NAV	802.90	714.43	770.88
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	1.77	0.28	0.20
Dilution adjustments [a]	(0.83)	(0.07)	(0.08)
Total direct portfolio transaction costs	0.94	0.21	0.12
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.12	0.03	0.02
Operating charges	1.41	1.41	1.41
Return after operating charges	+17.23	-3.01	+8.39
Historic yield	4.33	4.70	4.31
Effect on yield of charges offset against capital	1.41	1.41	1.41
Other information			
Closing NAV (£'000)	188,164	172,671	214,857
Closing NAV percentage of total fund NAV (%)	27.93	44.53	49.36
Number of shares	23,435,550	24,169,257	27,871,663
Highest share price (UK p)	818.89	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	6,071.24	6,253.90	5,762.80
Return before operating charges and after direct portfolio transaction costs	1,153.37	(99.33)	573.48
Operating charges	(92.78)	(83.33)	(82.38)
Return after operating charges	1,060.59	(182.66)	491.10
Distributions	(237.99)	(273.98)	(255.41)
Retained distributions	237.99	273.98	255.41
Closing NAV	7,131.83	6,071.24	6,253.90
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	15.19	2.30	1.56
Dilution adjustments [a]	(7.10)	(0.54)	(0.60)
Total direct portfolio transaction costs	8.09	1.76	0.96
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.12	0.03	0.02
Operating charges	1.41	1.41	1.41
Return after operating charges	+17.47	-2.92	+8.52
Historic yield [c]	2.95	4.55	4.18
Effect on yield of charges offset against capital	0.01	1.41	1.41
Other information			
Closing NAV (£'000)	26,032	24,229	33,068
Closing NAV percentage of total fund NAV (%)	3.86	6.25	7.60
Number of shares	365,011	399,081	528,757
Highest share price (UK p)	7,128.93	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

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	796.35	848.82	807.33
Return before operating charges and after direct portfolio transaction costs	148.85	(15.39)	78.32
Operating charges	(1.38)	(1.28)	(1.31)
Return after operating charges	147.47	(16.67)	77.01
Distributions	(37.84)	(35.80)	(35.52)
Closing NAV	905.98	796.35	848.82
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	1.98	0.31	0.22
Dilution adjustments [a]	(0.93)	(0.07)	(0.08)
Total direct portfolio transaction costs	1.05	0.24	0.14
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.12	0.03	0.02
Operating charges	0.16	0.16	0.16
Return after operating charges	+18.52	-1.96	+9.54
Historic yield	4.19	4.53	4.29
Effect on yield of charges offset against capital	0.16	0.16	0.16
Other information			
Closing NAV (£'000)	83,238	81,331	92,768
Closing NAV percentage of total fund NAV (%)	12.35	20.97	21.31
Number of shares	9,187,604	10,212,975	10,929,072
Highest share price (UK p)	923.60	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,153.24	1,238.21	1,184.87
Return before operating charges and after direct portfolio transaction costs	216.29	(21.13)	116.23
Operating charges	(10.39)	(10.57)	(10.91)
Return after operating charges	205.90	(31.70)	105.32
Distributions	(56.04)	(53.27)	(51.98)
Closing NAV	1,303.10	1,153.24	1,238.21
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	2.87	0.45	0.32
Dilution adjustments [a]	(1.34)	(0.11)	(0.12)
Total direct portfolio transaction costs	1.53	0.34	0.20
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.12	0.03	0.02
Operating charges	0.84*	0.91	0.91
Return after operating charges	+17.85	-2.56	+8.89
Historic yield	4.32	4.66	4.30
Effect on yield of charges offset against capital	0.84	0.91	0.91
Other information			
Closing NAV (£'000)	67,776	47,322	31,944
Closing NAV percentage of total fund NAV (%)	10.06	12.20	7.34
Number of shares	5,201,104	4,103,383	2,579,904
Highest share price (UK p)	1,329.13	1,238.80	1,271.74
Lowest share price (UK p)	1,113.34	1,085.35	1,098.36

* As the annual management charge has been discounted during the period, 0.76% is a more reliable estimate of the period to 31.05.17 ongoing charges.

Sterling Class 'I' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,367.12	1,401.75	1,285.70
Return before operating charges and after direct portfolio transaction costs	259.88	(22.50)	128.08
Operating charges	(12.48)	(12.13)	(12.03)
Return after operating charges	247.40	(34.63)	116.05
Distributions	(59.22)	(61.21)	(57.12)
Retained distributions	59.22	61.21	57.12
Closing NAV	1,614.52	1,367.12	1,401.75
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	3.44	0.52	0.35
Dilution adjustments [a]	(1.61)	(0.12)	(0.14)
Total direct portfolio transaction costs	1.83	0.40	0.21
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.12	0.03	0.02
Operating charges	0.84*	0.91	0.91
Return after operating charges	+18.10	-2.47	+9.03
Historic yield [c]	3.43	4.52	4.17
Effect on yield of charges offset against capital	0.09	0.91	0.91
Other information			
Closing NAV (£'000)	26,341	21,443	16,332
Closing NAV percentage of total fund NAV (%)	3.91	5.53	3.75
Number of shares	1,631,525	1,568,476	1,165,117
Highest share price (UK p)	1,613.89	1,402.54	1,412.63
Lowest share price (UK p)	1,319.92	1,249.45	1,201.34

* As the annual management charge has been discounted during the period, 0.76% is a more reliable estimate of the period to 31.05.17 ongoing charges.

Sterling Class 'R' Income share performance

The share class was launched on 3 August 2012.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	114.25	122.99	117.97
Return before operating charges and after direct portfolio transaction costs	21.45	(2.10)	11.57
Operating charges	(1.37)	(1.34)	(1.38)
Return after operating charges	20.08	(3.44)	10.19
Distributions	(5.54)	(5.30)	(5.17)
Closing NAV	128.79	114.25	122.99
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.31	0.04	0.03
Dilution adjustments [a]	(0.15)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.16	0.03	0.02
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.12	0.03	0.02
Operating charges	1.01*	1.16	1.16
Return after operating charges	+17.58	-2.79	+8.64
Historic yield	4.32	4.68	4.30
Effect on yield of charges offset against capital	1.01	1.16	1.16
Other information			
Closing NAV (£'000)	240,949	1,012	992
Closing NAV percentage of total fund NAV (%)	35.76	0.26	0.23
Number of shares	187,092,541	885,229	806,447
Highest share price (UK p)	131.35	123.05	126.18
Lowest share price (UK p)	110.29	107.63	109.24

* As the annual management charge has been discounted during the period, 1.01% is a more reliable estimate of the period to 31.05.17 ongoing charges.

Sterling Class 'R' Accumulation share performance

The share class was launched on 3 August 2012.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	135.54	139.31	128.08
Return before operating charges and after direct portfolio transaction costs	25.75	(2.24)	12.74
Operating charges	(1.61)	(1.53)	(1.51)
Return after operating charges	24.14	(3.77)	11.23
Distributions	(5.61)	(6.09)	(5.68)
Retained distributions	5.61	6.09	5.68
Closing NAV	159.68	135.54	139.31
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.34	0.05	0.03
Dilution adjustments [a]	(0.16)	(0.01)	(0.01)
Total direct portfolio transaction costs	0.18	0.04	0.02
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.12	0.03	0.02
Operating charges	1.09*	1.16	1.16
Return after operating charges	+17.81	-2.71	+8.77
Historic yield [c]	3.20	4.53	4.18
Effect on yield of charges offset against capital	0.09	1.16	1.16
Other information			
Closing NAV (£'000)	391	346	309
Closing NAV percentage of total fund NAV (%)	0.06	0.09	0.07
Number of shares	245,112	255,057	222,000
Highest share price (UK p)	159.62	139.39	140.39
Lowest share price (UK p)	130.85	123.96	119.57

* As the annual management charge has been discounted during the period, 1.01% is a more reliable estimate of the period to 31.05.17 ongoing charges.

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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	720.26	777.18	747.20
Return before operating charges and after direct portfolio transaction costs	134.95	(13.17)	73.27
Operating charges	(10.87)	(10.24)	(10.58)
Return after operating charges	124.08	(23.41)	62.69
Distributions	(34.91)	(33.51)	(32.71)
Closing NAV	809.43	720.26	777.18
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	1.78	0.28	0.20
Dilution adjustments [a]	(0.83)	(0.07)	(0.08)
Total direct portfolio transaction costs	0.95	0.21	0.12
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.12	0.03	0.02
Operating charges	1.41	1.41	1.41
Return after operating charges	+17.23	-3.01	+8.39
Historic yield	4.33	4.69	4.31
Effect on yield of charges offset against capital	1.41	1.41	1.41
Other information			
Closing NAV (£'000)	33,811	33,409	37,426
Closing NAV percentage of total fund NAV (%)	5.02	8.61	8.60
Number of shares	4,177,058	4,638,501	4,815,633
Highest share price (UK p)	825.61	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	6,002.23	6,183.29	5,697.57
Return before operating charges and after direct portfolio transaction costs	1,140.06	(98.64)	567.37
Operating charges	(91.84)	(82.42)	(81.65)
Return after operating charges	1,048.22	(181.06)	485.72
Distributions	(234.90)	(270.55)	(252.51)
Retained distributions	234.90	270.55	252.51
Closing NAV	7,050.45	6,002.23	6,183.29
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	15.04	2.28	1.55
Dilution adjustments [a]	(7.03)	(0.53)	(0.59)
Total direct portfolio transaction costs	8.01	1.75	0.96
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.12	0.03	0.02
Operating charges	1.41	1.41	1.41
Return after operating charges	+17.46	-2.93	+8.53
Historic yield [c]	2.95	4.55	4.18
Effect on yield of charges offset against capital	0.01	1.41	1.41
Other information			
Closing NAV (£'000)	7,068	6,036	7,597
Closing NAV percentage of total fund NAV (%)	1.05	1.56	1.74
Number of shares	100,251	100,558	122,859
Highest share price (UK p)	7,047.62	6,186.52	6,231.26
Lowest share price (UK p)	5,794.08	5,493.35	5,314.07

[a] In respect of direct portfolio transaction costs.

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

[c] Current year figures have been estimated to reflect the change in charging structure and therefore you may see variances between comparative and current year figures.

M&G UK Income Distribution Fund

Financial statements and notes

Financial statements

Statement of total return

for the year to 31 May	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Income					
Net capital gains / (losses)	3		58,495		(26,653)
Revenue	5	21,024		18,430	
Expenses	6	(4,812)		(4,290)	
Net revenue / (expense) before taxation		16,212		14,140	
Taxation	7	(2)		0	
Net revenue / (expense) after taxation			16,210		14,140
Total return before distributions			**74,705**		**(12,513)**
Distributions	8		(20,513)		(18,324)
Change in net assets attributable to shareholders from investment activities			**54,192**		**(30,837)**

Statement of change in net assets attributable to shareholders

for the year to 31 May	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Opening net assets attributable to shareholders		**387,799**		**435,293**
Amounts received on issue of shares	25,893		36,161	
Value of in specie transfers received	251,842		0	
Amounts paid on cancellation of shares	(49,204)		(55,367)	
		228,531		(19,206)
Dilution adjustments		1,110		90
Change in net assets attributable to shareholders from investment activities (see above)		54,192		(30,837)
Retained distributions on Accumulation shares		2,084		2,395
Unclaimed distributions		54		64
Closing net assets attributable to shareholders		**673,770**		**387,799**

Balance sheet

as at 31 May	Note	2017 £'000	2016 £'000
Assets			
Fixed assets			
Investments		682,894	392,929
Current assets			
Debtors	9	5,696	3,000
Cash and bank balances	10	0	0
Total assets		**688,590**	**395,929**
Liabilities			
Creditors			
Bank overdrafts		(107)	(241)
Distribution payable		(12,445)	(7,045)
Other creditors	11	(2,268)	(844)
Total liabilities		**(14,820)**	**(8,130)**
Net assets attributable to shareholders		**673,770**	**387,799**

Notes to the financial statements

1 Accounting policies

The financial statements have been prepared in accordance with the 'Summary of significant accounting policies' set out on pages 6 and 7.

2 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.

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.

3 Net capital gains / (losses)

for the year to 31 May	2017 £'000	2016 £'000
Non-derivative securities	58,499	(26,646)
Currency gains / (losses)	0	(3)
Transaction charges	(4)	(4)
Net capital gains / (losses)	**58,495**	**(26,653)**

Notes to the financial statements

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 103.

for the year to 31 May	2017 £'000	% of transaction	2016 £'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	13,557		20,952	
Commissions	1	0.01	25	0.12
Taxes	33	0.24	96	0.46
Equities after transaction costs	**13,591**		**21,073**	
Debt securities [a]	**53,951**		**13,478**	
Other transaction types				
Corporate actions	**1,120**		**0**	
In specie				
In specie before transaction costs	250,836		0	
Taxes	1,006	0.40	0	0.00
In specie after transaction costs	**251,842**		**0**	
Total purchases after transaction costs	**320,504**		**34,551**	
b) Sales				
Equities				
Equities before transaction costs	41,605		32,899	
Commissions	(26)	0.06	(35)	0.11
Equities after transaction costs	**41,579**		**32,864**	
Debt securities [a]	**46,176**		**11,254**	
Other transaction types				
Corporate actions	**2,645**		**3,502**	
Total sales after transaction costs	**90,400**		**47,620**	

c) Direct portfolio transaction costs	2017 £'000	% of average NAV	2016 £'000	% of average NAV
Commissions paid				
Equities	**27**	0.00	**60**	0.02
Taxes paid				
Equities	**1,039**	0.23	**96**	0.02
Total direct portfolio transaction costs [b]	**1,066**	**0.23**	**156**	**0.04**
d) Indirect portfolio transaction costs		%		%
Portfolio dealing spread [c]		0.26		0.43

[a] These transaction types do not attract direct portfolio transaction costs.

[b] Costs before dilution adjustments. Please refer to the 'Financial highlights' section for the effects of dilution adjustments.

[c] Average portfolio dealing spread at the balance sheet date.

5 Revenue

for the year to 31 May	2017 £'000	2016 £'000
Dividends from equity investments: non-taxable	16,365	14,533
Dividends from equity investments: taxable	472	235
Interest distributions	16	25
Interest on debt securities	2,747	2,869
Stock dividends	1,389	739
Underwriting commission	35	29
Total revenue	**21,024**	**18,430**

6 Expenses

for the year to 31 May	2017 £'000	2016 £'000
Payable to the ACD or associate		
Annual management charge	4,073	3,651
Administration charge	692	600
	4,765	4,251
Payable to the Depositary or associate		
Depositary's charge (including VAT)	32	28
Other expenses		
Audit fee (including VAT)	10	7
Interest payable	1	0
Safe custody charge	4	4
	15	11
Total expenses	**4,812**	**4,290**

7 Taxation

for the year to 31 May	2017 £'000	2016 £'000
a) Analysis of charge in the year		
Withholding tax	2	0
Deferred tax (note 7c)	0	0
Total taxation	**2**	**0**
b) Factors affecting taxation charge for the year		
Net revenue before taxation	16,212	14,140
Corporation tax at 20%	3,242	2,828
Effects of:		
Dividends from equity investments: non-taxable	(3,273)	(2,906)
Stock dividends not taxable	(278)	(148)
Current year expenses not utilised	290	245
Withholding tax	2	0
Prior year adjustment to expenses not utilised	19	(19)
Total tax charge (note 7a)	**2**	**0**
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	**0**	**0**

The fund has not recognised a deferred tax asset of £1,054,000 (2016: £764,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

for the year to 31 May	2017 Inc [a] £'000	2017 Acc [b] £'000	2016 Inc [a] £'000	2016 Acc [b] £'000
Dividend distributions				
First interim	2,823	435	2,906	444
Second interim	2,812	377	2,911	433
Third interim	2,812	330	2,883	429
Final	12,445	942	7,045	1,089
Total net distributions		22,976		18,140
Income deducted on cancellation of shares		561		558
Income received on issue of shares		(3,024)		(374)
Distributions		**20,513**		**18,324**
Net revenue per statement of total return		16,210		14,140
Expenses offset against capital		4,386		4,290
Sharing of relief between classes		(83)		(106)
Distributions		**20,513**		**18,324**

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

Notes to the financial statements

9 Debtors

as at 31 May	2017 £'000	2016 £'000
Amounts receivable on issues of shares	148	27
Debt security interest receivable	1,758	1,468
Distributions receivable	1	2
Dividends receivable	2,937	1,503
Sales awaiting settlement	852	0
Total debtors	**5,696**	**3,000**

10 Cash and bank balances

as at 31 May	2017 £'000	2016 £'000
Cash held as bank balances	0	0
Total cash and bank balances	**0**	**0**

11 Other creditors

as at 31 May	2017 £'000	2016 £'000
ACD's annual management charge payable	146	212
Administration charge payable	25	35
Amounts payable on cancellation of shares	551	585
Expenses payable	12	12
Purchases awaiting settlement	1,534	0
Total other creditors	**2,268**	**844**

12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2016: same).

13 Shares in issue

The following table shows each class of share in issue during the year. Each share class has the same rights on winding up however they may have different charging structures as set out in note 14.

Share class	Opening 01.06.16	Movements Issued	Movements Cancelled	Closing 31.05.17
Sterling				
Class 'A' Income	24,169,257	482,070	(1,215,777)	23,435,550
Class 'A' Accumulation	399,081	2,117	(36,187)	365,011
Class 'C' Income	10,212,975	343,129	(1,368,500)	9,187,604
Class 'I' Income	4,103,383	1,371,363	(273,642)	5,201,104
Class 'I' Accumulation	1,568,476	203,363	(140,314)	1,631,525
Class 'R' Income	885,229	198,925,681	(12,718,369)	187,092,541
Class 'R' Accumulation	255,057	33,921	(43,866)	245,112
Class 'X' Income	4,638,501	48,000	(509,443)	4,177,058
Class 'X' Accumulation	100,558	10,437	(10,744)	100,251

14 Charging structure

The table below sets out the charging structure for each class of share. The charging structure is the same for both Income and Accumulation shares of each class.

Share class	Entry charge %	Exit charge %	Annual management charge %
Sterling			
Class 'A'	4.00 [a]	n/a	1.25
Class 'C'	nil	n/a	nil
Class 'I'	1.00 [a]	n/a	0.60
Class 'R'	1.00 [a]	n/a	0.85
Class 'X'	nil	4.50 [b]	1.25

[a] With effect from 16 December 2016, the entry charge has been discounted to zero on all new investments into sterling share classes.

[b] With effect from 16 December 2016, the exit charge has been waived on future withdrawals from all Sterling Class 'X' shares.

15 Related parties

M&G Securities Limited, as Authorised Corporate Director (ACD), is a related party and acts as principal on all the transactions of shares in the fund except with in specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to shareholders' and note 8. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 9 and 11 where applicable.

Amounts paid to M&G Securities Limited in respect of the ACD's annual management charge and administration charge are disclosed in note 6. Amounts due at the year end in respect of the ACD's annual management charge and administration charge are disclosed in note 11.

During the year, there were transactions in shares in related parties of M&G Securities Limited with a total value of £1,967,000 (2016: £nil)

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £7,999,000 (2016: £4,849,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 3.48% (2016: 19.12%) of the fund's shares.

Notes to the financial statements

16 Events after the balance sheet date

There were no events after the balance sheet date to disclose.

17 Portfolio fair value analysis

Financial instruments have been measured at their fair value and have been classified below using a hierarchy that reflects the significance of the inputs used in measuring their fair value:

Level 1: Quoted prices for identical instruments in active markets

This includes instruments such as publicly traded equities; highly liquid bonds (e.g. Government bonds) and exchange traded derivatives (e.g. futures) for which quoted prices are readily and regularly available.

Level 2: Valuation techniques using observable market data

This includes publicly traded corporate bonds and instruments which have been valued using models with observable market data inputs such as quoted prices for similar instruments, interest rates, yield curves or credit spreads. Over-the-counter instruments have also been included in the category.

Level 3: Valuation techniques using non-observable market data

This refers to instruments which have been valued using models with non-observable market data inputs. This includes private equity, unlisted closed-ended funds and investment analyst recommended prices where the market price is deemed to not be a true representation of fair value. However, no such financial instruments were held.

as at 31 May Valuation technique	Assets 2017 £'000	Liabilities 2017 £'000	Assets 2016 £'000	Liabilities 2016 £'000
Level 1	561,450	0	318,094	0
Level 2	121,444	0	74,835	0
Level 3	0	0	0	0
	682,894	**0**	**392,929**	**0**

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 13 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 to 9.

19 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by £34,145,000 (2016: £19,646,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity

Currency risk is not considered significant for the fund and is therefore not disclosed.

21 Interest rate risk

as at 31 May	2017 £'000	2016 £'000
Investments with fixed interest rates	115,031	67,833
Investments with variable interest rates	29,757	17,199
Non-interest bearing investments	538,106	307,897
Total	**682,894**	**392,929**

22 Interest rate risk sensitivity

Changes in interest rates or changes in expectations of future interest rates may result in an increase or decrease in the market value of the investments held. A one per cent increase in interest rates (based on current parameters used by the Manager's Investment Risk department) would have the effect of increasing the return and net assets by £11,501,000 (2016: £6,800,000). A one per cent decrease would have an equal and opposite effect.

23 Credit risk sensitivity

Credit risk is not considered significant for the fund and is therefore not disclosed.

24 Dividend distribution tables

This fund pays quarterly ordinary distributions and the following table sets out the distribution periods.

Quarterly distribution periods

	Start	End	Xd	Payment
First interim	01.06.16	31.08.16	01.09.16	31.10.16
Second interim	01.09.16	30.11.16	01.12.16	31.01.17
Third interim	01.12.16	28.02.17	01.03.17	30.04.17
Final	01.03.17	31.05.17	01.06.17	31.07.17

The following tables set out for each distribution the rates per share for both Group 1 and Group 2 shares.

Group 1 shares are those purchased prior to a distribution period and therefore their net revenue rate is the same as the distribution rate.

Group 2 shares are those purchased during a distribution period and therefore their distribution rate is made up of net revenue and equalisation. Equalisation is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the net revenue and equalisation components.

Notes to the financial statements

24 Dividend distribution tables (continued)

Sterling Class 'A' Income shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
First interim	0.6031	5.4969	6.1000	6.0000
Second interim	0.0000	6.1000	6.1000	6.0000
Third interim	0.0000	6.1000	6.1000	6.0000
Final	4.7190	11.6050	16.3240	15.2843

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
First interim	10.3619	41.1381	51.5000	49.0000
Second interim	0.0000	44.0000	44.0000	48.5000
Third interim	0.0000	36.5000	36.5000	49.0000
Final	30.7310	75.2619	105.9929	127.4826

Sterling Class 'C' Income shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
First interim	0.0000	6.6500	6.6500	6.5000
Second interim	0.0000	6.6500	6.6500	6.7500
Third interim	0.0000	6.6000	6.6000	6.7500
Final	1.2521	16.6870	17.9391	15.8044

Sterling Class 'I' Income shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
First interim	0.0000	9.7500	9.7500	9.5000
Second interim	0.0000	9.7500	9.7500	9.7500
Third interim	0.0000	10.0000	10.0000	9.7500
Final	7.2337	19.3053	26.5390	24.2673

Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
First interim	2.2199	9.5301	11.7500	10.7500
Second interim	0.0000	10.5000	10.5000	11.0000
Third interim	0.0000	9.7500	9.7500	11.0000
Final	8.9583	18.2586	27.2169	28.4600

Sterling Class 'R' Income shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
First interim	0.0726	0.9024	0.9750	1.0000
Second interim	0.0000	0.9750	0.9750	0.9000
Third interim	0.0000	0.9750	0.9750	0.9500
Final	1.2631	1.3566	2.6197	2.4538

Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
First interim	0.3451	0.8049	1.1500	1.1000
Second interim	0.0000	1.0500	1.0500	1.0000
Third interim	0.0000	0.8750	0.8750	1.1250
Final	1.0485	1.4908	2.5393	2.8662

Sterling Class 'X' Income shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
First interim	1.3771	4.7729	6.1500	6.0000
Second interim	0.0000	6.1500	6.1500	6.0000
Third interim	0.0000	6.1000	6.1000	6.0000
Final	4.5297	11.9769	16.5066	15.5097

Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
First interim	12.3419	38.6581	51.0000	49.0000
Second interim	0.0000	43.8000	43.8000	47.5000
Third interim	0.0000	36.0000	36.0000	48.0000
Final	31.1276	72.9691	104.0967	126.0502

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M&G UK Select Fund

Authorised Corporate Director's Report

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 fund manager employs a bottom-up stockpicking approach, driven by the fundamental analysis of individual companies. He seeks to invest in companies with sustainable competitive advantages that have the opportunity to reinvest their capital at high rates of return. A company's strategy around capital allocation is central to the investment process. The fund manager focuses on companies which recognise the importance of dividends, which in turn instils capital discipline and ensures that the highest-returning growth projects are prioritised. Rising free cashflow is expected to result in dividend growth of the fund's holdings being higher than that of a broad index of UK equities over the long term. This premium dividend growth is expected to drive the fund's long-term capital growth and growth in the fund's income distributions. The fund will hold less than 50 stocks, with a long-term investment view and a typical holding period of three to five years.

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.

Low risk — High risk

Typically lower rewards — Typically higher rewards

1	2	3	4	**5**	6	7

The above number:

- is based on the rate at which the value of the fund has moved up and down in the past and is based on historical data so may not be a reliable indicator of the future risk profile of the fund.
- is not guaranteed and may change over time and the lowest risk number does not mean risk free.
- has changed during this period. From 1 June 2016 to 23 February 2017 the risk number was 6.

Investment review

As at 1 June 2017, for the year ended 31 May 2017

Performance against objective

Between 1 June 2016 (the start of the review period) and 1 June 2017, the fund delivered a positive total return (the combination of income and growth of capital) across all share classes. The fund therefore met its objective of capital growth over this relatively short timeframe. The higher returns generated by the sterling share classes, compared with those of the euro share classes, reflect sterling's weakness against the world's major currencies during the 12 months under review. However, the fund's returns in all share classes lagged the FTSE All-Share Index, a comparative index, which returned 25.8% and 12.1% in sterling and euros, respectively.

Over five years and since launch, the fund has achieved capital growth in all share classes.*

Investment performance

The UK's vote to leave the European Union provided an inauspicious start to the review period, the shock result sending the stockmarket and sterling instantly lower. Domestic businesses felt the brunt of the uncertainty, while overseas earners fared significantly better. Investor confidence quickly recovered, however, until financial markets were confronted with the second political shock of the year. Donald Trump's victory in the US presidential election led to a reappraisal of economic prospects with expectations of better growth and higher inflation resulting in the marked underperformance of defensive stocks, that is, shares of companies that tend to have steady earnings and are less affected by the peaks and troughs in the economy. Consumer goods, utilities and telecoms, which benefited for many years in an environment of low growth and low bond yields, suddenly found themselves out of favour, while more economically sensitive areas, such as financials and industrials, took up the slack. The stockmarket proved resilient throughout these events and ended the year with solid gains.

Against this background, the fund delivered positive returns, but trailed the FTSE All-Share Index which reached an all-time high in May. Our holdings in financials, industrials and oil & gas sectors were responsible for much of the shortfall on a relative basis.

Lloyds Banking Group was the biggest detractor among our holdings, only just delivering a positive return in a market which rose by considerably more. The domestic bank was hit hard in June with the market value falling by almost 30% in the immediate aftermath of Brexit, but the shares recouped their losses as the business continued to deliver on fundamental grounds. The bank's progress in financial performance was endorsed by a 13% increase in the ordinary dividend for 2016, which was accompanied by a special dividend reflecting the strong cash generation in the business. We applaud the return of excess cash to shareholders and the stock remains one of the fund's largest holdings.

Lloyds was our only holding in banks for much of the review period when the industry returned 35%. Against this background, the fund's relatively small exposure to banks held back performance. Not owning HSBC, which returned more than 60% during the period and is a large constituent of the FTSE All-Share Index, was another major source of underperformance. HSBC was a beneficiary of overseas earnings which gave investors comfort on the dividend being maintained in an environment of sterling weakness. Having zero exposure to the global

Investment review

Investment performance (continued)

bank in this context worked to the fund's detriment. We continue to be selective in our approach and remain sceptical about banks overall because of growing regulatory costs, the industry's capital requirements and the need for significant amounts of leverage to drive shareholder return.

The punitive reaction to the referendum result was widespread across domestically focused companies. Travis Perkins, the builders' merchants, and Bovis Homes, the housebuilder, were among the top 10 detractors during the review period as concerns about the UK economy weighed on their shares. Travis Perkins remains in the portfolio, albeit with a reduced weighting, while the holding in Bovis Homes has been sold in its entirety alongside its peer Galliford Try.

In addition to Travis Perkins, Babcock International and Senior were among the fund's top detractors in a diverse industrials sector. Babcock is a provider of support services to the marine and defence industries which we have now sold as a result of concerns about growth prospects, accounting and the balance sheet. Senior was hampered by challenging conditions in its Flexonics division, especially in the North American trucks and oil & gas markets, prompting it to be sold and the proceeds recycled into ideas where we have greater conviction.

Our holdings in oil & gas had mixed fortunes. Wood Group underperformed after its outlook and guidance disappointed the market; the oil services company raised its dividend by 10%, however, and the proposed takeover of Amec Foster Wheeler offers potential for significant cost savings. We have spent considerable time analysing the acquisition and believe that should the targeted cost savings be retained, Wood Group should emerge an enhanced company for any improvement in the oil price. Not owning Royal Dutch Shell provided another drag on performance as the UK's biggest company returned more than 35% during the review period as the oil price continued to recover from its lows. This was offset by a large holding in BP, which returned 40% and was the biggest positive contributor to fund performance in the past year.

Micro Focus was another strong contributor after the shares returned more than 50% during the year. The technology company continued to deliver solid operational performance, on top of which the acquisition of Hewlett Packard Enterprise's software business was well received by the market. The transaction provides scale in a defensive industry with high recurring revenues and strong cash generation, and we believe there is considerable scope to improve profitability. The stock remains one of the fund's largest holdings.

Melrose in industrials also added value. Shares of the turnaround specialist which focuses on improving underperforming businesses more than tripled during the year, helped by the acquisition of Nortek in the US. Melrose has an excellent track record of creating value for shareholders and the stock remains a core holding. CRH was another top 10 positive contributor in the same sector as the Irish building materials company benefited from a favourable operating environment in the Americas.

New holdings also featured on the list of top contributors. From 1 January, the fund has pursued a new investment approach which focuses on companies with sustainable competitive advantages that have the opportunity to reinvest their capital at high rates of return. Capturing the benefits of long-term compounding is an excellent way to build wealth, in our view. A company's strategy around capital allocation is central to the investment process. We focus on companies which recognise the importance of dividends, which in turn instil capital discipline and ensure the most profitable growth projects are prioritised. (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.) Our central belief is that compounded cashflows are underestimated and are beneficial for share prices over the long term.

ConvaTec and Dechra Pharmaceuticals, both in the healthcare sector, are good examples of companies with the characteristics we look for. ConvaTec, which provides medical products for the management of chronic conditions, has leading positions in large and structurally growing markets with high recurring revenues. Dechra specialises in veterinary products and continues to grow, helped by new products and the strong performance of recent acquisitions. ConvaTec is initiating a dividend, while Dechra raised its interim payment by 10%; we believe both companies are well placed to deliver long-term growth. The two stocks each returned about 40% for the fund over the review period.

A.G. Barr, the producer of IRN-BRU, is another illustration of the type of company our philosophy gravitates towards. Concerns about the introduction of a sugar tax presented us with an opportunity to invest in a company with excellent long-term prospects, backed by enduring brands and a culture of disciplined growth. The soft drinks company is committed to a progressive dividend policy (up 8% this year) and we have confidence that the business can continue to progress under the outstanding leadership of chief executive Roger White. The stock has returned 40% for the fund.

The purchase of A.G. Barr also had a positive impact on sector allocation as the fund benefited from the timely increase in the exposure to consumer goods, the best-performing sector in the first five months of 2017. The new purchases of Imperial Brands, Unilever and Reckitt Benckiser – all classic compounders – also helped. Conversely, the reduction of the oil & gas exposure worked in the fund's favour. The weighting in BP was cut by more than half, while Cairn Energy, Ophir Energy and Tullow Oil were sold in their entirety.

The fund's zero weighting in utilities and limited exposure to telecoms also added value during a period when defensive stocks were under pressure. Defensive stocks underperformed throughout the review period, but the effect was most pronounced in November when the Trump-induced market rotation saw a move away from defensive sectors to more economically sensitive areas. The limited exposure to banks and mining provided a headwind, but we remain cautious on the outlook for both industries. We have expressed our concerns about banks earlier in the report, but in mining, we are even more unconvinced about the capital discipline of the individual companies. We continue to believe that we can find better opportunities in other industries where companies have greater control of their own destiny.

Investment activities

Portfolio activity during the 12-month review period was higher than previous years because of the introduction of a new investment approach from 1 January. This led to a number of changes in the fund's holdings, the lion's share of which took place in January and February. The alignment was all but completed by the end of the review period and the remaining changes are not expected to have a material impact on fund performance. We indicated when we wrote to investors in November that the costs associated with repositioning

Investment review

Investment activities (continued)

were likely to be in the region of 50 to 65 basis points. The actual cost incurred was 24 basis points, well below our initial estimate, the main reason for the difference being the lower contribution from stamp duty. Share purchases of companies incorporated outside the UK are not liable for this tax. The exemption applies to companies including Hiscox and Shire whose shares are listed in the UK, but are incorporated in Jersey and Bermuda, respectively. Given the one-off nature of this alignment, long-term investors should benefit from lower transaction costs in the future as the new approach adopts a longer investment horizon which requires fewer portfolio changes.

There were 14 new purchases since 1 January spread across a broad range of industries, including Smiths Group and Kone (industrials), Essentra (support services), Reckitt Benckiser and Burberry (consumer goods), Countryside Properties (housebuilding and urban regeneration), Dechra Pharmaceuticals (healthcare), Ascential (media) and Intermediate Capital (financials) – all of which added value since their purchase by the fund. PrairieSky Royalty (oil & gas) and Methanex (basic materials) were also among the new entrants. We also built up full positions in financial firms St. James's Place (wealth management) and Hiscox (insurance) which outperformed, as well as WH Smith which bucked the trend in a difficult retail industry. St. James's Place and WH Smith were among the fund's top 10 holdings at the end of the review period.

To raise cash for these purchases, we sold 18 stocks during the same period. The exits included Mondi (basic materials), RPC (industrials), Spire Healthcare (healthcare), Aviva and Man Group (financials). We also reduced the weighting in BP (oil & gas), CRH (industrials) and Smith & Nephew (healthcare) to manage the large exposure we inherited in these holdings.

For the year as a whole, there were 24 new purchases and 31 complete sales as a result of which the fund had investments in 41 companies at the end of the review period. The greater concentration of the fund reflects the conviction we have in the individual holdings and is consistent with the fund's policy of investing in a relatively small number of companies. We believe a concentrated portfolio of best ideas is an excellent way to capture the opportunities for stock selection in the UK stockmarket.

Outlook

The UK's vote to leave the EU has had wide repercussions for financial markets and the economic impact is likely to remain unclear for the foreseeable future. The uncertainties have been exacerbated since the end of the review period with the Conservatives failing to secure a majority in parliament, but macroeconomic concerns and the political climate should not deter investors from the stockmarket, in our view. The UK stockmarket continues to offer excellent opportunities for stock pickers, particularly among medium-sized companies which have potential to deliver long-term growth for the benefit of shareholders. The UK is home to a multitude of global businesses which are not reliant on the fortunes of the UK economy and have competitive advantages that ensure control over their own destiny. Even among more domestically biased companies, there are opportunities for growth.

With this in mind, our focus remains resolutely on the analysis of company fundamentals and valuation, in the belief that these factors drive stockmarket returns over the long term. Investment decisions are based on detailed research to determine whether a stock merits its place in the fund. Competition for places in a concentrated portfolio is high. Dialogue with senior company management is integral to our approach and we aim to make informed judgments through human engagement and site visits to gain a better understanding of corporate culture and strategy. It is not a mechanical function which is removed from the people who manage businesses on a day-to-day basis. The stewardship of our clients' money entails regular company meetings and site visits to gain a better understanding of corporate culture and strategy. Through the consistent application of this disciplined process, we aim to identify the best opportunities available.

We believe the new portfolio is well placed to take advantage of long-term growth, and we are encouraged that the fund has delivered positive returns ahead of the FTSE All-Share Index since the new approach was fully adopted from 1 January. We believe the cash-generative nature of the underlying holdings, their ability to reinvest at high rates of return and their commitment to dividends as a means of ensuring capital discipline stand us in good stead for the future. We have conviction in our approach and we continue to challenge ourselves to generate excellent long-term returns for our clients. We appreciate your continued support.

Sam Ford
Fund manager

An employee of M&G Limited which is an associate of M&G Securities Limited. At the start of the review period Mike Felton was the fund manager.

* 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 31 May Holding		2017 £'000	2017 %	2016 %
	Oil & gas producers	**19,593**	**3.14**	**11.36**
4,143,218	BP	19,593	3.14	
	Oil equipment, services & distribution	**29,232**	**4.68**	**1.08**
2,215,480	John Wood Group	15,985	2.56	
760,689	PrairieSky Royalty	13,247	2.12	
	Chemicals	**12,432**	**1.99**	**0.96**
376,000	Methanex	12,432	1.99	
	Forestry & paper	**0**	**0.00**	**2.53**
	Industrial metals & mining	**0**	**0.00**	**0.49**
	Mining	**6,483**	**1.04**	**2.53**
207,635	Rio Tinto	6,483	1.04	
	Construction & materials	**10,218**	**1.64**	**5.24**
360,690	CRH	10,218	1.64	
	Aerospace & defence	**2,027**	**0.32**	**2.02**
1,463,637	Cobham	2,027	0.32	

Investments

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	General industrials	**33,430**	**5.36**	**3.95**
3,569,555	DS Smith	15,610	2.50	
1,109,558	Smiths Group	17,820	2.86	
	Industrial engineering	**20,185**	**3.23**	**0.23**
320,815	Kone	12,357	1.98	
3,285,562	Melrose Industries	7,828	1.25	
	Support services	**30,693**	**4.92**	**6.75**
1,191,923	Aggreko	10,322	1.65	
2,011,868	Essentra	11,538	1.85	
535,981	Travis Perkins	8,833	1.42	
	Beverages	**17,749**	**2.84**	**0.00**
2,711,770	A.G. Barr	17,749	2.84	
	Food producers	**21,255**	**3.40**	**0.00**
487,880	Unilever	21,255	3.40	
	Household goods & home construction	**37,567**	**6.02**	**1.46**
3,870,669	Countryside Properties	12,870	2.06	
5,468,158	McCarthy & Stone	10,154	1.63	
180,301	Reckitt Benckiser	14,543	2.33	
	Personal goods	**12,125**	**1.94**	**0.00**
672,139	Burberry Group	12,125	1.94	
	Tobacco	**49,641**	**7.95**	**3.19**
527,866	British American Tobacco	29,328	4.70	
559,728	Imperial Brands	20,313	3.25	
	Healthcare equipment & services	**27,827**	**4.46**	**6.88**
5,001,278	ConvaTec	16,084	2.58	
864,753	Smith & Nephew	11,743	1.88	
	Pharmaceuticals & biotechnology	**53,339**	**8.55**	**7.30**
385,637	AstraZeneca	20,258	3.25	
717,642	Dechra Pharmaceuticals	13,535	2.17	
431,522	Shire	19,546	3.13	
	General retailers	**26,492**	**4.24**	**3.53**
2,344,573	Saga	4,736	0.76	
1,218,154	WH Smith	21,756	3.48	
	Media	**20,757**	**3.33**	**2.93**
2,667,611	Ascential	9,379	1.50	
3,100,101	Zoopla Property Group	11,378	1.83	
	Travel & leisure	**7,118**	**1.14**	**3.03**
1,164,089	International Consolidated Airlines Group	7,118	1.14	
	Mobile telecommunications	**16,011**	**2.56**	**5.26**
6,902,902	Vodafone Group	16,011	2.56	
	Banks	**25,140**	**4.03**	**7.80**
35,303,674	Lloyds Banking Group	25,140	4.03	
	Non-life insurance	**17,441**	**2.79**	**0.00**
1,422,611	Hiscox	17,441	2.79	
	Life insurance	**49,147**	**7.87**	**8.36**
1,515,231	Prudential [a]	26,350	4.22	
1,917,352	St. James's Place	22,797	3.65	
	Real estate investment trusts	**8,910**	**1.43**	**0.84**
1,017,671	Workspace Group	8,910	1.43	
	Financial services	**9,874**	**1.58**	**4.07**
1,121,407	Intermediate Capital Group	9,874	1.58	

Portfolio statement (continued)

as at 31 May Holding		2017 £'000	2017 %	2016 %
	Software & computer services	**37,089**	**5.94**	**3.95**
862,620	Micro Focus International	20,737	3.32	
2,275,771	Sage Group	16,352	2.62	
	Unquoted / unlisted	**0**	**0.00**	**0.00**
770,825	Izodia [b]	0	0.00	
Portfolio of investments		**601,775**	**96.39**	**95.74**
	'AAA' rated money market funds [c]	**25,091**	**4.02**	**4.01**
25,091,000	Northern Trust Global Fund - Sterling	25,091	4.02	
Total portfolio (notes 2c & 2d on page 6)		**626,866**	**100.41**	**99.75**
Net other assets / (liabilities)		**(2,590)**	**(0.41)**	**0.25**
Net assets attributable to shareholders		**624,276**	**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 year to 31 May 2017

Largest purchases	£'000
Imperial Brands	24,561
St. James's Place	19,780
Unilever	19,111
WH Smith	18,720
John Wood Group	17,875
Smiths Group	16,676
Reckitt Benckiser	16,279
A.G. Barr	16,058
PrairieSky Royalty	15,273
Hiscox	14,568
Other purchases	239,500
Total purchases	**418,401**

Largest sales	£'000
BP	43,053
RPC Group	22,433
Mondi	21,153
Aviva	20,181
CRH	18,950
Smith & Nephew	18,945
Babcock International Group	16,983
Galliford Try	16,450
Man Group	16,331
Spire Healthcare	16,062
Other sales	333,813
Total sales	**544,354**

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

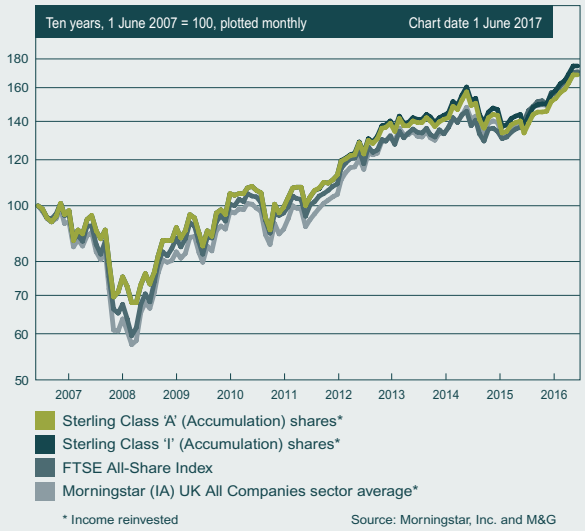
as at 31 May	2017 £'000	2016 £'000	2015 £'000
Fund net asset value (NAV)	624,276	655,835	830,000

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

	One year 01.06.16 % [a]	Three years 02.06.14 % p.a.	Five years 01.06.12 % p.a.	Since launch % p.a.
Euro [b]				
Class 'A'	+7.5	+3.9	+9.6	+3.4 [c]
Class 'C'	+8.3	+4.6	+10.4	+4.2 [c]
Sterling [d]				
Class 'A'	+21.6	+6.4	+11.4	+9.9 [e]
Class 'C'	+23.5	+8.0	n/a	+9.5 [f]
Class 'I'	+22.5	+7.2	n/a	+10.8 [g]
Class 'R'	+22.2	+6.9	n/a	+10.6 [g]
Class 'X'	+21.6	+6.4	+11.4	+9.6 [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 and method of execution. They are made up of direct and indirect portfolio transaction costs:

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

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

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling shares in the fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. The table below shows direct portfolio transaction costs paid by the fund before and after that part of the dilution adjustment relating to direct portfolio transaction costs. To give an indication of the indirect portfolio dealing costs the table also shows the average portfolio dealing spread.

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

Portfolio transaction costs

for the year to 31 May Direct portfolio transaction costs [b]	2017 %	2016 %	2015 %	Average [a] %
Broker commission	0.09	0.08	0.05	0.07
Taxes	0.27	0.15	0.15	0.19
Costs before dilution adjustments	0.36	0.23	0.20	0.26
Dilution adjustments [c]	(0.02)	(0.03)	(0.04)	(0.03)
Total direct portfolio transaction costs	0.34	0.20	0.16	0.23

as at 31 May Indirect portfolio transaction costs	2017 %	2016 %	2015 %	Average [a] %
Average portfolio dealing spread	0.06	0.09	0.13	0.09

[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 Select 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' Accumulation share performance

The share class was launched on 31 August 2007.

for the year to 31 May Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,323.73	1,578.45	1,242.10
Return before operating charges and after direct portfolio transaction costs	88.92	(232.03)	358.61
Operating charges	(20.71)	(22.69)	(22.26)
Return after operating charges	68.21	(254.72)	336.35
Distributions	(13.96)	(20.40)	(19.95)
Retained distributions	13.96	20.40	19.95
Closing NAV	1,391.94	1,323.73	1,578.45
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	4.52	3.19	2.66
Dilution adjustments [a]	(0.19)	(0.39)	(0.58)
Total direct portfolio transaction costs	4.33	2.80	2.08
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.34	0.20	0.16
Operating charges	1.66	1.66	1.66
Return after operating charges	+5.15	-16.14	+27.08
Historic yield	1.03	1.61	1.31
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	2,829	4,257	4,070
Closing NAV percentage of total fund NAV (%)	0.45	0.65	0.49
Number of shares	232,675	421,452	358,793
Highest share price (Euro ¢)	1,410.99	1,585.52	1,590.72
Lowest share price (Euro ¢)	1,093.05	1,119.18	1,152.58

Euro Class 'C' Accumulation share performance

The share class was launched on 31 August 2007.

for the year to 31 May Change in NAV per share	2017 Euro ¢	2016 Euro ¢	2015 Euro ¢
Opening NAV	1,412.18	1,671.58	1,305.51
Return before operating charges and after direct portfolio transaction costs	96.15	(246.12)	379.67
Operating charges	(12.26)	(13.28)	(13.60)
Return after operating charges	83.89	(259.40)	366.07
Distributions	(24.93)	(31.62)	(31.07)
Retained distributions	24.93	31.62	31.07
Closing NAV	1,496.07	1,412.18	1,671.58
Direct portfolio transaction costs	**Euro ¢**	**Euro ¢**	**Euro ¢**
Costs before dilution adjustments	4.87	3.39	3.06
Dilution adjustments [a]	(0.21)	(0.42)	(0.67)
Total direct portfolio transaction costs	4.66	2.97	2.39
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.34	0.20	0.16
Operating charges	0.91	0.91	0.90
Return after operating charges	+5.94	-15.52	+28.04
Historic yield	1.70	2.34	1.92
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	44	46	429
Closing NAV percentage of total fund NAV (%)	0.01	0.01	0.05
Number of shares	3,334	4,282	35,709
Highest share price (Euro ¢)	1,515.89	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	2,558.66	2,915.53	2,631.80
Return before operating charges and after direct portfolio transaction costs	562.97	(276.68)	364.95
Operating charges	(45.09)	(43.26)	(44.24)
Return after operating charges	517.88	(319.94)	320.71
Distributions	(61.25)	(36.93)	(36.98)
Closing NAV	3,015.29	2,558.66	2,915.53
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	9.85	6.08	5.27
Dilution adjustments [a]	(0.42)	(0.74)	(1.16)
Total direct portfolio transaction costs	9.43	5.34	4.11
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.34	0.20	0.16
Operating charges	1.66	1.66	1.66
Return after operating charges	+20.24	-10.97	+12.19
Historic yield [c]	2.54	1.48	1.30
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (£'000)	289,918	262,780	331,912
Closing NAV percentage of total fund NAV (%)	46.45	40.07	39.99
Number of shares	9,614,954	10,270,202	11,384,280
Highest share price (UK p)	3,056.25	2,892.91	2,935.26
Lowest share price (UK p)	2,308.56	2,248.66	2,393.09

M&G UK Select Fund

Financial highlights

Specific share class performance

Sterling Class 'A' Accumulation share performance

The share class was launched on 17 December 1968.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	3,819.83	4,290.96	3,822.21
Return before operating charges and after direct portfolio transaction costs	845.98	(407.27)	533.17
Operating charges	(67.55)	(63.86)	(64.42)
Return after operating charges	778.43	(471.13)	468.75
Distributions	(45.73)	(54.46)	(53.95)
Retained distributions	45.73	54.46	53.95
Closing NAV	4,598.26	3,819.83	4,290.96
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	14.75	8.97	7.67
Dilution adjustments [a]	(0.63)	(1.10)	(1.68)
Total direct portfolio transaction costs	14.12	7.87	5.99
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.34	0.20	0.16
Operating charges	1.66	1.66	1.66
Return after operating charges	+20.38	-10.98	+12.26
Historic yield	1.02	1.46	1.28
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	221,522	199,279	264,276
Closing NAV percentage of total fund NAV (%)	35.48	30.39	31.84
Number of shares	4,817,512	5,216,953	6,158,902
Highest share price (UK p)	4,596.70	4,257.90	4,289.28
Lowest share price (UK p)	3,446.72	3,329.01	3,475.66

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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	2,560.64	2,917.68	2,632.65
Return before operating charges and after direct portfolio transaction costs	566.54	(276.45)	366.79
Operating charges	(4.38)	(4.15)	(4.26)
Return after operating charges	562.16	(280.60)	362.53
Distributions	(74.60)	(76.44)	(77.50)
Closing NAV	3,048.20	2,560.64	2,917.68
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	9.90	6.10	5.30
Dilution adjustments [a]	(0.42)	(0.75)	(1.16)
Total direct portfolio transaction costs	9.48	5.35	4.14
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.34	0.20	0.16
Operating charges	0.16	0.16	0.16
Return after operating charges	+21.95	-9.62	+13.77
Historic yield [c]	2.53	3.06	2.71
Effect on yield of charges offset against capital	0.15	0.00	0.00
Other information			
Closing NAV (£'000)	18,120	16,650	19,665
Closing NAV percentage of total fund NAV (%)	2.90	2.54	2.37
Number of shares	594,436	650,241	674,003
Highest share price (UK p)	3,089.82	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,246.28	1,420.09	1,281.90
Return before operating charges and after direct portfolio transaction costs	274.90	(134.66)	178.34
Operating charges	(11.99)	(11.53)	(11.96)
Return after operating charges	262.91	(146.19)	166.38
Distributions	(33.07)	(27.62)	(28.19)
Closing NAV	1,476.12	1,246.28	1,420.09
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	4.78	2.96	2.60
Dilution adjustments [a]	(0.20)	(0.36)	(0.57)
Total direct portfolio transaction costs	4.58	2.60	2.03
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.34	0.20	0.16
Operating charges	0.91	0.91	0.91
Return after operating charges	+21.10	-10.29	+12.98
Historic yield [c]	2.54	2.27	2.03
Effect on yield of charges offset against capital	0.90	0.00	0.00
Other information			
Closing NAV (£'000)	30,055	34,011	29,102
Closing NAV percentage of total fund NAV (%)	4.81	5.19	3.51
Number of shares	2,036,114	2,729,019	2,049,268
Highest share price (UK p)	1,496.22	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	1,356.20	1,512.06	1,336.81
Return before operating charges and after direct portfolio transaction costs	301.43	(143.49)	187.81
Operating charges	(12.78)	(12.37)	(12.56)
Return after operating charges	288.65	(155.86)	175.25
Distributions	(27.14)	(29.49)	(29.34)
Retained distributions	27.14	29.49	29.34
Closing NAV	1,644.85	1,356.20	1,512.06
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	5.09	3.17	2.73
Dilution adjustments [a]	(0.22)	(0.39)	(0.60)
Total direct portfolio transaction costs	4.87	2.78	2.13
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.34	0.20	0.16
Operating charges	0.91	0.91	0.91
Return after operating charges	+21.28	-10.31	+13.11
Historic yield	1.68	2.23	1.98
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	45,357	123,444	161,291
Closing NAV percentage of total fund NAV (%)	7.27	18.82	19.43
Number of shares	2,757,523	9,102,171	10,666,964
Highest share price (UK p)	1,644.30	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	124.60	141.98	128.16
Return before operating charges and after direct portfolio transaction costs	27.48	(13.46)	17.81
Operating charges	(1.55)	(1.47)	(1.51)
Return after operating charges	25.93	(14.93)	16.30
Distributions	(3.20)	(2.45)	(2.48)
Closing NAV	147.33	124.60	141.98
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.48	0.30	0.26
Dilution adjustments [a]	(0.02)	(0.04)	(0.06)
Total direct portfolio transaction costs	0.46	0.26	0.20
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.34	0.20	0.16
Operating charges	1.16	1.16	1.16
Return after operating charges	+20.81	-10.52	+12.72
Historic yield [c]	2.54	2.02	1.78
Effect on yield of charges offset against capital	1.15	0.00	0.00
Other information			
Closing NAV (£'000)	898	520	468
Closing NAV percentage of total fund NAV (%)	0.14	0.08	0.06
Number of shares	609,939	417,479	329,435
Highest share price (UK p)	149.33	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	134.28	150.09	133.04
Return before operating charges and after direct portfolio transaction costs	29.84	(14.25)	18.63
Operating charges	(1.66)	(1.56)	(1.58)
Return after operating charges	28.18	(15.81)	17.05
Distributions	(2.33)	(2.59)	(2.59)
Retained distributions	2.33	2.59	2.59
Closing NAV	162.46	134.28	150.09
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	0.52	0.31	0.27
Dilution adjustments [a]	(0.02)	(0.04)	(0.06)
Total direct portfolio transaction costs	0.50	0.27	0.21
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.34	0.20	0.16
Operating charges	1.16	1.16	1.16
Return after operating charges	+20.99	-10.53	+12.82
Historic yield	1.47	1.98	1.76
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	407	363	341
Closing NAV percentage of total fund NAV (%)	0.07	0.05	0.04
Number of shares	250,639	270,582	227,300
Highest share price (UK p)	162.40	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.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	2,575.72	2,935.02	2,649.49
Return before operating charges and after direct portfolio transaction costs	566.68	(278.55)	367.45
Operating charges	(45.35)	(43.52)	(44.59)
Return after operating charges	521.33	(322.07)	322.86
Distributions	(61.66)	(37.23)	(37.33)
Closing NAV	3,035.39	2,575.72	2,935.02
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	9.90	6.12	5.31
Dilution adjustments [a]	(0.42)	(0.75)	(1.17)
Total direct portfolio transaction costs	9.48	5.37	4.14
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.34	0.20	0.16
Operating charges	1.66	1.66	1.66
Return after operating charges	+20.24	-10.97	+12.19
Historic yield [c]	2.54	1.48	1.30
Effect on yield of charges offset against capital	1.65	0.00	0.00
Other information			
Closing NAV (£'000)	9,568	9,157	11,228
Closing NAV percentage of total fund NAV (%)	1.53	1.39	1.35
Number of shares	315,228	355,505	382,547
Highest share price (UK p)	3,076.62	2,912.25	2,954.97
Lowest share price (UK p)	2,323.95	2,263.66	2,409.17

Sterling Class 'X' Accumulation share performance

The share class was launched on 1 October 2002.

for the year to 31 May Change in NAV per share	2017 UK p	2016 UK p	2015 UK p
Opening NAV	3,778.84	4,244.91	3,781.26
Return before operating charges and after direct portfolio transaction costs	836.79	(402.88)	527.16
Operating charges	(66.72)	(63.19)	(63.51)
Return after operating charges	770.07	(466.07)	463.65
Distributions	(45.24)	(54.02)	(52.65)
Retained distributions	45.24	54.02	52.65
Closing NAV	4,548.91	3,778.84	4,244.91
Direct portfolio transaction costs	**UK p**	**UK p**	**UK p**
Costs before dilution adjustments	14.57	8.88	7.56
Dilution adjustments [a]	(0.62)	(1.09)	(1.66)
Total direct portfolio transaction costs	13.95	7.79	5.90
Performance and charges	**%**	**%**	**%**
Direct portfolio transaction costs [b]	0.34	0.20	0.16
Operating charges	1.66	1.66	1.66
Return after operating charges	+20.38	-10.98	+12.26
Historic yield	1.02	1.47	1.27
Effect on yield of charges offset against capital	0.00	0.00	0.00
Other information			
Closing NAV (£'000)	5,558	5,328	7,218
Closing NAV percentage of total fund NAV (%)	0.89	0.81	0.87
Number of shares	122,172	141,001	170,040
Highest share price (UK p)	4,547.37	4,212.21	4,243.25
Lowest share price (UK p)	3,409.73	3,293.28	3,438.39

[a] In respect of direct portfolio transaction costs.

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

[c] Current year figures have been estimated to reflect the change in charging structure and therefore you may see variances between comparative and current year figures.

Financial statements

Statement of total return

for the year to 31 May	Note	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Income					
Net capital gains / (losses)	3		101,428		(100,958)
Revenue	5	19,403		22,833	
Expenses	6	(9,074)		(10,201)	
Net revenue / (expense) before taxation		10,329		12,632	
Taxation	7	(36)		(4)	
Net revenue / (expense) after taxation			10,293		12,628
Total return before distributions			**111,721**		**(88,330)**
Distributions	8		(10,974)		(11,260)
Change in net assets attributable to shareholders from investment activities			**100,747**		**(99,590)**

Statement of change in net assets attributable to shareholders

for the year to 31 May	2017 £'000	2017 £'000	2016 £'000	2016 £'000
Opening net assets attributable to shareholders		**655,835**		**830,000**
Amounts received on issue of shares	7,722		74,209	
Amounts paid on cancellation of shares	(143,294)		(155,033)	
		(135,572)		(80,824)
Dilution adjustments		126		299
Change in net assets attributable to shareholders from investment activities (see above)		100,747		(99,590)
Retained distributions on Accumulation shares		3,117		5,922
Unclaimed distributions		23		28
Closing net assets attributable to shareholders		**624,276**		**655,835**

Balance sheet

as at 31 May	Note	2017 £'000	2016 £'000
Assets			
Fixed assets			
Investments		626,866	654,177
Current assets			
Debtors	9	5,561	1,909
Cash and bank balances	10	10	4,963
Total assets		**632,437**	**661,049**
Liabilities			
Creditors			
Bank overdrafts		(2,053)	0
Distribution payable		(4,857)	(2,972)
Other creditors	11	(1,251)	(2,242)
Total liabilities		**(8,161)**	**(5,214)**
Net assets attributable to shareholders		**624,276**	**655,835**

Notes to the financial statements

1 Accounting policies

The financial statements have been prepared in accordance with the 'Summary of significant accounting policies' set out on pages 6 and 7.

2 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.

3 Net capital gains / (losses)

for the year to 31 May	2017 £'000	2016 £'000
Non-derivative securities	101,517	(100,939)
Currency gains / (losses)	(80)	(14)
Transaction charges	(9)	(5)
Net capital gains / (losses)	**101,428**	**(100,958)**

Notes to the financial statements

4 Portfolio transactions and associated costs

The following tables show portfolio transactions and their associated transaction costs. For more information about the nature of the costs please see the section on 'Operating charges and portfolio transaction costs' on page 118.

for the year to 31 May	2017 £'000	% of transaction	2016 £'000	% of transaction
a) Purchases				
Equities				
Equities before transaction costs	411,810		204,804	
Commissions	196	0.05	243	0.12
Taxes	1,667	0.40	1,094	0.53
Equities after transaction costs	**413,673**		**206,141**	
Other transaction types				
Corporate actions	**4,728**		**2,175**	
Total purchases after transaction costs	**418,401**		**208,316**	
b) Sales				
Equities				
Equities before transaction costs	544,367		260,898	
Commissions	(335)	0.06	(308)	0.12
Taxes	(1)	0.00	0	0.00
Equities after transaction costs	**544,031**		**260,590**	
Other transaction types				
Corporate actions	**323**		**0**	
Total sales after transaction costs	**544,354**		**260,590**	

c) Direct portfolio transaction costs	2017 £'000	% of average NAV	2016 £'000	% of average NAV
Commissions paid				
Equities	531	0.09	551	0.08
Taxes paid				
Equities	1,668	0.27	1,094	0.15
Total direct portfolio transaction costs [a]	**2,199**	**0.36**	**1,645**	**0.23**
d) Indirect portfolio transaction costs		**%**		**%**
Portfolio dealing spread [b]		0.06		0.09

[a] Costs before dilution adjustments. Please refer to the 'Financial highlights' section for the effect of dilution adjustments.

[b] Average portfolio dealing spread at the balance sheet date.

5 Revenue

for the year to 31 May	2017 £'000	2016 £'000
Bank interest	1	10
Dividends from equity investments: non-taxable	16,465	21,296
Dividends from equity investments: taxable	152	0
Interest distributions	66	135
Stock dividends	2,648	1,368
Underwriting commission	71	24
Total revenue	**19,403**	**22,833**

6 Expenses

for the year to 31 May	2017 £'000	2016 £'000
Payable to the ACD or associate		
Annual management charge	8,111	9,088
Administration charge	910	1,060
	9,021	10,148
Payable to the Depositary or associate		
Depositary's charge (including VAT)	41	45
Other expenses		
Audit fee (including VAT)	10	7
Safe custody charge	2	1
	12	8
Total expenses	**9,074**	**10,201**

7 Taxation

for the year to 31 May	2017 £'000	2016 £'000
a) Analysis of charge in the year		
Corporation tax	0	0
Withholding tax	36	4
Deferred tax (note 7c)	0	0
Total taxation	**36**	**4**
b) Factors affecting taxation charge for the year		
Net revenue / (expense) before taxation	10,329	12,632
Corporation tax at 20%	2,065	2,526
Effects of:		
Dividends from equity investments: non-taxable	(3,293)	(4,259)
Stock dividends not taxable	(530)	(273)
Current year expenses not utilised	1,758	2,006
Withholding tax	36	4
Total tax charge (note 7a)	**36**	**4**
c) Provision for deferred taxation		
Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 7a)	0	0
Provision at the end of the year	**0**	**0**

The fund has not recognised a deferred tax asset of £23,542,000 (2016: £21,784,000) arising as a result of having excess management expenses. We do not expect this asset to be utilised in the foreseeable future.

8 Distributions

for the year to 31 May	2017 Inc [a] £'000	2017 Acc [b] £'000	2016 Inc [a] £'000	2016 Acc [b] £'000
Dividend distributions				
Interim	2,460	1,295	2,271	2,691
Final	4,857	1,822	2,972	3,231
Total net distributions		10,434		11,165
Income deducted on cancellation of shares		565		248
Income received on issue of shares		(25)		(153)
Distributions		**10,974**		**11,260**
Net revenue / (expense) per statement of total return		10,293		12,628
Expenses offset against capital		3,329		0
Stock dividends not distributed		(2,648)		(1,368)
Distributions		**10,974**		**11,260**

[a] Distributions payable on Income shares.

[b] Retained distributions on Accumulation shares.

Notes to the financial statements

9 Debtors

as at 31 May	2017 £'000	2016 £'000
Amounts receivable on issues of shares	230	18
Distributions receivable	4	10
Dividends receivable	1,671	1,851
Sales awaiting settlement	3,656	0
Withholding tax recoverable	0	30
Total debtors	**5,561**	**1,909**

10 Cash and bank balances

as at 31 May	2017 £'000	2016 £'000
Cash held as bank balances	10	4,963
Total cash and bank balances	**10**	**4,963**

11 Other creditors

as at 31 May	2017 £'000	2016 £'000
ACD's annual management charge payable	211	499
Administration charge payable	23	59
Amounts payable on cancellation of shares	698	1,671
Expenses payable	14	13
Purchases awaiting settlement	305	0
Total other creditors	**1,251**	**2,242**

12 Contingent assets, liabilities and outstanding commitments

There were no contingent assets, liabilities or outstanding commitments at the balance sheet date (2016: same).

13 Shares in issue

The following table shows each class of share in issue during the year. Each share class has the same rights on winding up however they may have different charging structures as set out in note 14.

Share class	Opening 01.06.16	Movements Issued	Movements Cancelled	Closing 31.05.17
Euro				
Class 'A' Accumulation	421,452	88,644	(277,421)	232,675
Class 'C' Accumulation	4,282	1,995	(2,943)	3,334
Sterling				
Class 'A' Income	10,270,202	63,914	(719,162)	9,614,954
Class 'A' Accumulation	5,216,953	5,022	(404,463)	4,817,512
Class 'C' Income	650,241	30,536	(86,341)	594,436
Class 'I' Income	2,729,019	143,696	(836,601)	2,036,114
Class 'I' Accumulation	9,102,171	106,729	(6,451,377)	2,757,523
Class 'R' Income	417,479	242,022	(49,562)	609,939
Class 'R' Accumulation	270,582	4,475	(24,418)	250,639
Class 'X' Income	355,505	2,934	(43,211)	315,228
Class 'X' Accumulation	141,001	3,282	(22,111)	122,172

14 Charging structure

The table below sets out the charging structure for each class of share. The charging structure is the same for both Income and Accumulation shares of each class.

Share class	Entry charge %	Exit charge %	Annual management charge %
Euro			
Class 'A'	5.25	n/a	1.50
Class 'C'	3.25	n/a	0.75
Sterling			
Class 'A'	4.00 [a]	n/a	1.50
Class 'C'	nil	n/a	nil
Class 'I'	1.00 [a]	n/a	0.75
Class 'R'	1.00 [a]	n/a	1.00
Class 'X'	nil	4.50 [b]	1.50

[a] With effect from 16 December 2016, the entry charge has been discounted to zero on all investments into sterling share classes.

[b] With effect from 16 December 2016, the exit charge has been waived on future withdrawals from all Sterling Class 'X' shares.

15 Related parties

M&G Securities Limited, as Authorised Corporate Director (ACD), is a related party and acts as principal on all the transactions of shares in the fund except with in specie transactions, where M&G Securities Limited acts as an agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the 'Statement of change in net assets attributable to shareholders' and note 8. Amounts due to / from M&G Securities Limited in respect of share transactions at the year end are disclosed in notes 9 and 11 where applicable.

Amounts paid to M&G Securities Limited in respect of the ACD's annual management charge and administration charge are disclosed in note 6. Amounts due at the year end in respect of the ACD's annual management charge and administration charge are disclosed in note 11.

During the year, there were transactions in shares in related parties of M&G Securities Limited with a total value of £4,743,000 (2016: £1,445,000).

At the balance sheet date, the fund held shares in related parties of M&G Securities Limited with a value of £26,350,000 (2016: £20,841,000).

At the balance sheet date, shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 2.82% (2016: 2.43%) of the fund's shares.

Notes to the financial statements

16 Events after the balance sheet date

There were no events after the balance sheet date to disclose.

17 Portfolio fair value analysis

Financial instruments have been measured at their fair value and have been classified below using a hierarchy that reflects the significance of the inputs used in measuring their fair value:

Level 1: Quoted prices for identical instruments in active markets

This includes instruments such as publicly traded equities; highly liquid bonds (e.g. Government bonds) and exchange traded derivatives (e.g. futures) for which quoted prices are readily and regularly available.

Level 2: Valuation techniques using observable market data

This includes publicly traded corporate bonds and instruments which have been valued using models with observable market data inputs such as quoted prices for similar instruments, interest rates, yield curves or credit spreads. Over-the-counter instruments have also been included in the category.

Level 3: Valuation techniques using non-observable market data

This refers to instruments which have been valued using models with non-observable market data inputs. This includes private equity, unlisted closed-ended funds and investment analyst recommended prices where the market price is deemed to not be a true representation of fair value. However, no such financial instruments were held.

as at 31 May Valuation technique	Assets 2017 £'000	Liabilities 2017 £'000	Assets 2016 £'000	Liabilities 2016 £'000
Level 1	601,775	0	627,869	0
Level 2	25,091	0	26,308	0
Level 3	0	0	0	0
	626,866	**0**	**654,177**	**0**

In accordance with FRS 102 (22.4a) the shares in issue for each class meet the definition of a puttable instrument as the shareholders have the right to sell the shares back to the issuer. The shares in the fund may be issued and redeemed on any business day at the quoted price. These shares are not traded on an exchange. However, the price is observable and transactions within the fund take place regularly at that price. The shares in issue as detailed in note 13 meet the definition of a level 2 financial instrument 'Valuation techniques using observable market data'.

18 Risk management policies

The general risk management policies for the fund are set out in note 3 to the financial statements on pages 7 to 9.

19 Market risk sensitivity

A five per cent increase in the value of the fund's investment portfolio would have the effect of increasing the return and net assets by £31,343,000 (2016: £32,709,000). A five per cent decrease would have an equal and opposite effect.

20 Currency risk sensitivity

Currency risk is not considered significant for the fund and is therefore not disclosed.

21 Interest rate risk sensitivity

As the majority of the fund's financial assets are non-interest bearing, the risk is not considered significant and is therefore not disclosed.

22 Credit risk sensitivity

Credit risk is not considered significant for the fund and is therefore not disclosed.

23 Dividend distribution tables

This fund pays semi-annual ordinary distributions and the following table sets out the distribution periods.

Semi-annual distribution periods

	Start	End	Xd	Payment
Interim	01.06.16	30.11.16	01.12.16	31.01.17
Final	01.12.16	31.05.17	01.06.17	31.07.17

The following tables set out for each distribution the rates per share for both Group 1 and Group 2 shares.

Group 1 shares are those purchased prior to a distribution period and therefore their net revenue rate is the same as the distribution rate.

Group 2 shares are those purchased during a distribution period and therefore their distribution rate is made up of net revenue and equalisation. Equalisation is the average amount of revenue included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to Income Tax. Instead, it must be deducted from the cost of shares for Capital Gains Tax purposes. The tables below show the split of the Group 2 rates into the net revenue and equalisation components.

Euro Class 'A' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	¢	¢	¢	¢
Interim	4.5113	1.0709	5.5822	9.3241
Final	6.6162	1.7602	8.3764	11.0750

Euro Class 'C' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	¢	¢	¢	¢
Interim	10.6662	0.0000	10.6662	14.8280
Final	8.0899	6.1712	14.2611	16.7960

Notes to the financial statements

23 Dividend distribution tables (continued)

Sterling Class 'A' Income shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Interim	18.3360	0.9252	19.2612	15.3874
Final	26.6419	15.3517	41.9936	21.5401

Sterling Class 'A' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Interim	12.1085	5.9405	18.0490	22.5446
Final	21.6115	6.0710	27.6825	31.9143

Sterling Class 'C' Income shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Interim	20.5408	11.3987	31.9395	35.8237
Final	34.6856	7.9772	42.6628	40.6209

Sterling Class 'I' Income shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Interim	6.3865	6.0731	12.4596	12.4788
Final	14.9525	5.6566	20.6091	15.1393

Sterling Class 'I' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Interim	7.6497	3.7525	11.4022	13.2127
Final	12.1884	3.5447	15.7331	16.2751

Sterling Class 'R' Income shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Interim	1.0190	0.1241	1.1431	1.0900
Final	1.2653	0.7900	2.0553	1.3631

Sterling Class 'R' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Interim	0.3142	0.6550	0.9692	1.1449
Final	1.3622	0.0000	1.3622	1.4492

Sterling Class 'X' Income shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Interim	19.3896	0.0000	19.3896	15.5468
Final	39.3631	2.9107	42.2738	21.6809

Sterling Class 'X' Accumulation shares

Ordinary distributions for the year to 31 May	Group 2 Net revenue 2017	Group 2 Equalisation 2017	Group 1 & 2 Distribution 2017	Group 1 & 2 Distribution 2016
	p	p	p	p
Interim	8.1652	9.6905	17.8557	22.4404
Final	19.0678	8.3178	27.3856	31.5749

Remuneration

In line with the requirements of the Undertakings for Collective Investment in Transferable Securities (UCITS) V, the Manager is subject to a remuneration policy which is consistent with the principles outlined in SYSC19E of the FCA Handbook (UCITS Remuneration Code).

The remuneration policies are designed to ensure that any relevant conflicts of interest can be managed appropriately at all times and that the remuneration of its staff is in line with the risk policies and objectives of the UCITS it manages. Further details of the remuneration policy applicable at an M&G Limited level can be found here: http://www.mandg.com/en/corporate/about-mg/our-people/.

Implementation of the UCITS Remuneration Code remains ongoing and will apply in full for the first time for M&G's 2017 performance year. Quantitative remuneration disclosures will be made following completion of the 2017 performance year (the relevant data/information to make these disclosures will only be available at this time).

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 under 'Performance and charges'.

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 net 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 date: The date on which declared distributions officially belong to underlying investors, rather than the fund, usually the first business day of the month.

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

Income unit: 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.

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

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

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

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

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

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

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

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

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

Treasuries: Fixed income securities issued by the US government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Notes